



ORIC

INTERNATIONAL

An industry perspective

Aligning operational risk and insurance

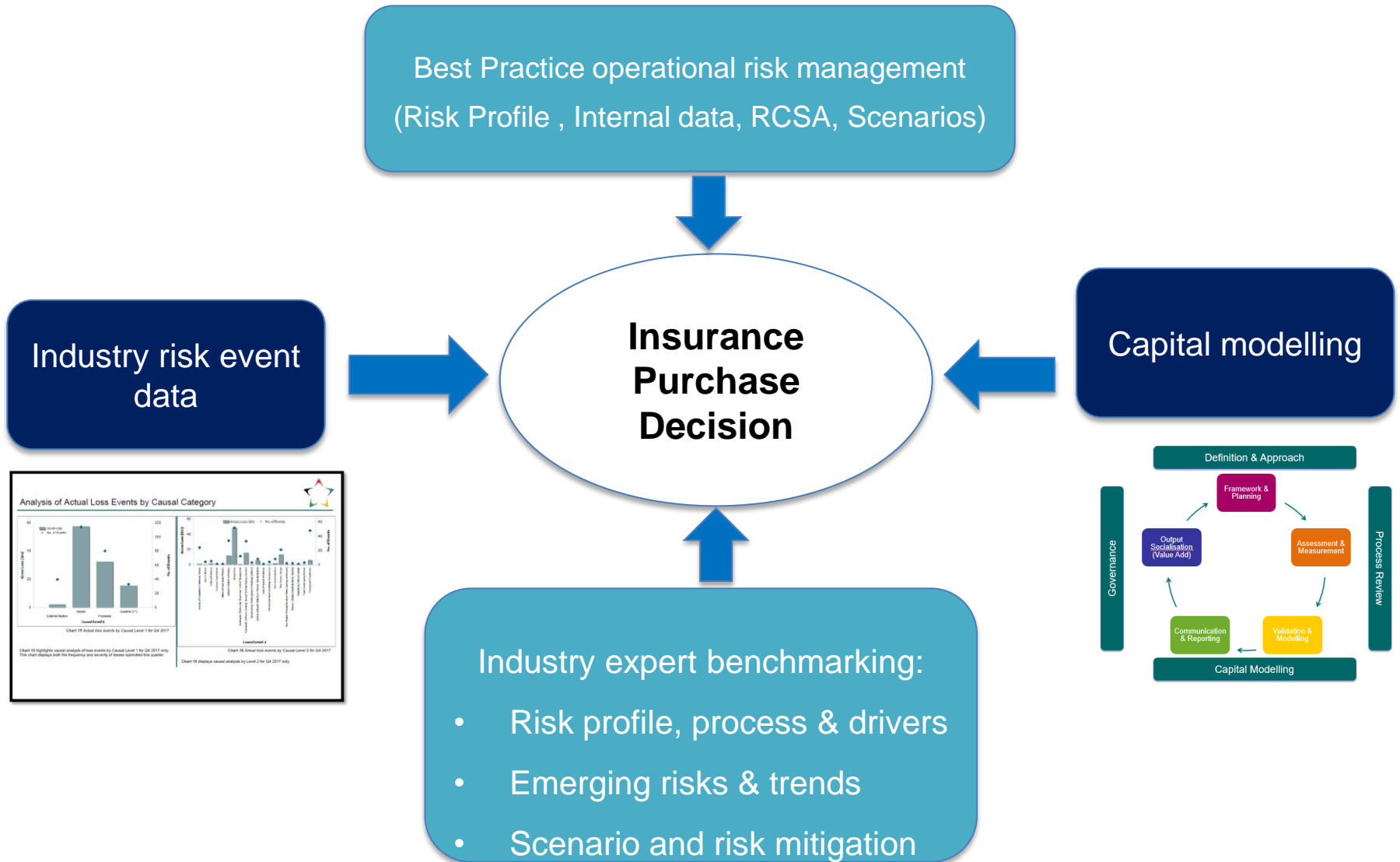
30 April 2018

Agenda:

1. Insurance purchasing decision inputs
2. Operational risk loss events
3. Capital assessment & modelling
4. Regulatory context
5. Concluding remarks

1. Insurance purchasing decisions

Insurance purchasing decision framework



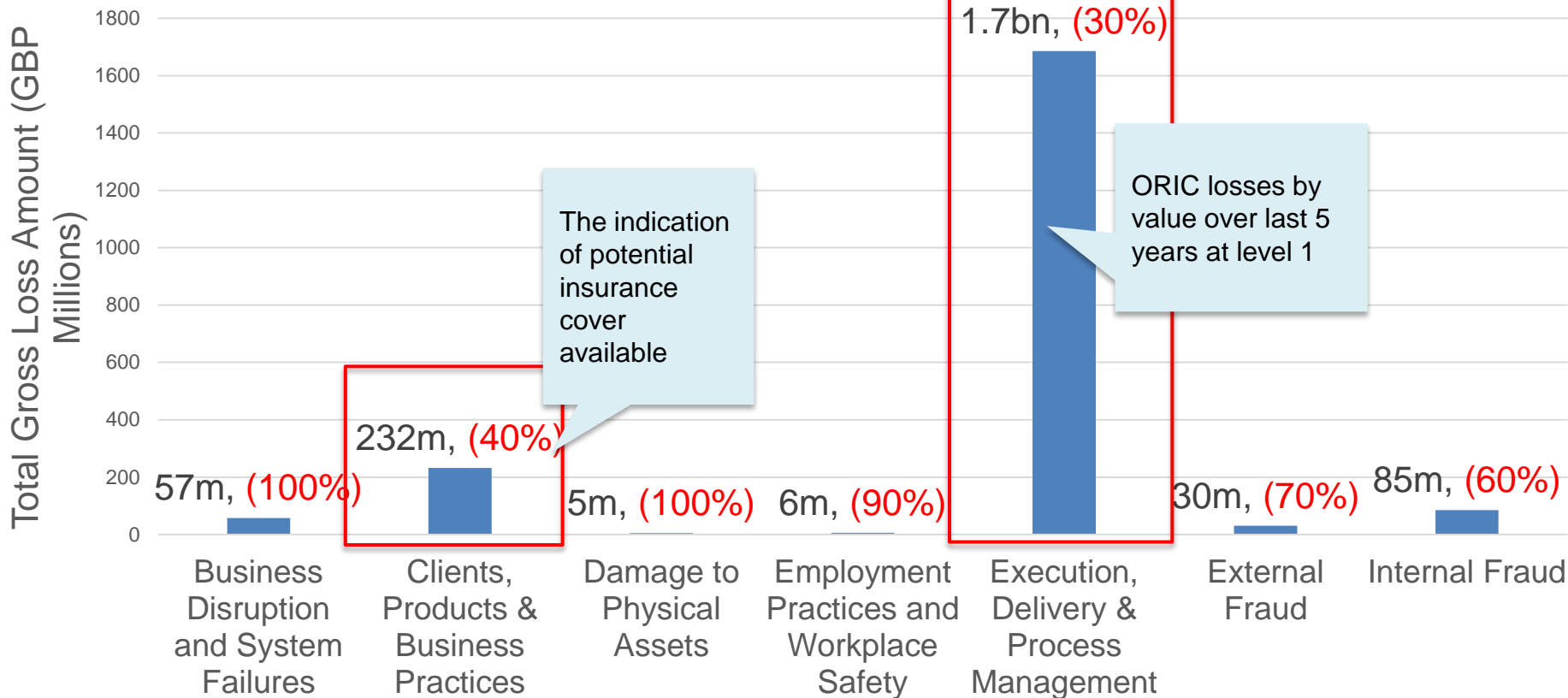
2. Operational risk loss events

Industry context

- Operational risk management is a Board level concern. Losses are a true cost to businesses and can obviously have a sizable impact on the companies P&L and reputation
- Firms need to understand their exposures and improve operational risk management frameworks
- In addition to the impact to the P&L, firms must understand risk transfer options available such as specialist insurance cover
- Building a consistent industry view on where and how insurance purchase can be linked in a traditional operational risk framework will help increase awareness amongst key stakeholders

