

# **POSTA SHQIPTARE**

## **Regulations for**

### **"OPERATIONAL RISK MANAGEMENT**

#### **Chapter I**

#### **GENERAL**

#### **ARTICLE 1**

##### **Object**

Object of this regulation is to define the requirements and rules for operational risk management in banking and financial activity of Albanian Post.

##### **Article 2**

##### **Legal Basis**

This regulation is issued in accordance with and pursuant to:

- Article 12 letter "a" and Article 43, letter "c" of the law no. 8269 date 23.12.1997 "For the Bank of Albania", amended;
- Article 57, point 4 and Article 58, point 1, letter "c" and Article 126 of the law no. 9662, date 18.12.2006 "For banks in the Republic of Albania", which hereinafter in this regulation shall be called "banking law";
- Article 46 and Article 47, point 2 of the law no. 8782 date 03.05.2001 "For Savings and Credit Companies", amended.

##### **Article 3**

##### **Definitions**

For the purpose of implementing this Regulations, the following terms shall have these meanings:

- "Operational risk" - is the possibility that the entity may incur financial loss as a result of inadequacy or failure of internal processes and systems, human error or external events. Operational risk includes also legal risk, but excludes strategic and reputation risk. For purposes of the internal system operational risk management, entities may determine more specific definitions of this risk, provided that they contain at least elements of the definition of this regulation;

- "Legal risk" - is the possibility that the entity to incur financial loss as a result of non implementation or application in an inappropriate manner of legal obligations and / or contractual , including and other legal proceedings which may adversely affect financial results, carrying the risk of financial loss in the activity of subjects;
- "Strategic risk " - is the possibility that the entity to incur financial loss arising from improper strategic decision/s or not well studied in the activity of the subject / s;
- "Reputation risk" is the possibility that the entity to incur financial loss arising from decreasing of reputation in the entity/entities activity due to the negative perception on the part of the public to the entity/entities

#### **Article 4**

#### **Responsibilities of the Directory of the Company**

**4.1.** Directory of the Company is the responsible authority for the establishment and development of the operational risk management system , as stipulated in Article 5 and 6 of this Regulation.

4.2. Directory of the Company, in the framework of the operational risk management is responsible for:

- a) the approval of respective policies and procedures for the operational risk management;
  - b) the establishment of a management unit , able to implement the internal regulatory acts of the entity for operational risk management.
  - c) the clear assignments of responsibilities segregation and the reporting lines among the functions of operational risks control, the business lines and the supporting functions.
  - d) the regular review of regulatory acts of Albanian Post for the operational risk management with the purpose the operational risks managements arising from market changes and other external factors , as well as those operational risks associated with new products , activities and new systems. The reviewing process should aim the assessment and the selection of the best operational risk management practices, appropriate for activities, systems and processes of Albanian Post.
- ensure that the system for operational risk management goes through an effective process by an independent , qualified and responsible staff.
  - Communicating Clearly to employees at all levels, especially in units that are exposed to operational risk, to the policy subject to operational risk management;
  - Directing the banking and / or financial activity entity of the entity by qualified personnel ,experienced one, and with required technical skills;
  - To ensure that staff responsible for monitoring the implementation of the policy of operational risk management, to be independent of the units they supervise;
  - Provide documentation of policies, processes and procedures associated with advanced technologies, which, in particular support the high value transactions.

## **Article 5**

### **Structure of operational risk management**

**5.1.** Directories of structures in the General Directory of the Company are responsible for the implementations of the internal regulatory acts for managing the entity operational risk , approved by Directory of the Company.

#### **5.2. Responsibilities of the Personnel in charge for managing operational risk**

Personnel responsible for implementing and monitoring the implementation of the regulation of operational risk management is composed by persons within the : Directory of Banking and Financial Services. Directory of IT, Directory of Audit, Directory of Finance and Accounting, Directory of Human Resources , and Directory of Standards security and quality of postal service.

