

# **Operational Risk Consortium (ORIC)**

Institute of Risk Management  
Solvency II Special Interest Group

17 March 2010

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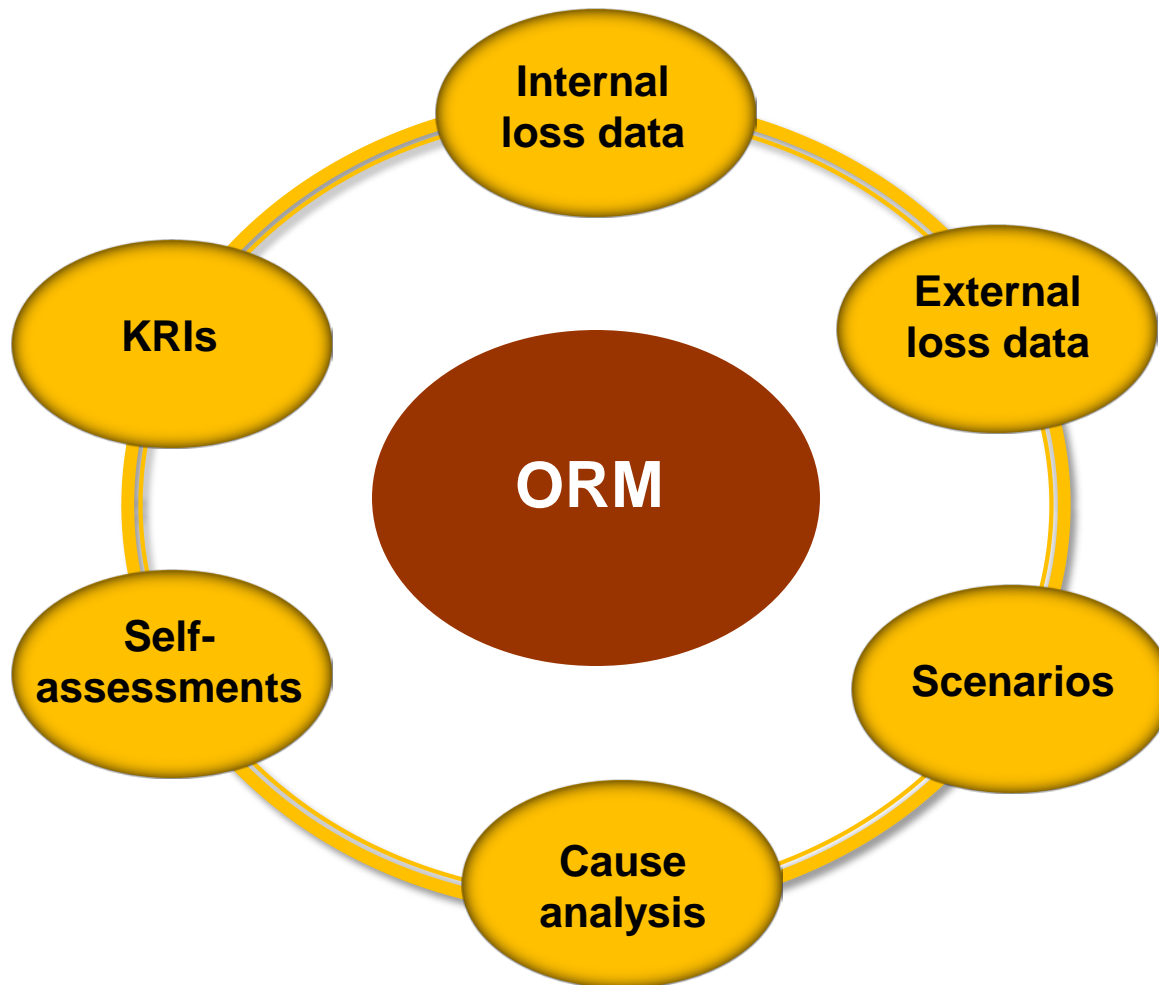
## ORIC membership

