

# **IRM - North West Group – 11 Oct 2007**

## **Evaluating the effectiveness of an Operational Risk Framework**

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*Be Life Confident*

# Evaluating the effectiveness of an Operational Risk Framework



## Agenda

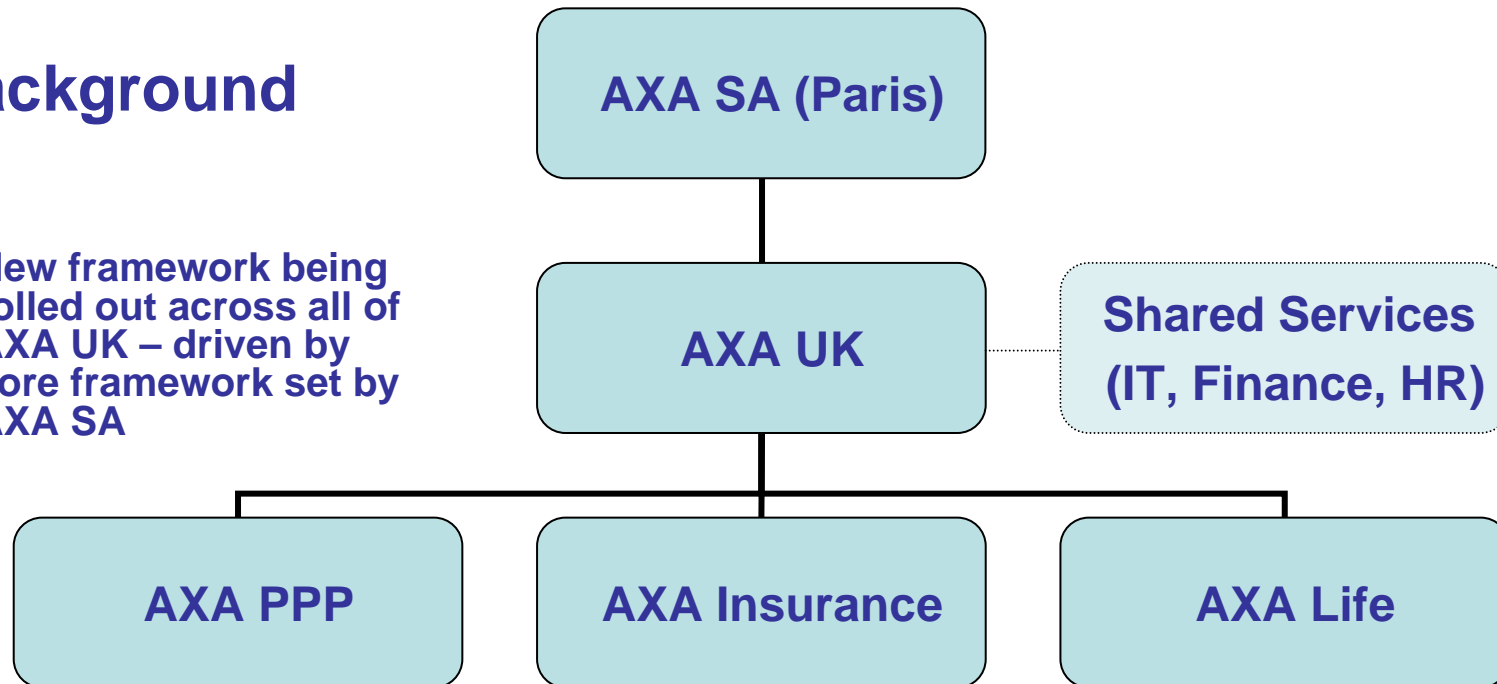
- Background
- Aims of AXA Operational Risk Framework
- Evaluating effectiveness (“Standards and Measures”)
  - Why
  - What
  - How
- Questions

# Evaluating the effectiveness of an Operational Risk Framework



## Background

- New framework being rolled out across all of AXA UK – driven by core framework set by AXA SA



- **Key objectives of the framework are to:**
  - inform business decision making (including delivery and pricing of products and services)
  - drive the operational risk element of the ICA for solvency requirements

# Evaluating the effectiveness of an Operational Risk Framework



Aim is to have a framework that is:

- **Consistent**
- **Defined**
- **Comprehensive**
- **Coherent**
- **Proportionate**
- **Scalable**
- **Recognised**
- **Effective**



# Evaluating the effectiveness of an Operational Risk Framework



## Evaluating effectiveness

### Why evaluate?

- Once implemented need to understand whether the framework is achieving its objectives
  
- **“Standards and Measures” process established designed to:**
  - Evaluate the success of the implementation and ongoing application of the framework; and
  - Assess the level of competence and capability of AXA in managing its operational risks

# Evaluating the effectiveness of an Operational Risk Framework



What is the “Standards and Measures” process?

