



SOLUTIONS...DEFINED, DESIGNED, AND DELIVERED.

# ALIGNING OPERATIONAL RISK AND INSURANCE LAUNCH OF NEW IMIF GUIDANCE

30 APRIL 2018

# New IMIF Guidance on Operational Risk and Insurance Alignment Introduction



## Context

- New IMIF guidance issued to provide guidance on the alignment of operational risk and insurance.
- Survey conducted in Q4 2017 with 25 insurers and interviews conducted with practitioners and insurance providers.
- Collaborative effort between The Institute of Risk Management (IRM), ORIC International, and Marsh.

1

Benefits of aligning operational risk management and insurance purchasing.

2

State of the market.

3

Considerations on the alignment of operational risk and insurance.

4

Operational risk transfer options.

# 1. Benefits of Aligning Operational Risk Management and Insurance Purchasing



Determining an optimal risk transfer strategy and insurance programme.



Demonstrating use of the risk management framework and models.



Recognising risk mitigating effects of insurance for capital purposes.



Providing relevant information to improve assessment of operational risk.

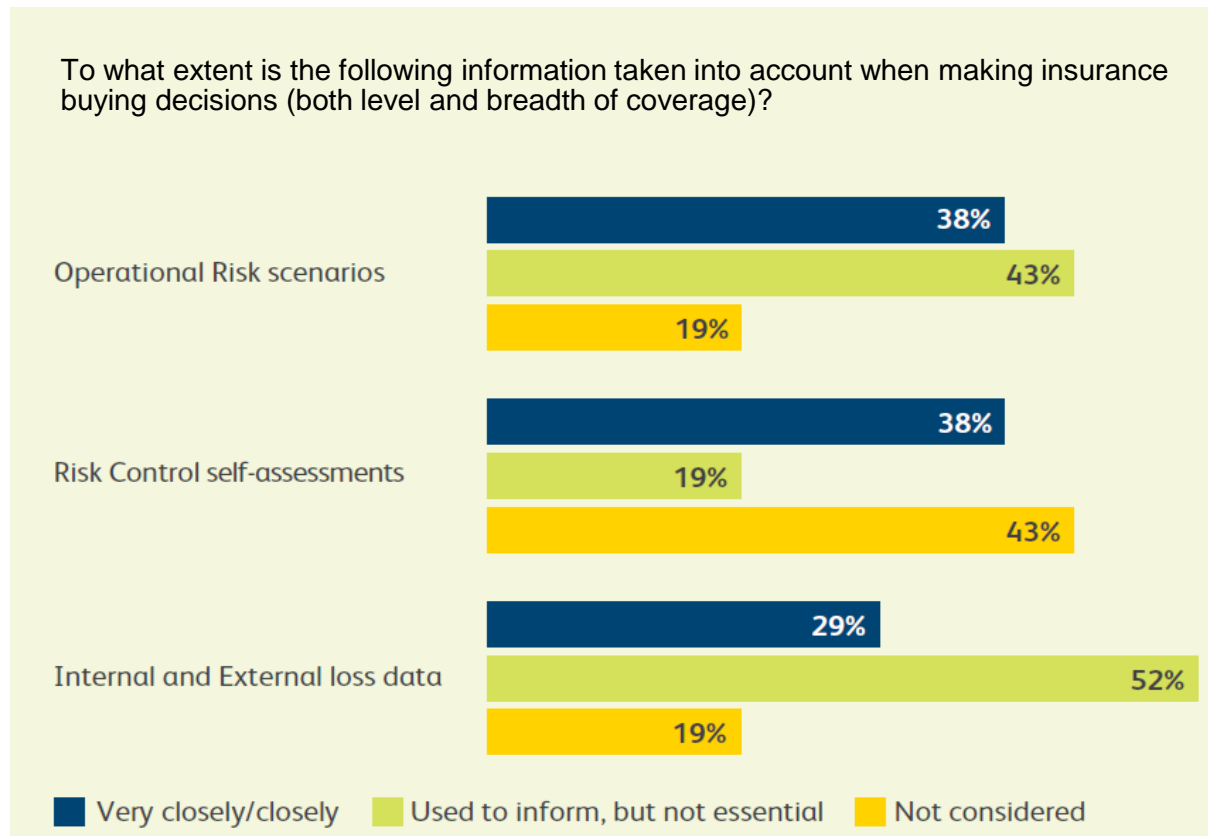


Opening up bespoke insurance options.