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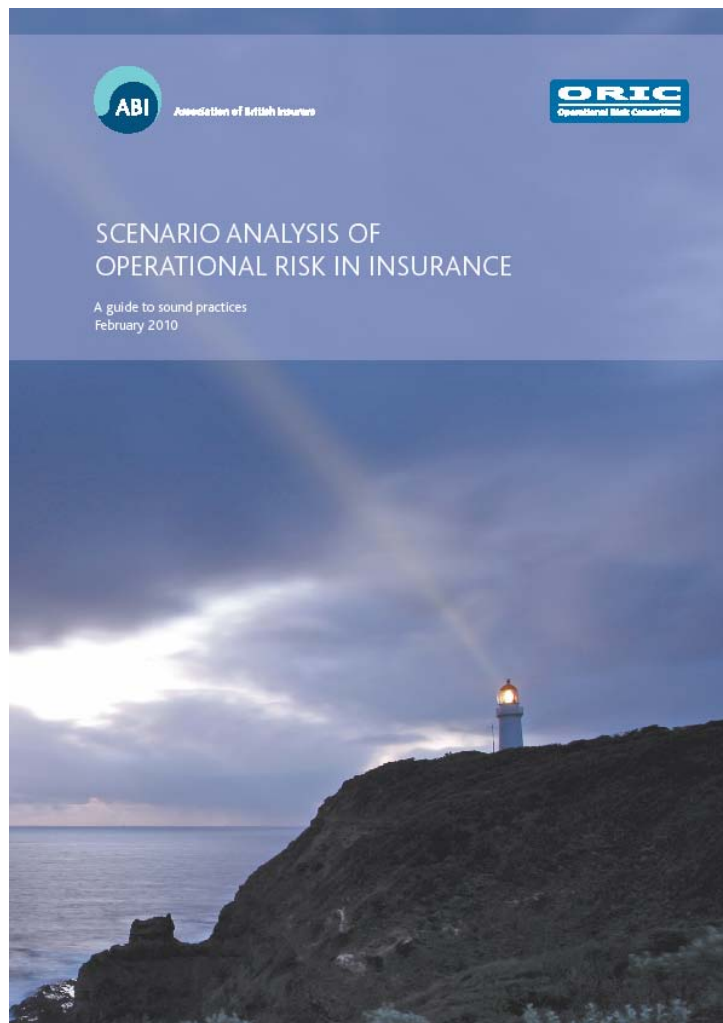
# OpRisk M&M

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## Scenarios – forward-looking element

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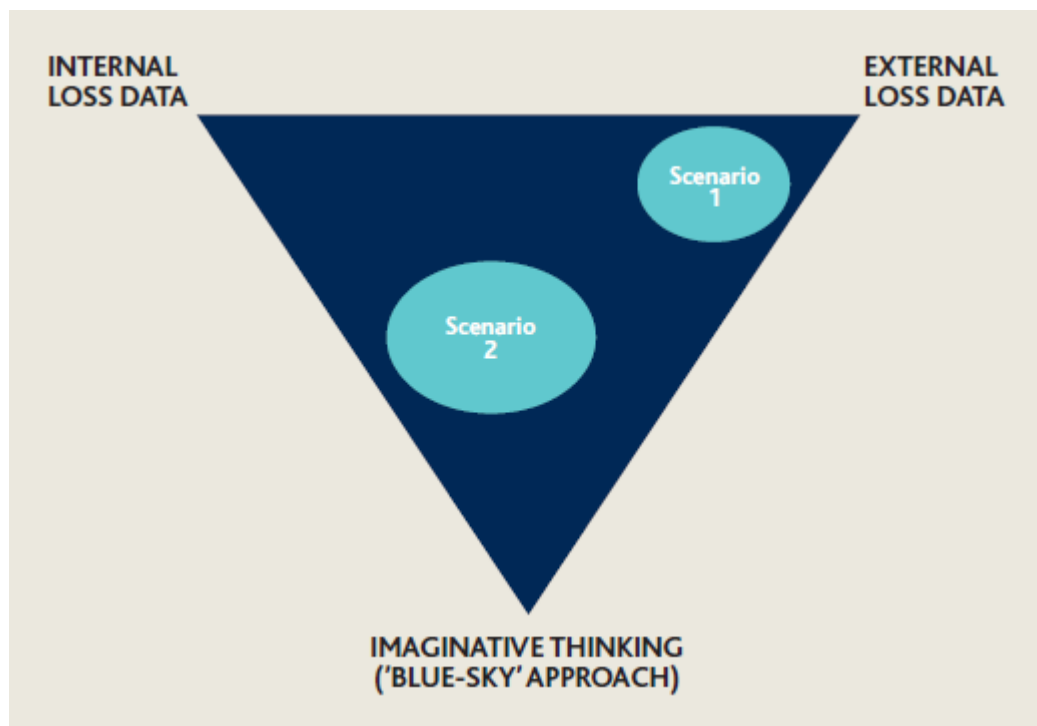