This staff, apart from the tasks assigned to the Internal Regulation of the function of Albanian Post, in view of this regulation is responsible for:

- implementation of policies, procedures and processes for managing the operational risk in all services/products , activities, processes and systems which are important for the entity.
- The ongoing implementation of all internal acts for the operational risk management.
- The implementation of responsibilities and the development of reporting lines, to encourage and maintain accountability , to provide the needed financial and human resources for effective managing of operational risk.

The positions of the respective persons as the responsible personnel within each Directory in view of operational risk management, are defined in the Internal Regulation of the Company.

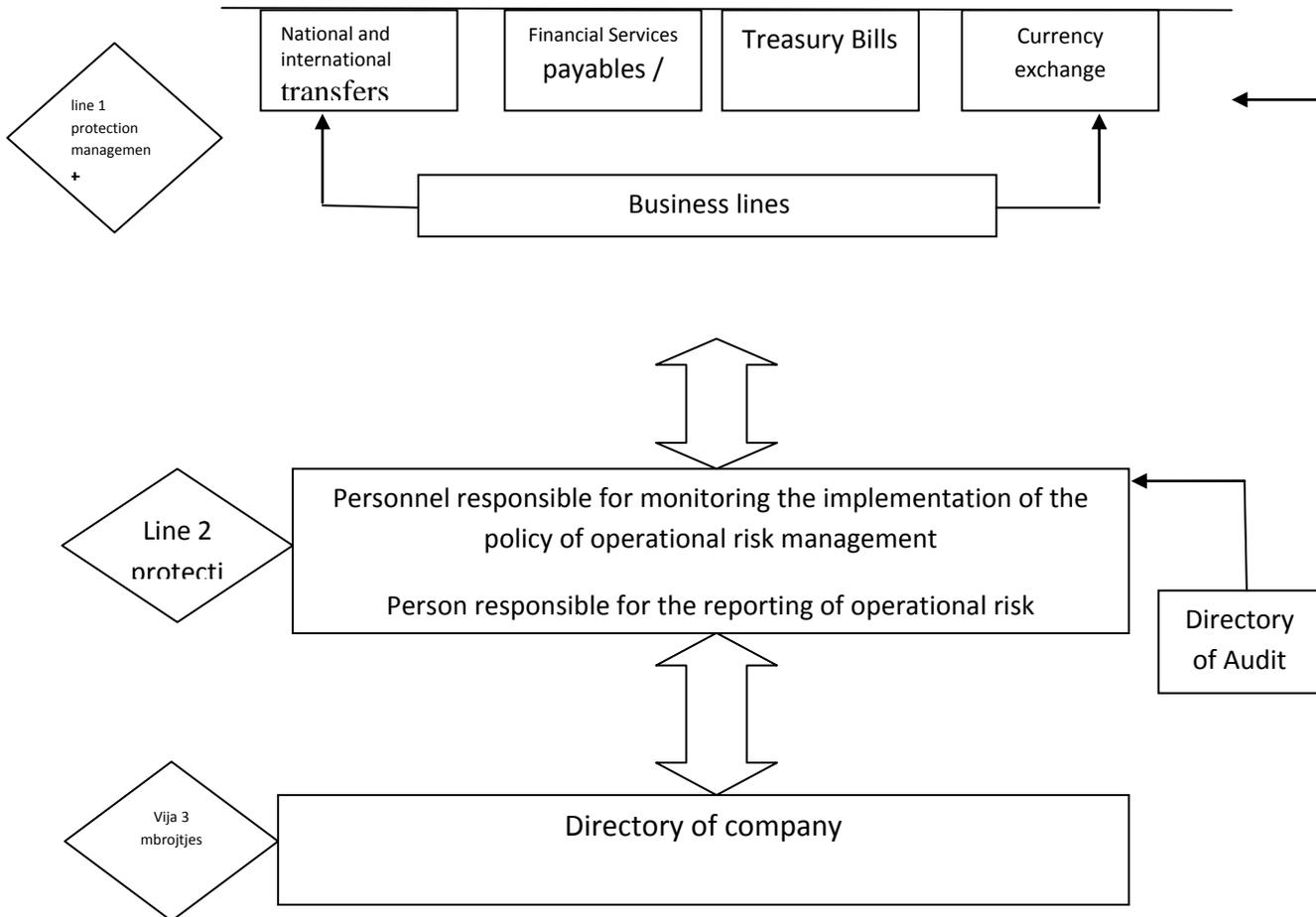
#### **5.3. Responsibilities of person in charge for monitoring implementation of policy to operational risk management and its reporting**