## 2. State of the Market (1/3)

# Alignment of Operational Risk Framework and Insurance Purchasing

**Operational risk information taken into account when making insurance buying decisions (Exhibit 1 of IMIF Guidance).**

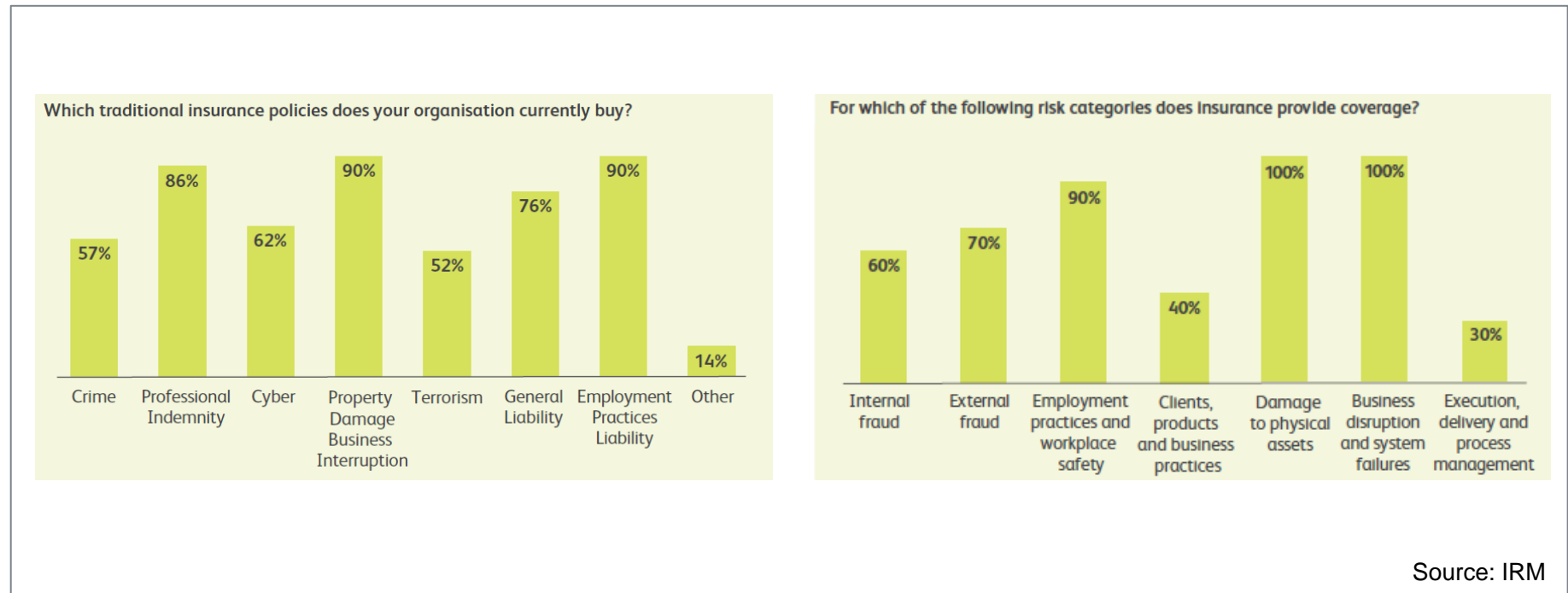


Source: IRM

## 2. State of the Market (2/3)

### Risks Covered by Insurance Programme

**Traditional insurance policies purchased by firms and level of coverage provided by insurance to operational risk event types (Exhibits 2 and 4 of IMIF Guidance).**

