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AI-enabled update and reclassification of your operational loss database

A key element of the new OpRisk framework is the revised risk taxonomy and enhanced requirements for risk data governance. As operational risk loss databases become increasingly important for risk management and regulatory reporting, data quality and classification are critical. Our AI-powered health check identifies inconsistencies, supports efficient historical data updates, and helps establish a reliable, EBA-aligned, future-proof loss database.

New OpRisk-Taxonomy

7
Level 1 categories

Unchanged from the Basel event categories

26
New Level 2 categories

Previously 20 categories under the Basel taxonomy, Level 3 is eliminated

15
New attributes ("flags")

For the classification of operational risk losses

10 Years
Level 1 coverage

Required for the preceding 10 years

Background
Under the EBA final draft Regulatory Technical Standards on the taxonomy of operational risks institutions with a **Business Indicator equal to or exceeding €750 million** are required to maintain a **10-year operational loss data history** and calculate the **annual operational risk loss**.

The new taxonomy:
- expands the **Level 2 categories from 20 to 26**
- eliminates **Level 3 categories**
- introduces **15 new attributes ("flags")** for classification purposes

At first application, **10-year Level 1 coverage is required** while retroactive Level 2 and attribute assignments are voluntary for at least the preceding year. **The EBA's consulation paper** OpRisk management framework further **emphasizes consistent taxonomy** use, data quality and traceable operational risk data across the institution.

How can we help

The transition to the new EBA operational risk taxonomy presents significant implementation challenges. New loss events therefore require an assessment of the underlying event to determine the appropriate Level 2 classification and applicable attributes. While the existing Level 1 event types remain broadly unchanged, the new framework introduces **26 Level 2 categories and 15 attributes,** including legal, ICT, ESG and business-line attributes.

Existing classification rules, system fields and reporting processes must be adapted to reflect the new Level 2 categories and attributes introduced by the EBA taxonomy. The revised framework also enhances alignment with DORA, particularly for ICT- and cyber-related loss events. Our AI-powered classification engine enables the **automated assignment of Level 2 categories and attributes**, while **subject matter experts focus on ambiguous or low-confidence cases**, combining efficiency with regulatory accuracy. While the retroactive assignment of Level 2 categories and attributes is voluntary for at least the preceding year, institutions may choose to extend the reclassification to a broader historical dataset

In parallel, the EBA simplification package requires institutions to maintain and report operational risk losses aggregated at **Level 1 event type level over a ten-year historical period** within the COREP framework, including the **one-off reporting of historical operational risk losses at first application.**

What We Offer

Our proprietary health-check framework assesses the **quality and robustness of existing Level 1 classifications**, identifies potential inconsistencies and supports alignment with EBA requirements. Combined with AI-driven reclassification and classification validation, this enables institutions to establish a **reliable, consistent and future-proof operational loss database**, enhancing **data quality**, comparability and traceability while supporting both regulatory compliance and broader operational risk management objectives

Supporting the implementation of **the new taxonomy**, our approach combines regulatory accuracy with transparency through **confidence scores, review flags and structured review loops**. The initial file-based solution can be implemented quickly and **without requiring immediate changes to existing core systems**, while providing a scalable foundation for future classification, data quality and reporting needs. We conduct a **health check of existing Level 1 and legacy Level 2 classifications**, classify relevant loss events under the **new Level 2 taxonomy**, and assign the **applicable attributes. If required, we also support the implementation of an AI-supported classification tool for ongoing classification.**

Module A
AI-Supported Historical Data Update

- **Health check of existing classifications –** Review of historical **Level 1 and legacy Level 2 classifications** to identify inconsistencies and data quality issues.
- **Historical Level 2 reclassification –** AI-supported mapping of relevant historical loss events to the **new Level 2 taxonomy**.
- **Historical attribute assignment –** Assignment of applicable **ICT, legal, ESG and business-line attributes** to improve consistency and comparability across the historical loss database.
- **Risk-based expert review –** Targeted review of cases with **low model confidence and/or high loss amounts** by our operational risk specialists, supported by iterative quality checks.
- **Structured data delivery –** File-based execution with **no system integration required**, delivering an updated **Excel loss database** with the new classifications and attributes.

Module B
AI Classification Tool Implementation

- **Phase 1: Feasibility Assessment –** Evaluation of the **existing systems and integration options** for integrating the AI classification solution.
- **Phase 2: System Implementation –** Integration of the AI-supported classification tool with all Module A functionalities, including **Level 1/2 health checks, new Level 2 reclassification, attribute assignment and confidence scores for each classification**.
- **Documentation –** Delivery of technical and methodological documentation covering the implemented solution, classification logic and model setup.
- **Ongoing Support –** Support for technical questions regarding the tool and for methodological or operational risk-related classification questions.
- **Continuous Model Improvement –** Periodic model monitoring and retraining based on newly reviewed and classified loss events to maintain and improve classification quality over time.

Our Technical Approach

Operational loss data is processed via a **Python-based classification engine** combining deterministic mappings with **machine learning ensembles**. Across Level 1, legacy Level 2 and the new EBA Level 2 taxonomy, **45 models are currently integrated into the classification pipeline**, with **three models voting on each ML-based classification** and the majority determining the final label. Out-of-fold evaluation shows **approximately 94–96% overall classification accuracy** across the three classification layers. Each prediction receives a **0–1 confidence score**, with an adjustable threshold automatically flagging uncertain cases for expert review.

Input:
Excel operational loss data

Python-based classification engine: ML classifiers

Output:
Excel classification results

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