The person in charge for monitoring implementation of policy to operational risk management and its reporting is appointed by the Directory of the Company.

This person is an employee of the business lines, the person responsible for risk taking.

The task of the responsible person includes: risk assessment, tracking of losses, re-engineering of business processes, rewriting of job descriptions, determine and reaction actively on the thresholds of Key Indicators of Risk. The person in charge reports on 3 monthly basis to

Directory of Company based on performance of Key Indicators of Risk associated with their self-assessment according to each respective Directory.



## Article 6

### Management system of operational risk

**6.1.** Posta Shqiptare, establish and develop an adequate internal system ( policies, procedures, guidelines and techniques) on operational risk management. The purpose of this system is to identify, assess, control and monitor the operational risk consistently and comprehensively .

The operational risk management of Albanian Post include the following elements:

- the identification, in regard to/depending to its size and operation, what constitutes operational risk for the Albanian Post;
- comprehensiveness of the expected events which may arise material operational risks for Albanian Post ( including this set forth in the Annex 1 of this Regulation).
- The policies for identification, assess, monitor and control or mitigate this risk , including and specifying ( whenever possible) the allowed limits of operational risk.
- The more prior actions for Albanian Post in the management process of operational risk, including also the scale and the transfer way of this risk out form the entity.

**6.2.** Operational risk events that can cause significant losses for Albanian Post include:

- **Internal Fraud;** e.g.; Erroneous reports and willfully ones about the subject positions, intentional destruction of assets of the subject, burglary, robbery, extortion, embezzlement in the subject, forgery
- **External fraud;** e.g. , theft and robbery, forgery, intentional damage to computer systems (Hacking Damage) information theft.
- **Employment practices and safety at work;** e.g. ; compensation of workers claims (e.g. discrimination events, etc..) The wrong conclusion (unfair) on contract / s of employment; violations of health and safety rules .
- **Clients, products and practices of activities;** e.g.; breach of entrusted duties (in trust); misuse of confidential customer information, money laundering, human errors, exceeding the limits of exposure to the client.
- **Physical damage to assets,** e.g. natural disasters which include (earthquakes, fire, flood, etc.), terrorism, vandalism.
- **Cessation of activity and the failure of systems;** e.g.; complete failure or partial of equipments or software , telecommunications problems; interruption of services;
- **The execution, delivery and management of processes;** e.g.; deficiencies in communication, errors in entering data (e.g. erroneous data); failure of deadlines or responsibilities; malfunctioning of modules / systems, accounting errors, errors in reporting; deficiencies in legal documentation, disputes with third parties; dysfunction of service contracts with third parties under the terms and conditions agreed upon.

## Article 7

### Identification and assessment of operational risk

**7.1.** Albanian Post shall identify and assess the operational risk in all services/products, activities, processes and system.

Albanian Post prior to the launch in the market , of the new services/products , the conduction of various operations or processes , and /or the establishment of new systems, shall ensure the implemtnation of the appropriate and sufficient procedures for the prior assessment of the relevant operational risk.