- Identifies and characterises (33) top-priority scenarios for oprisk in insurance business
- Provides good-practice guidelines for their likelihood and impact assessment
- Explains the key stages of a sound scenarios framework
- Analyses behavioural biases in SA workshops



# Data and scenario assessment

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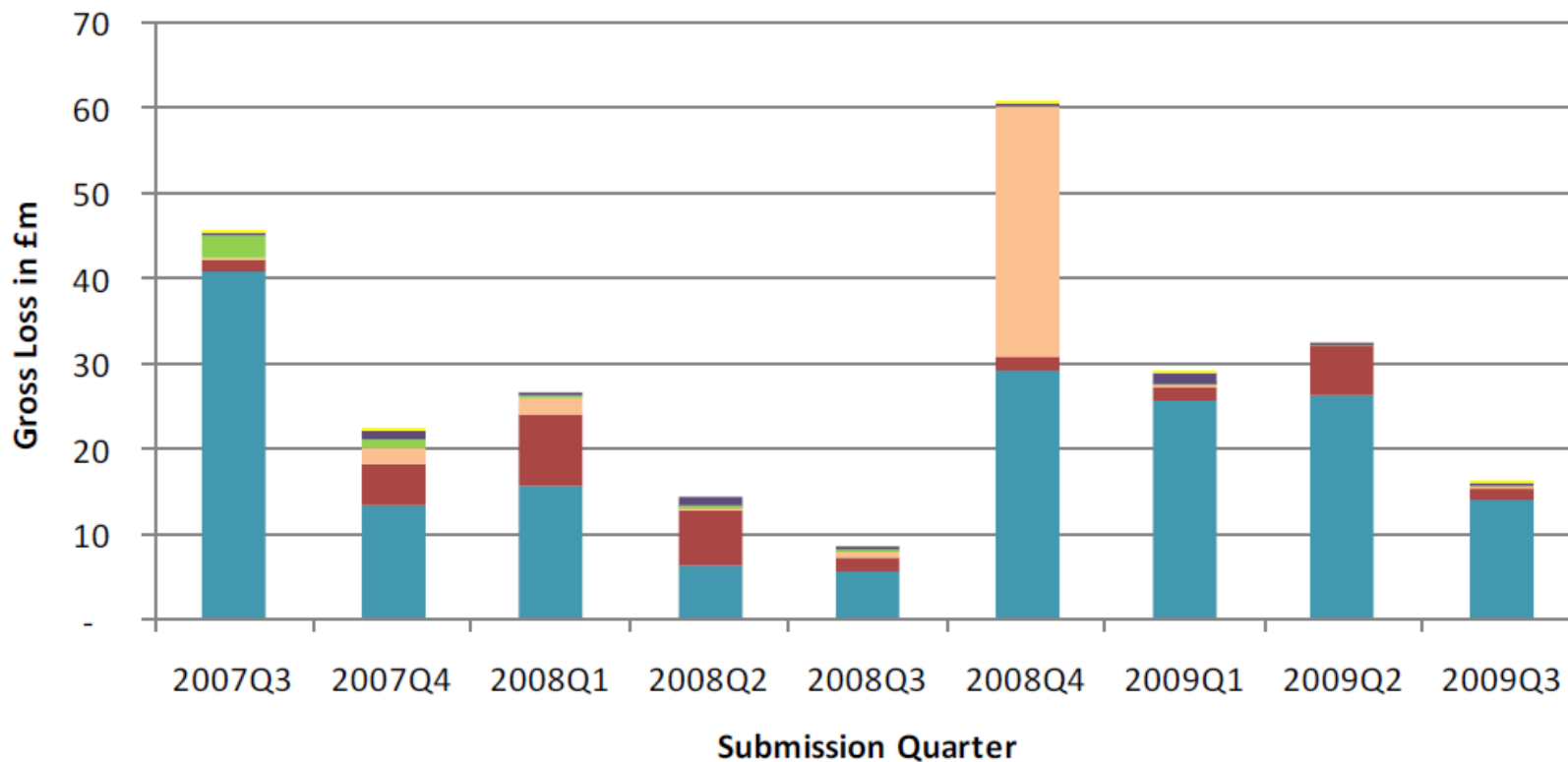
## Loss data – some challenges/opportunities