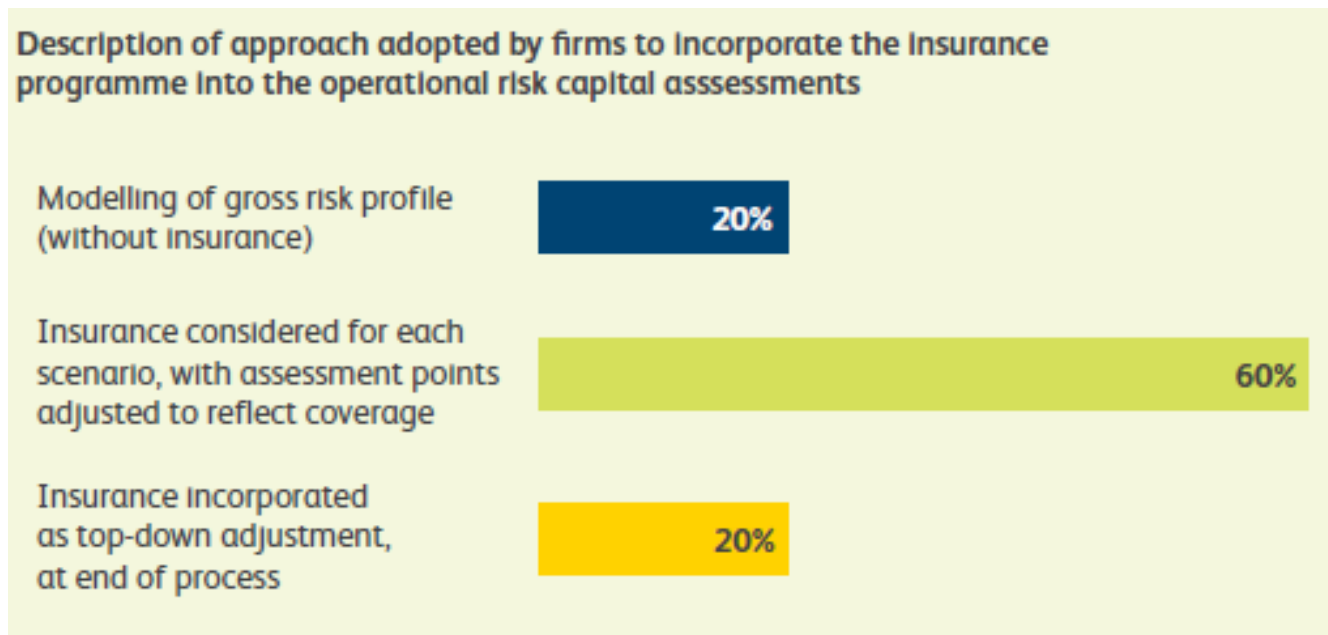


Source: IRM

## 2. State of the Market (3/3)

### Insurance and Estimation of Capital Requirements for Operational Risk

Approach adopted by firms to incorporate insurance in the assessment of capital requirements for operational risk (Exhibit 6 of IMIF Guidance).