Albanian Post, in the realization of an effective monitoring process and a continuous one of operational risk:

- determines adequate indicators to ensure the early warning of the operational risk increase which may arise in the future.
- Set out limits for these indicators, whenever possible, to establish an effective monitoring process, which may help to identify the main and important risks to the entity and to provide to this later one the monitoring of these risks timely.
- Set out the monitoring process periodicity, by considering the risk scale and the nature of changes in the environment they operate within.
- Ensure the enclosure of the monitoring results in regular reports for the Directory of the Company.

## **8.2. Definition of key risk indicators**

To have a long-term performance, the need for preliminary measurement of risk, there is carried out an important procedure for the management and to assess the potential impact of the activity performed and the possible risks it carries. Such evaluations are essential to manage risk perspective of the company and facilitates timely detection and appropriate measures to prevent malfunction.

Time plays an important role. As soon as risk is identified and treated, the more chance are to avoid it and ensure timely action to assist in long-term success of the company.

While using key risk indicators should be considered as follows:

- The right solution of the indicators to forecast potential problems.
- Identification and definition of an indicator and its integration within the structure of risk management.
- Understanding of methods and strategies for effectively using **TKR**.
- Learning how to avoid subjectivity in reporting of operational risk
  - Ability to avoid useless information to ensure the right decisions
  - Gather information and work with appropriate effective indicators

## **8.3. Use of TKR**

Financial institutions are related with large sums of money and capital. Risk that they face is not only financial but also non-financial. It makes use of TKR more inevitable for these institutions. Some of the risks that Albanian Post faces as non-banking financial institution are:

- Market risk: This involves the risk of losses due to market fluctuations.
- Operational risk: involve risks faced by financial institutions in their daily activities. These risks can be human, financial and procedural.
- Environmental risk: This is the era of new technologies, increasing of liberalization and globalization. Although these factors have helped to increase business at the same time they have exposed it to environmental threats.

Key Risk Indicators (Annex 3) help to overcome and minimize such risks. Such evaluations are essential to manage the risk perspective of the company and facilitates timely detection to take appropriate measures to prevent malfunction. Time plays an important role, as soon as the risk be

identified and treated, the more chance exist to avoid it and ensure timely action to contribute in long-term success of the company.

#### **8.4. Limits of key risk indicators (TKR).**

System organization and management of TKR is a new concept in itself and requires a deep understanding and structuring on a collective understanding. Accurate measurement of TKR provides information on the Albanian Post, in order to minimize mistakes and better organization of work in it.

Implementation of the TKR from Albanian Post is a new tool to measure the effectiveness of services provided and subject to the update, based on analysis of information collected in the archives of operational risk.

### **Article 9 Reporting of operational risk**

**9.1.** Albanian Post develops a process of periodic reporting of operational risk and exposure to this risk, to identify fast and filling the gaps in policies, processes and procedures for managing this risk.

**9.2.** Albanian Post implements internal procedures to ensure regular reporting to the Directory, operational risk management, respectively by business units, from the personnel and the person responsible for managing operational risk management and internal audit unit.

**9.3.** The operational risk reports contain the following :

- The data regarding domestic financial situation , operational and to respect the boundaries set for indicators of risk , as well as information on the market about events that are important for decision making;
- A comprehensive overview of any problems identified and guidance for corrective actions on unresolved issues.

**9.4.** Albanian Post ensure the delivery reports to all the management levels and too the bussiness lines representatives which are affeceted by the problems reflected in the report. Subjects analyze these reports to improve practices and existing procedures and drafting of policies / practices and new procedures in the management of operational risk.

### **Article 10**

## **Control and mitigation of the operational risk**

**10.1.** Albanian Post compile and implement policies, procedures and practices to control and /or mitigate the material operational risk.