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- ◆ Internal loss data collection (awareness, culture)
- ◆ Risk categorisation – loss event classification
- ◆ Scaling of external losses / benchmarking
- ◆ Root-cause analysis
- ◆ Use test

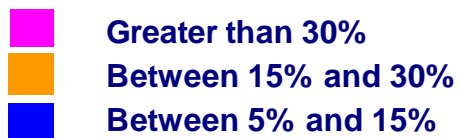
# Losses by Level 1 categories (2007Q3 – 2009Q3)

- Execution, Delivery and Process Management
  - Business disruption and system failures
  - Employment Practices and Workplace Safety
  - Internal Fraud
- Clients, Products and Business Practices
  - Damage to Physical Assets
  - External Fraud



# Heat map – severity and frequency of losses

Event Category Level 1	Event Category Level 2	Severity	Frequency
<b>Business disruption and system</b>	Systems	7%	8%
<b>Clients, Products and Business Practices</b>	Advisory Activities	9%	10%
	Product Flaws	3%	2%
	Suitability, Disclosure and Fiduciary	5%	4%
<b>Employment Practices and Workplace Safety</b>	Employee Relations	0%	1%
<b>Execution, Delivery and Process Management</b>	Customer Intake and Documentation	2%	4%
	Customer or Client Account Management	11%	14%
	Monitoring and Reporting	2%	1%
	Trade Counterparties	0%	3%
	Transaction Capture, Execution and Maintenance	55%	41%
	Vendors and Suppliers	3%	3%
<b>External Fraud</b>	Theft and Fraud	1%	6%





## Sources of loss data

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Less reliable  
modelling

- **Purely internal losses**

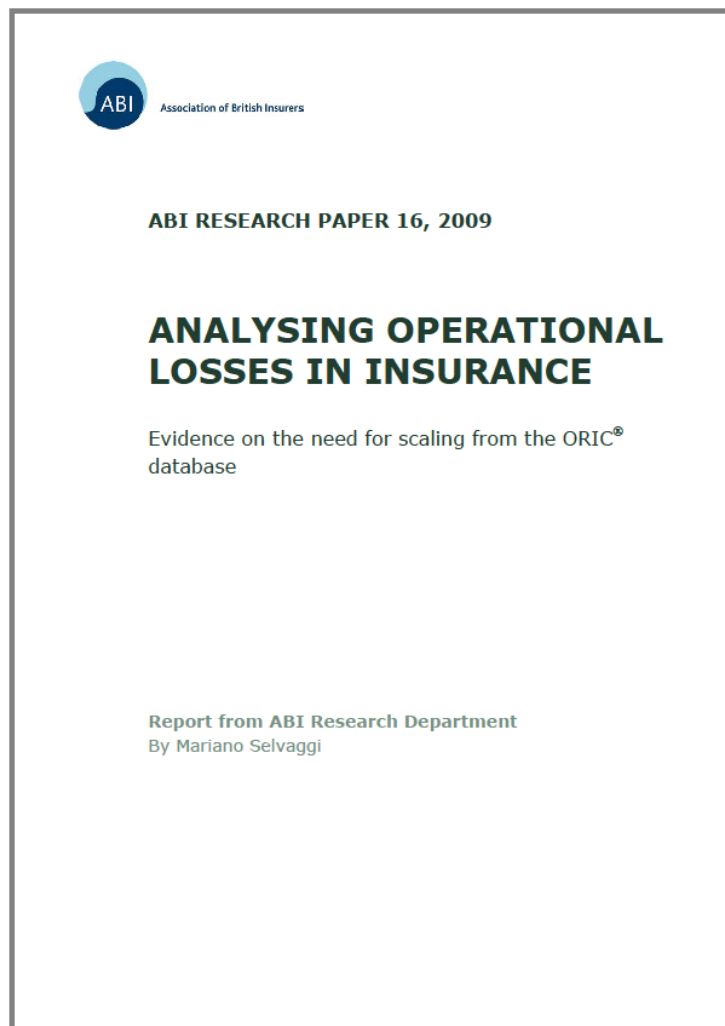
- **Publicly available (and some proprietary) losses**