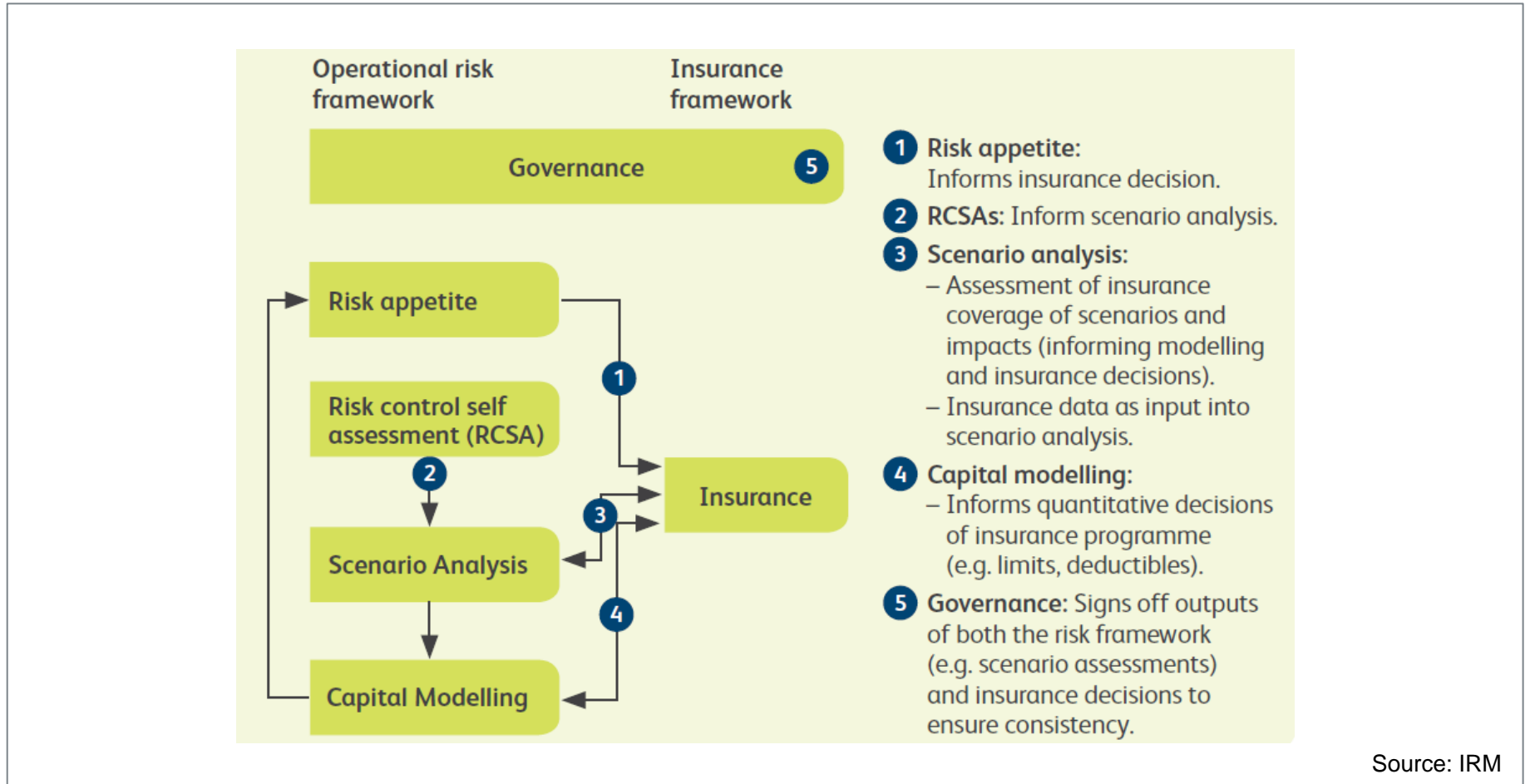


Source: IRM

~70% of firms consider insurance when estimating capital requirements or are planning to do so.

### 3. Considerations on the Alignment of Operational Risk and Insurance (1/2) Alignment of Operational Risk and Insurance Frameworks

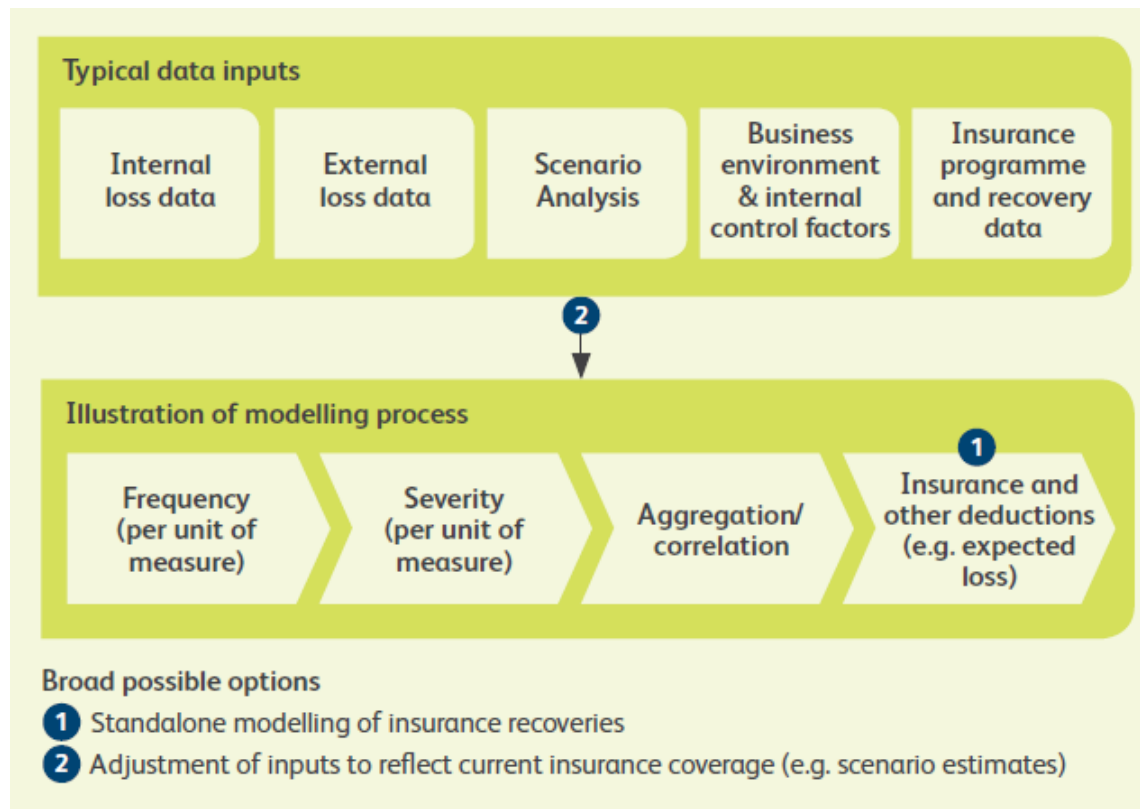
Illustration of aligned operational risk and insurance frameworks (Exhibit 7 of IMIF Guidance).