**10.2.** Albanian Post, for the purpose of controlling and mitigating the operational risk shall:

- Design a system a system of procedures and controlling procedures to ensure implementation of internal policies for managing operational risk ,
- Establish an effective internal control system containing a segregation of duties;
- Ensures that despite the division of tasks, other internal practices / processes are appropriate to control operational risk, including:
  - i. closely monitor the observance of limits or risk limits,
  - ii. protective measures in the use of data and its assets, including contracting of security
  - iii. ensuring that staff is qualified and has expertise,
  - iv. identifying business lines or services, where profits seemed to be out of reasonable expectations,
  - v. withdrawal from services with high potential exposure and loss due to operational risk , and
  - vi. Regular verification and reconciliation of accounts and transactions;
- Use tools or programs to lower the exposure to events with low probability, but which may considerably impact their financial result.
- Pay special attention to the activities/ and / or the establishment of new products , particularly if these latter oppose their business plan.
- Pays special attention to the introduction into unknown markets of commercial activities away geographically from central office;
- Invest in the right use and the informational technology security , providing the proper attention with regard to the strengthening of services automating degree.
- Establish policies on risk management that arises from the transfer of functions and/or responsibilities of the entity to the third party.

**10.3.** Albanian Post regularly review their policies and procedures for controlling and mitigating the operational risk, as well as with the circumstances and created environment.

## **Article 11 Business Continuity plan**

**11.1.** Albanian Post ensures continuity of activity plans, which aim the operation on an ongoing basis and limit losses related to operational risk.

**11.2** Albanian Post ensures that business continuity plans are integrated part of the operational risk management system and / or of other risks

**11.3.** Albanian Post, to design and approve these plans shall identify:

- Main activities, continuity of which must be provided in case of emergency

- Scenarios /events , which may lead to the disruption of processes and /or of prior activities.
- Alternative solution to secure the continuing conduction of the main activities in emergency situation;
- Operations to recover the regular functioning of the activities , particularly to secure information of electronic systems and the return of these systems in functional position;
- Communication strategies in case of serious problems and/or of operation disruption.

**11.4.** Albanian Post periodically analyze and/or review plans periodically to ensure continuity of operations . to ensure their consistence with current operations activity and their business strategies.

## **Chapter IV**

### **Reporting and Supervision**

#### **Article 12**

#### **Reporting to the Bank of Albania**

Albanian Post , through the person responsible for operational risk, reports to the Bank of Albania respectively each year and quarterly , the data according to Annexes 6 and 7 of this regulation.

#### **Article 13**

#### **Supervisory and penalizing measures**

Bank of Albanian ,in case if failure to meet the obligation set forth in this Regulation, shall implement the supervisory and /or penalizing measures stipulated in the Law on Banks.

## **Chapter V**

#### **Article 14**

#### **Final provision**

Annexes attached to this regulation are its integral part.

**ARQILE GOREA  
GENERAL DIRECTOR**

**Annex 1**  
**Operational risk events that may trigger significant losses**

Type of events	Definition
Internal Fraud	<p>Internal Fraud is related with the conduction of unauthorized activities, stealing and /or frauds which involve at least one employee of the entity.            Some events , classified as internal frauds are provided following :</p> <ul style="list-style-type: none"> <li>• wrong and intentional reporting</li> <li>• conduction of unauthorized transactions</li> <li>• intentional destroy of the entity assets</li> <li>• theft, rubbery, grabbing, misappropriations within the entity;</li> <li>• counterfeits;</li> <li>• intentional fiscal evasion.</li> </ul>
External fraud	<p>External fraud refers to the frauds and/or theft conducted by a third-party outside the entity. This include, inter alia;</p> <ul style="list-style-type: none"> <li>• theft and rubbery</li> <li>• forgery</li> <li>• Intentional damage to computer systems (<i>Hacking damage</i>);</li> <li>• theft of information etc.</li> </ul>
Employment practices and workplace safety	<p>This category refers to the events related with the employees' relationships, work place safety and diversity/discrimination. Samples that may bring about operational loss, include inter alia:</p> <ul style="list-style-type: none"> <li>• compensation of employees' complaints (for example: discrimination situations, etc);</li> <li>• the wrong (unfair) termination of employment contract/contracts;</li> <li>• infringement of health and safety rules</li> </ul>