Industry loss profile - Level 1

Total gross loss (£m) amount by L1 risk category

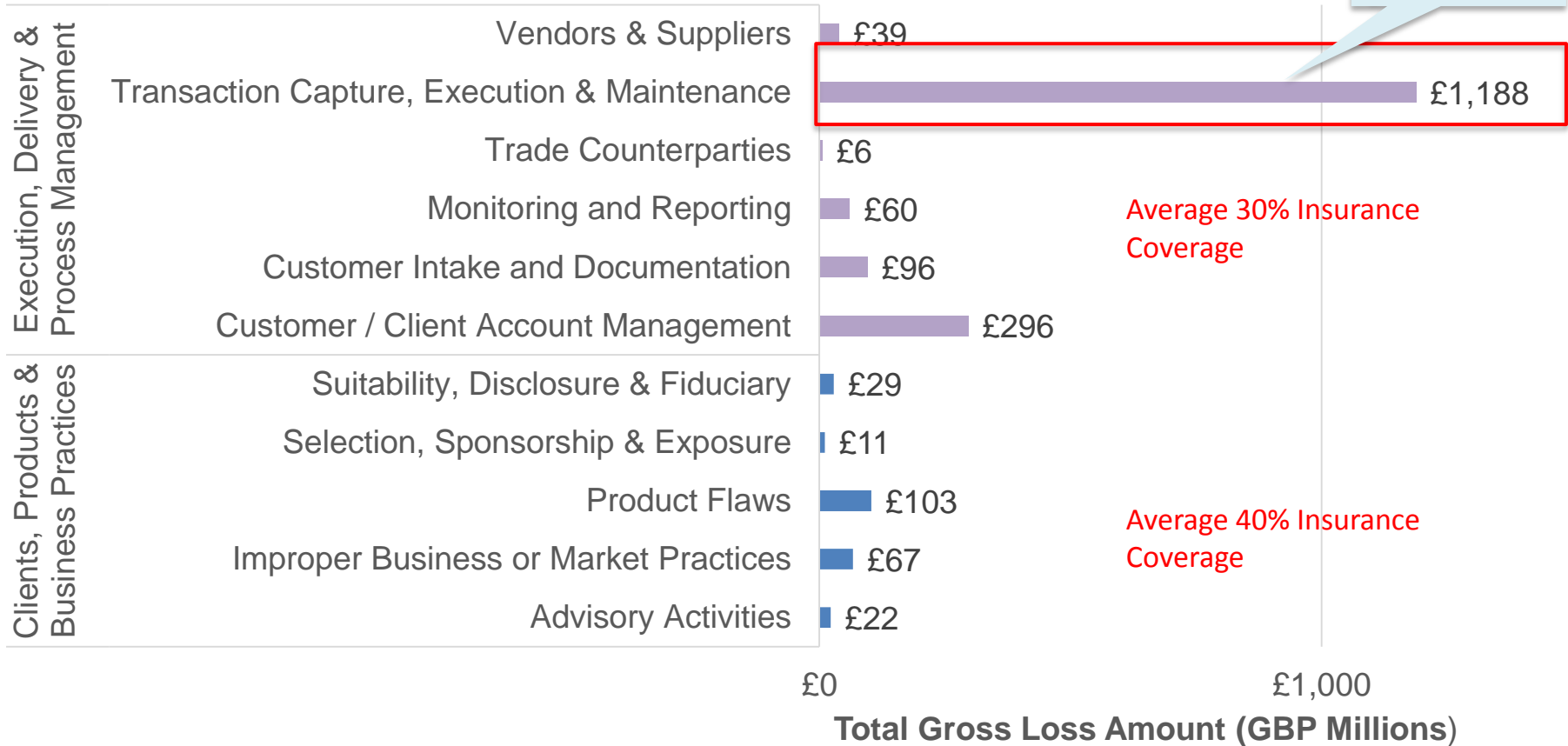


Risk category with low risk coverage/ mapping from traditional insurance products

Industry loss profile – Level 2

Sum of gross loss amounts (£ millions) by selected L2 risk categories

ORIC losses by value over last 5 years at L2 .