More reliable  
modelling

- **Consortium-based losses**

## Evidence on the need for scaling

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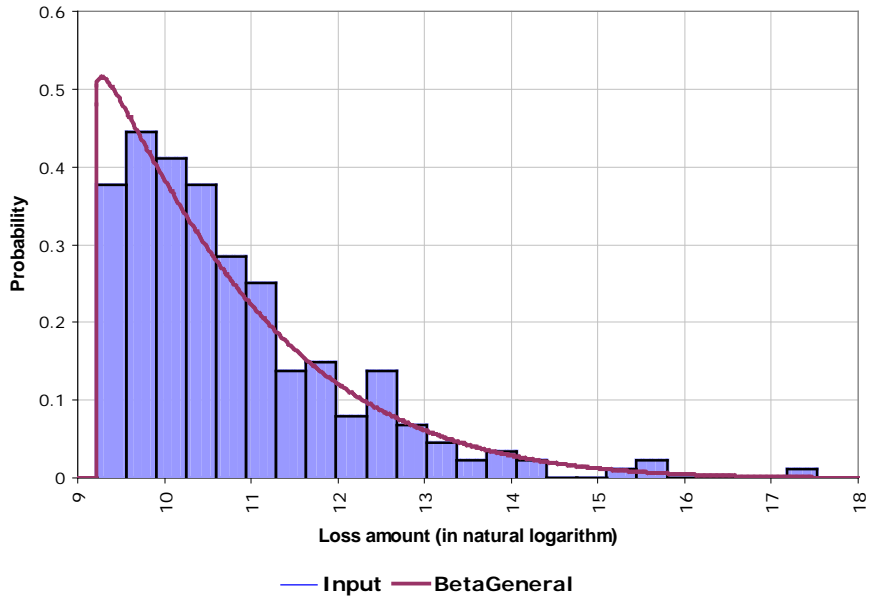


- Analyses robust techniques for scaling the size and number of external loss events
- Illustrates sound approaches and identifies early trends in the ORIC database
- Size of the insurer is correlated with the severity and number of operational losses
- But great deal of the variability in observed losses remains unexplained by models – room for improvement