<p>Clients, products and business practices of the activities</p>	<p>In this category, the operational losses derive from the failure to meet a client’s obligation, or from the product nature and projection. Examples of these situations, include:</p> <ul style="list-style-type: none"> <li>• breach of the duties entrusted (in trust);</li> <li>• misuse of confidential customer information;</li> <li>• money laundering</li> <li>• products defects;</li> <li>• excess of the rights of access to basic banking software program;</li> <li>• human or automatic calculations errors;</li> <li>• exceeding customer exposure limits.</li> </ul>
<p>Damage to physical assets</p>	<p>This category includes losses owing to the disaster and/or other actions, such are:</p> <ul style="list-style-type: none"> <li>• natural disaster, including (earthquakes, fire, deluge, etc)</li> <li>• terrorism;</li> <li>• vandalism.</li> </ul>
<p>Business disruption and system failures</p>	<p>The situations of operational risk in this category include, inter alia::</p> <ul style="list-style-type: none"> <li>• failure to complete or partial equipment or software;</li> <li>• telecommunication problems;</li> <li>• services disruption;</li> <li>• depreciation of equipment.</li> </ul>
<p>Execution, delivery and processes management</p>	<p>This category includes risk situations related to the processing of transactions or to the management of processes and relationships with third parties. Examples of such situations, amongst other, shall include:</p> <ul style="list-style-type: none"> <li>• shortfalls in communication;</li> <li>• data entry errors (example: wrong data);</li> <li>• failure to meet the terms and responsibilities;</li> <li>• malfunction of modules/systems;</li> <li>• accounting errors;</li> <li>• reporting errors;</li> <li>• legal documentation shortfalls;</li> </ul>

**ANNEX 2**  
**Classification of business lines**

Business lines	Activity
Finance and treasury operations	<ul style="list-style-type: none"> <li>• Advisory services in the field of investment;</li> <li>• Advisory services on capital structure, business strategy and related aspects</li> <li>• Research and financial analysis on investments</li> <li>• Trading for its own account</li> </ul>
Financial and banking activities and financial (payment and settlement)	<ul style="list-style-type: none"> <li>• Cashing and payment service</li> <li>• Money transfer service</li> <li>• Foreign exchange service</li> <li>• Service of the Treasury Bills</li> </ul>
Assets and funds management	<ul style="list-style-type: none"> <li>• Management of funds</li> <li>• Other forms of asset management</li> </ul>

### ANEKSI 3

#### KEY INDICATORS OF RISK

**1. TKR for International transactions (international remittances)**

<b>Indicators</b>	<b>Definition</b>	<b>Interpretation</b>
Number of outgoing payments (transfers) via ESSP for reporting period	First details of definition : (a) payments to Postbank / Postal Administrations in the EU / non EU; (b) payments to Postbank / other postal administrations Second details of : Payment , Operations	
Amount of outgoing payments (transfers) via ESSP for reporting period	Details of definition : (a) payments to Postbank / Postal Administrations in the EU / non EU; (b) payments to Postbank / other postal administrations	
Number of payment without full packet of requested documents	Number of payments, for which execution is delayed due to lack of required documentation.	
Number of inquiries for outgoing payment (transfers) due to errors of postal employees		
Number of postal employees that process outgoing payments.		
Number of incoming payments via ESSP for reporting period	First details of definition : (a) payments from Postbank / Postal Administrations in the EU / non EU; (b) payments from Postbank / other postal administrations Second details of : Payment , Insurance , Commercial Financing ( LC and LG) , Treasury Operations	
Amount of incoming payments via ESSP for reporting period.	Details of definition : : (a) payments from Postbank / Postal Administrations in the EU / non EU; (b) payments from Postbank / other postal administrations	

Number of incoming ESSP transaction for which additional adjustments are needed (manual intervention) to forward them.	≡ Number of payments that require additional adjustments Details of definition : : (a) payments from Postbank / Postal Administrations in the EU / non EU; (b) payments from Postbank / other postal administrations	
Number of complaints for incoming payments ) due to errors of postal employees		