A clear opportunity to demonstrate a closer link between risk management frameworks and insurance underwriting frameworks .

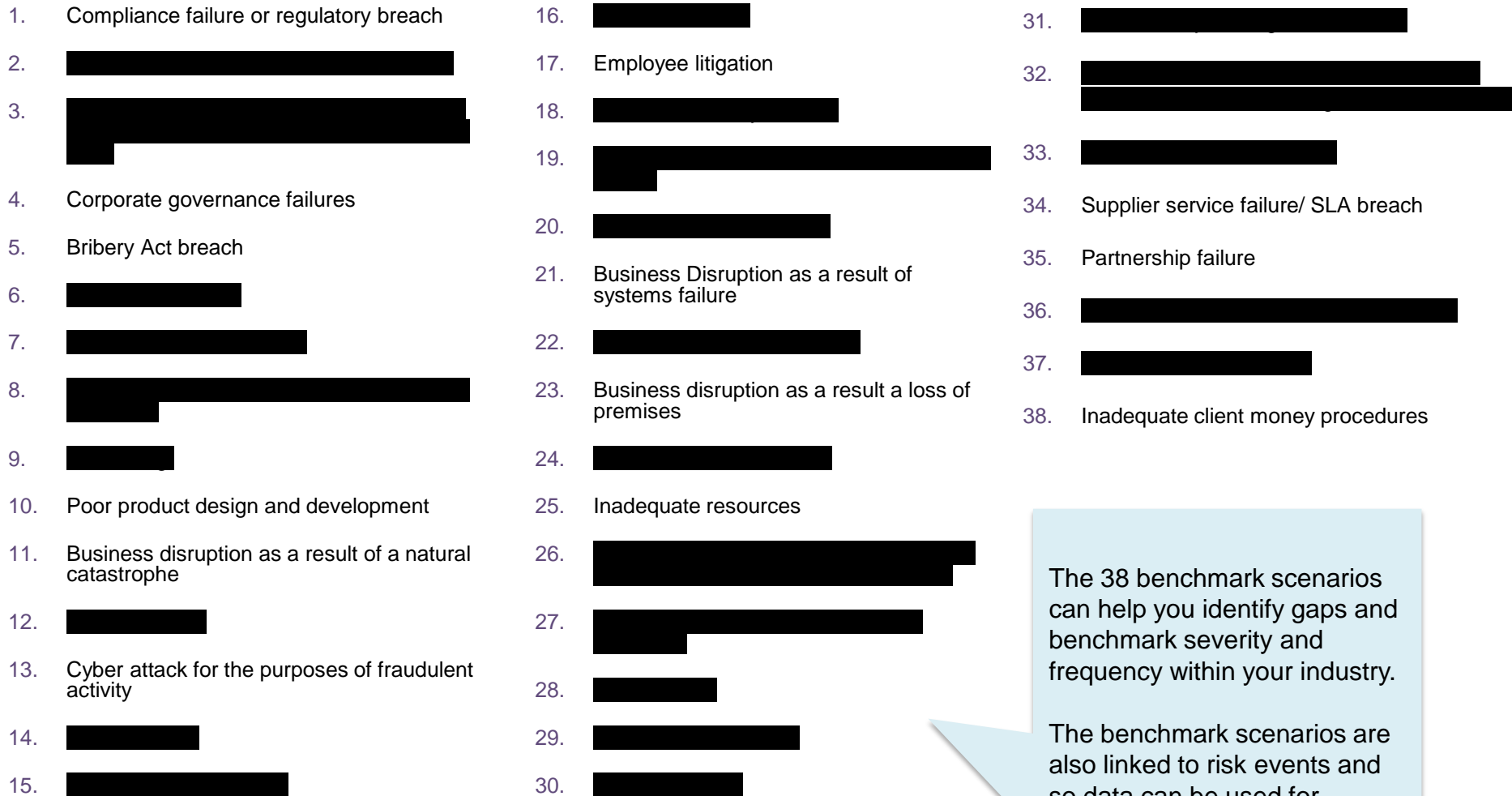
3. Capital assessment & modelling

Capital assessment & modelling

Benchmark scenarios linked to insurance cover availability :