- **Qualitative interview based approach to identify:**
  - Areas of strong performance, reflecting the success of implementing a consistent operational risk management framework;
  - Areas requiring further development to enhance the operational risk management process within business units and prioritise future development;
  - Shared learning from areas of best practice across business units and successes;
  - A benchmark across Operating Companies, shared service functions and insurance industry;
  - A baseline measure following the implementation of the framework for future measurement.
  
- **3 stages: Planning; Survey; Results**

# Evaluating the effectiveness of an Operational Risk Framework



How do you do it?

- Information is gathered against 5 different dimensions:

	Dimension	Assessment Question:
1	<b>Leadership and culture</b>	Do Executive members and senior managers support or promote a culture for the application of operational risk management practices?
2a	<b>Operational Risk Management Infrastructure – framework and policy</b>	Is there clear a defined, consistent and comprehensive operational risk management framework/policy in place?
2b	<b>Operational Risk Management Infrastructure - communication</b>	Has the framework and relevant policies been communicated and understood?
3	<b>People, tools and resources</b>	How are our people equipped and supported to manage operational risk?
4	<b>Business Processes</b>	How well do our business processes incorporate operational risk management practices?
5	<b>Business benefits and outcomes of approach</b>	Has the business benefited from the implementation of operational risk management practices and the Group Operational Risk Framework?

# Evaluating the effectiveness of an Operational Risk Framework



- The aims of the Operational Risk Framework have been integrated within the dimensions to provide a more detailed meaning in their assessment.

	Goals and Objectives of GORF							
	Consistent	Defined	Comprehensive	Coherent	Proportionate	Scalable	Recognised	Effective
<b>Dimensions</b>								
<b>1. Leadership and Culture</b>			X				X	X
<b>2a) Operational risk management infrastructure –framework and policy</b>	X	X	X	X	X			
<b>2b) Operational risk Management infrastructure – communication</b>		X	X	X	X			
<b>3) People, tools and resources</b>		X	X	X	X	X		
<b>4) Business processes</b>					X	X	X	X
<b>5) Business benefits and outcomes of approach</b>					X	X		X

# Evaluating the effectiveness of an Operational Risk Framework



How continued...

- Each dimension is assessed by reviewing evidence and evaluating responses against a standard measurement scale for the specific assessment question

<b>Level 1</b>	No Evidence
<b>Level 2</b>	Some evidence but below what is expected
<b>Level 3</b>	Satisfactory but improvement required
<b>Level 4</b>	Good – some examples of best practice
<b>Level 5</b>	Excellent

# Evaluating the effectiveness of an Operational Risk Framework



**How competent is the organisation in managing its operational risks?**

- **Dimensions 1 – 3 are about the inputs to ensure organisation is competent**
- **Dimensions 4 and 5 about reviewing the outputs**

# Evaluating the effectiveness of an Operational Risk Framework



## Leadership and culture (dimension 1)

- *Do Executive members and senior managers support or promote a culture for the application of operational risk management practices?*
- Examples:
- **No evidence**
  - Senior Management and /or Executive members do not support or see a need for operational risk management
- **Satisfactory but improvement**
  - Executive and/or senior managers ensure clear accountability for ownership and management of risks
  - Senior managers take the lead to ensure that framework for addressing operational risk is being considered and implemented within their area

# Evaluating the effectiveness of an Operational Risk Framework



## ■ Excellent

- Senior managers act as role models by re-enforcing and sustaining risk capability, organisational & business resilience and commitment to excellence.
- Supporting well managed risk taking in the move to develop innovation and upside risk opportunities identified
- Senior Managers /Executives drive the implementation of improvements in risk management practices
- Senior Managers:
  - Consider opportunities against risk exposure
  - Take key business decisions based on identified risks and provide clear direction.
  - View risk management as long run business enabler and not as a cost to be controlled
  - **Recognise that the most important elements** of operational risk management are the attitudes, competencies and behaviour of people in the organisation and take proactive steps to achieve the desired state

# Evaluating the effectiveness of an Operational Risk Framework



## Next steps:

- **No results as yet – only just implemented the framework!**
- **Happy to share outputs once available**
- **Grateful if any members are able to share their experiences of like assessments**

# Evaluating the effectiveness of an Operational Risk Framework



## Questions



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