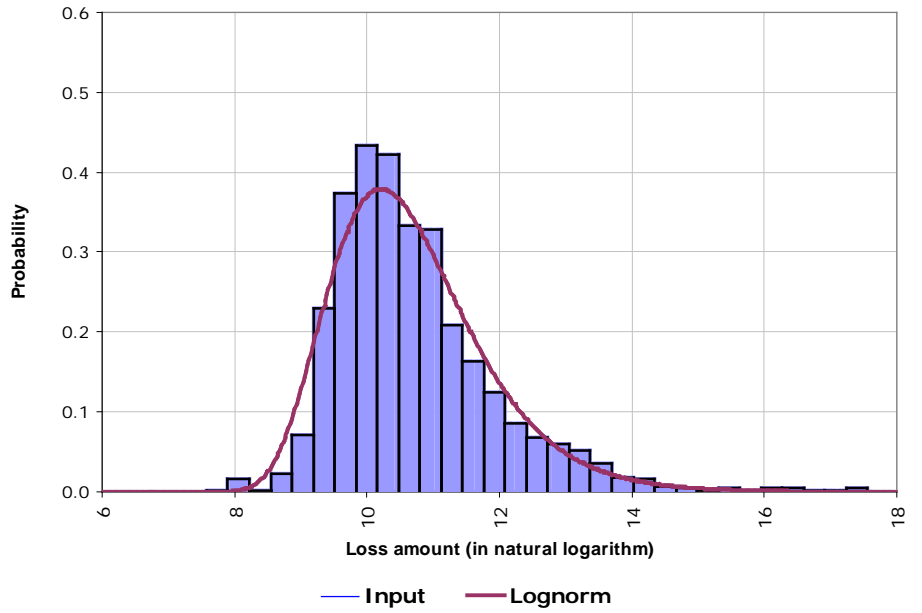


# Example of scaling

**Internal losses only**



**Internal and “scaled” external losses**

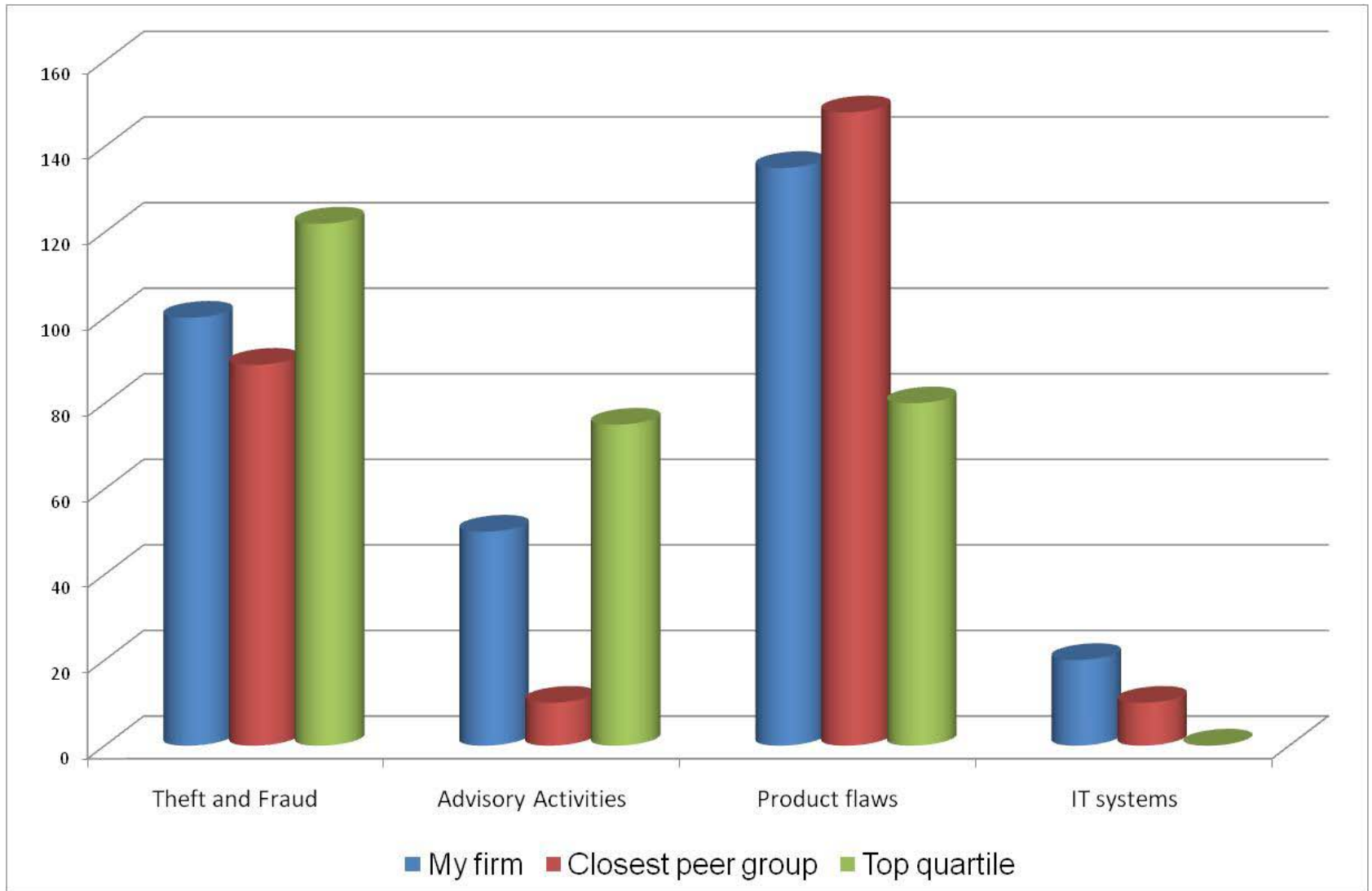


## Further work on benchmarking/scaling

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- ◆ Written Premiums
- ◆ Technical Provisions/Insurance Liabilities
- ◆ Non-financial Assets
- ◆ Number of FTEs
- ◆ Operating Expenses

## Illustrative ORIC benchmark report (WIP)



## Loss data – some challenges/opportunities

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- ◆ Internal loss data collection (awareness, culture)
- ◆ Risk categorisation – loss event classification
- ◆ Scaling / benchmarking
- ◆ Root-cause analysis (key learning tool)
- ◆ Use test

# Thank you!

## For more information...

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