Source: IRM

### 3. Considerations on the Alignment of Operational Risk and Insurance (2/2) Incorporation of Insurance into Operational Risk Capital Assessments or Models

Illustration of modelling process and typical data inputs (Exhibit 8 of IMIF Guidance).



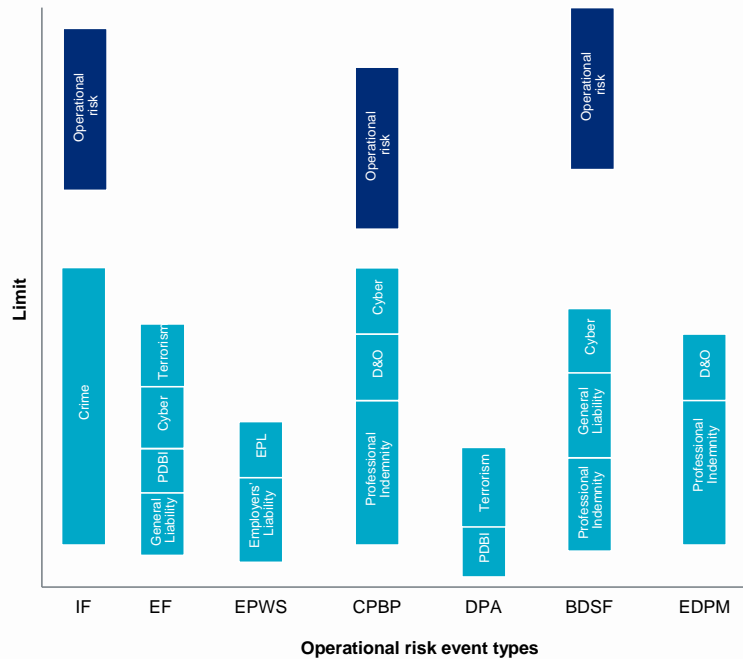
Source: IRM



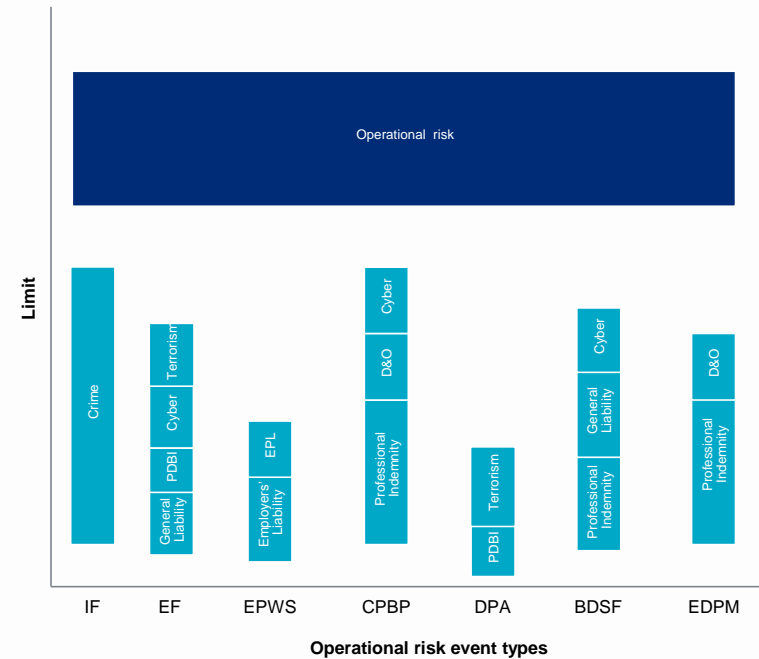
# 4. Operational Risk Transfer Options

## Typical structures

Per loss catastrophic layer of major scenario.



Annual aggregate operational risk insurance.



Operational risk insurance policy Traditional insurance policy

Operational risk insurance policy Traditional insurance policy

### Acronyms

- D&O: Director's and Officer's, EPL: Employer's Liability, PDBI: Property Damage and Business Interruption.
- IF: Internal Fraud, EF: External Fraud, EPWS: Employment Practices and Workplace Safety, CPBP: Clients, Products and Business Practices, DPA: Damage to Physical Assets, BDSF: Business Disruption and System Failures, EDPM: Execution Delivery and Process Management.



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