The Insurance Provider’s Perspective

30 April 2018
Agenda

- The market for Operational Risk insurance
- What can be covered?
- Current purchasing trends
- Engaging with underwriters
The Operational Risk Insurance Market

• Large capacity available
• Number of transactions in place
• Primarily for Banks and Asset Managers
• Financial Infrastructure Providers
• Increased use for non-Financial Institutions
• Growing interest among Insurance Companies
What can be covered?

Potentially any Operational Risk is insurable:

i. Substantial contributor to Operational Risk capital
ii. Legal to insure
iii. Adequate control structure

Examples

- Mis-selling (less disgorgement) – Execution Error
- Processing Error – Fraud
- Conduct Risks – Breach of Investment Mandate
- Cyber – Employment Practices
Current Purchasing Trends

• Larger capacity
• Focus on key risk drivers – usually scenario driven
• Confidence of response over multiple risk cover
• Increased demand for customised solutions
• Most significant challenge – internal silos
  – Programme design
  – Valuation and communication
Engaging with Underwriters

Underwriting Information Requirements

All Necessary Data is Currently Generated by ORM

- Risk Details
- Potential Loss Magnitude
- Control Framework

Key Risk Scenarios
Capital Model / Key Risk Scenarios
Risk & Control Self Assessment

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Engaging with Underwriters

Coverage Building Blocks

Aligning Coverage With Exposure

Benefits

- Explicit modelling of insurance recoveries
  - For each loss or scenario
- Application of deductibles and limits
  - Per loss and policy
- Confidence in performance / Timeliness of payment
  - Eliminating coverage mismatch / uncertainty
Engaging with Underwriters

Process

I. Risk Identification

Prioritise Significant Risks:
- Capital Drivers
- Forward looking risk / scenario

II. Stakeholder Engagement

Joint Team
- Operational Risk / ERM
- Capital Modellers
- Finance
- Risk Managers / Brokers

III. Contract Development

Jointly Develop Contracts
- Based on risk scenarios & capital requirements
- Buying motivation
- Valuation metrics
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