## 2. Key indicators of risk for transaction with accounting (Treasury)

Indicators	Definition	Interpretation
Execution and management process for the submission of invoices (encashment , payment, foreign exchange , securities)	<p>This category includes operational risk events related to the processing of transactions, management of processes and relations with third parties.</p> <p>It includes :</p> <p>Bad communication with <b>DP</b> regarding encashment , payment, foreign exchange , securities .</p> <p>Errors in entering data from the Directory of Banking and Directory of Financial and Accounting in connection with Bills.</p> <p>Violation of the terms defined in relation to the registration date, of the maturity / purchase in accounting and billing system.</p> <p>Errors in Accounting</p> <p>Errors in Reporting</p>	

Services (Securities brokerage)	<p>This category includes operational risk events related to the processing of transactions, management of processes and relations with third parties.</p> <p>It includes :</p> <p>Prices / bad communication with DP</p> <p>Misunderstanding of communication with the other party or client</p> <p>Violations of laws and regulations (Ministry of Finance, Bank of Albania)</p> <p>Errors in Reporting</p>	
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### 3. Key Indicators of Risk for Human Resources

Indicators	Definition	Interpretation
Circulation of financial service employees of the Post (current situation)	$\frac{\text{Numri i punonjesve te larguar}}{\text{Numrin mesatar te punonjesve}}$ <p>Calculate the total mail and units according to structure (departments and branches)</p> <p>Calculate the quarters.</p>	
Number of job vacancies	<p>= Number of job vacancies (including open positions but vacant and positions in which the holder is in maternity leave, including non replaced positions)</p> <p>Calculate the total mail and structural units (departments and branches)</p> <p>Calculate quarters</p>	
Average number of employees of financial service	<p>= average number of employees</p> <p>Calculate the total mail and structural units (departments and branches)</p> <p>Calculate quarters</p>	
Average for unused annual job vacancies since previous year	$\frac{\text{Vendet vakante te paperdoruda nga viti i meparshem}}{\text{Numri i punonjesve}}$ <p>Calculate the total mail and structural units (departments and branches)</p> <p>Calculate quarters</p>	
Number of objections (withdrawal of attention)	<p>= Number of objections (draw attention)</p> <p>Calculate the total mail and structural units</p> <p>Calculate quarters</p>	
Holidays by employees	<p>Holidays of the employees of financial services, quarterly (for any reason, including vacation, sickness, pregnancy, birth permits, etc..)</p> <p>Calculate the total mail and structural units</p> <p>Calculate quarters</p>	

### 3. Key Indicators of Risk for TIK

Indicators	Definition	Interpretation
Number of computers in the network	= number of users working positions	
The total time during which the system does not work (unproductive system)	Divided under systems (key, transfers, etc.)	
The total time during which the system worked (productive system)	Divided under systems (key, transfers, etc.)	
Number of unplanned interruptions in the system	Divided under systems and groups under continuity of interruption (for example less than 10 minutes and more than 10 minutes)	
Average availability	according systems	
Number of days since the last testing of recovery plans from disasters		
Filtering of spam mails	<i>Filtrimi i mesazheve</i> = <i>Numri total i mesazheve te marra</i>	
Incoming mail messages which contain computer viruses	= Number of incoming messages that contain computer viruses / Total number of incoming messages	
The number of computer viruses, found in user	= The number of computer viruses	
The number of patches applied (sent in quarterly)	= The total number of patches per period divided by type of updating systems (servers / workstations)	
The average number of unused ports in a system	= Number of alarms on scanning systems separated by type.	
The vulnerability of recuperated tests	= Number / Percentage / Frequency of vulnerability of testing working place	

	/servers.	
Number of nodes that identifies critical levels of vulnerability	= Number of computers (work positions, servers) with the technical level discovered of vulnerability for a month.	