- At ORIC International members have a **scenario universe of benchmark scenarios**
- Industry experts have helped us identify which of these may be covered by traditional insurance products
- Firms can use this to benchmarking against to help evaluate the benefits of holding insurance for a particular scenario as a risk transfer mechanism

Industry scenarios benchmarks & model profiles



The 38 benchmark scenarios can help you identify gaps and benchmark severity and frequency within your industry.

The benchmark scenarios are also linked to risk events and so data can be used for modelling purposes.

Using Industry scenarios benchmarking

You can use our benchmark scenarios and map against risk category, or map your internal scenarios to our benchmark scenarios (which include insurance cover) . This will enable you to identify any gaps.



Rank your scenarios storyline in workshops using SMEs

Storyline 1
Storyline 2
Storyline 3



Storyline 2
Storyline 3
Storyline 1



Benchmark scenarios linked to insurance

Selection of the 38 benchmark scenarios linked to insurance cover and recovery rate

No	ORIC benchmark Scenario	Insurable?	Typical set of traditional insurance policies purchased by Insurers					Recovery Rate (1)	
			Cyber	Crime	Directors & Officers'	Professional Indemnity	Property Damage Business Interruption		Employers' Liability/ Public Liability
3	Loss of personal/ confidential or sensitive customer, client or commercially sensitive data	Yes	Yes			Yes		Yes	High
4	Corporate Governance Failures	Yes			Yes				High
8	Inadequate due diligence over distribution channels	Yes			Yes	Yes			Low
10	Poor product design and development	Yes				Yes			Low
11	Business disruption as a result of a natural catastrophe	Yes					Yes		High
13	Cyber attack for the purposes of fraudulent activity	Yes	Yes	Yes					High
31	Asset / liability management failure (to 3rd party)	Yes			Yes	Yes			Low
37	Theft of physical assets	Yes		Yes			Yes		High
38	Inadequate client money procedures	Yes			Yes	Yes			Low

(1) The indication of potential recovery rate can change depending on the impacts considered and the specific policy wording purchased by the firm.

4. Regulatory context

What's the regulator thinking about?

1. Compliance with regulatory rules/ guidance or pre-approval – depends on the firm specific permissions and industry
2. Specifications in insurance policy requirements i.e. maximum coverage limits
3. Recovery success of prior insurance claims and hurdle of insurance excess
4. Recovery time horizon i.e. get cashflows within 1 year
5. Credit risk of insurance provider is included in capital assessment.

5. Concluding remarks

Parting thoughts

- Firms need to ensure that they have considered the full extent of their potential operational risk exposures in order to hold sufficient capital to protect the firm from adverse ‘worst case’ circumstances
- Clear opportunity to forge a stronger link between risk management frameworks and insurance underwriting frameworks
- The use of benchmark industry scenarios helps firms understand about traditional insurance product coverage and recovery.
- Clearer regulatory guidance / sign posting on the use of insurance in capital modelling is required as differences across industries remain within financial services.

Questions?

Stay in touch – We're here to help



Caroline Coombe

Chief Executive

Caroline.Coombe@oricinternational.com

D: +44 (0)203 917 1730

M: +44 (0)7808 642 968



Veronica Lancaster

Project Manager

Veronica.Lancaster@oricinternational.com

D: +44 (0)203 917 1731



Jay Mistry

Senior Risk Manager

Jay.mistry@oricinternational.com

D: +44 (0)203 917 1734



Ciaran Hosty

Operational Risk Analyst

Ciaran.Hosty@oricinternational.com

D: +44 (0)203 917 1733

M: +44 (0)7808 642 969



Shahine Sivakumar

Operational Risk Analyst

Shahine.Sivakumar@oricinternational.com

D: +44 (0)203 917 1732

M: +44 (0)7540 203 496



ORIC
INTERNATIONAL

Powering risk intelligence