

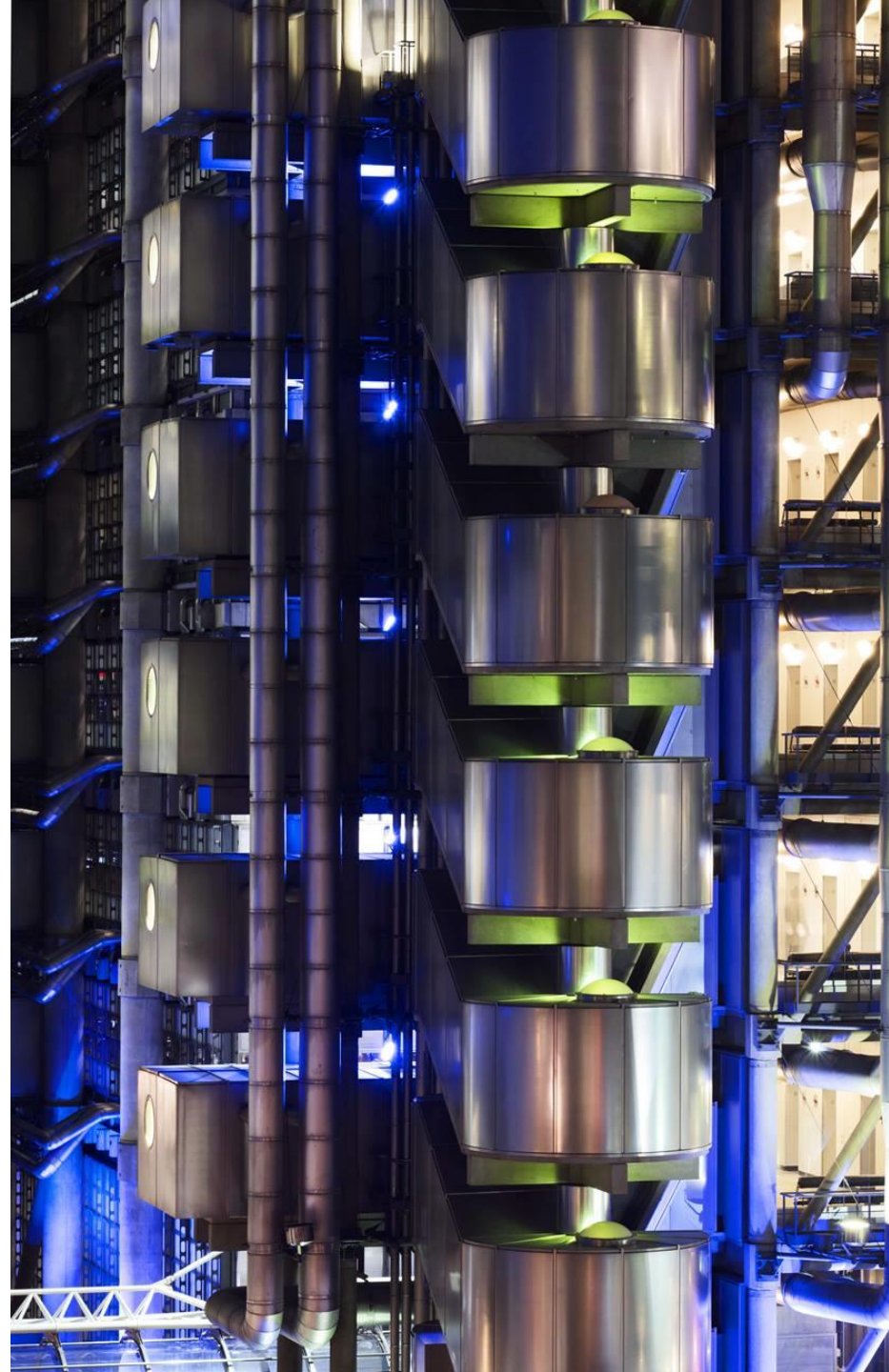
# Alignment of Operational Risk and Insurance

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The practitioner's perspective

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30<sup>th</sup> April 2018



# Introduction

## Background

- **Practitioner's observations**

- 2015 IMIF paper "*Operational risk modelling: common practices and future development*"
  - The objective is to produce a useful business tool rather than just a means of calculating regulatory capital
  - Holding capital is rarely seen as the best mitigant for operational risk
- Experience: Gaining traction for operational risk capital assessment can be difficult
  - More knowledge from participants can sometimes be a bad thing
  - Focus attention on the benefits which are not primarily the capital inputs
- 2018 IMIF paper "*Aligning Operational Risk and Insurance*"
  - The alignment of Operational Risk and Insurance enhances the value from the operational risk modelling process

# Aligning Operational Risk and Insurance

Enhancing value in operational risk capital assessment

- **Practitioner's case study**

- Incorporating scenario and loss data analysis with economic risk transfer
  - Enhances scenario details captured to enable testing of the insurance programme
  - Adds credibility to a process that relies heavily on expert judgement
  - Translates into something senior management team better understand (awareness)
- Testing the existing insurance programme against operational scenario exercises
  - Does the insurance react in the way we would expect (different severities)?
  - Is the programme appropriate and consistent (central versus local purchase)?
  - Consistency with defined operational risk appetite and control testing
- Greater confidence in capital inputs and better justification for quantum / movements
  - but still expert judgement (other risk dependencies)

# Overall

## Aligning Operational Risk and Insurance

- **Practitioner's opinion on conclusion**

The benefits for firms from aligning operational risk and insurance ... include determining an **optimal risk transfer strategy**, demonstrating **"use"** of risk management processes and models, and **taking insurance into account** when estimating capital requirements for operational risk.