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## Operational Risk Trends

Jenna Andrews – IOR - 3 November 2017

## Today's agenda

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- Introduction
- Who are ORIC International?
- The value of risk events
- Operational risk trends
- Stay in touch

## Introduction

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- Operational risk manager
- 10+ years in the insurance industry
- 7+ in operational risk management
- Experience in designing and implementing operational risk event capture processes
- Led on scenario analysis and emerging risk and work streams
- Experience in validating risk events from over 40 insurance and asset management firms, for use in the consortium.



# Who are ORIC International?



## ASK AN EXPERT



■ BUSINESS VALUE

■ CREDIBILITY

■ CULTURE CHANGE



■ CAREER

■ CAPACITY

# The value of risk events

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## The value of risk events

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- The insurance sector endures large losses each year from operational risk events
- In addition to the impact to the P&L, capital reserves need to be set aside to cover the risk events
- Organisations which place a strong focus on risk event reporting, analysis and learning can actively reduce operational risk losses



## The value of risk events

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- Such organisations typically exhibit the following characteristics:
  - An open culture
  - Undertake analysis of the root causes
  - A disciplined approach to deciding on management actions
  - Continuous improvement

## Enhancing Internal Processes

### Reactive



“Cost of doing business”

### Compliant



“Do what it takes to comply”

### Proactive



“Lets improve how we do things”

### High Reliability



“Continuous improvement is in our DNA”

Moving from Reactive



Compelling benefits case

Leadership support

Staff awareness

Moving from Compliant



Near miss management

Behaviours, culture and capability

Root cause analysis

Learning organisation

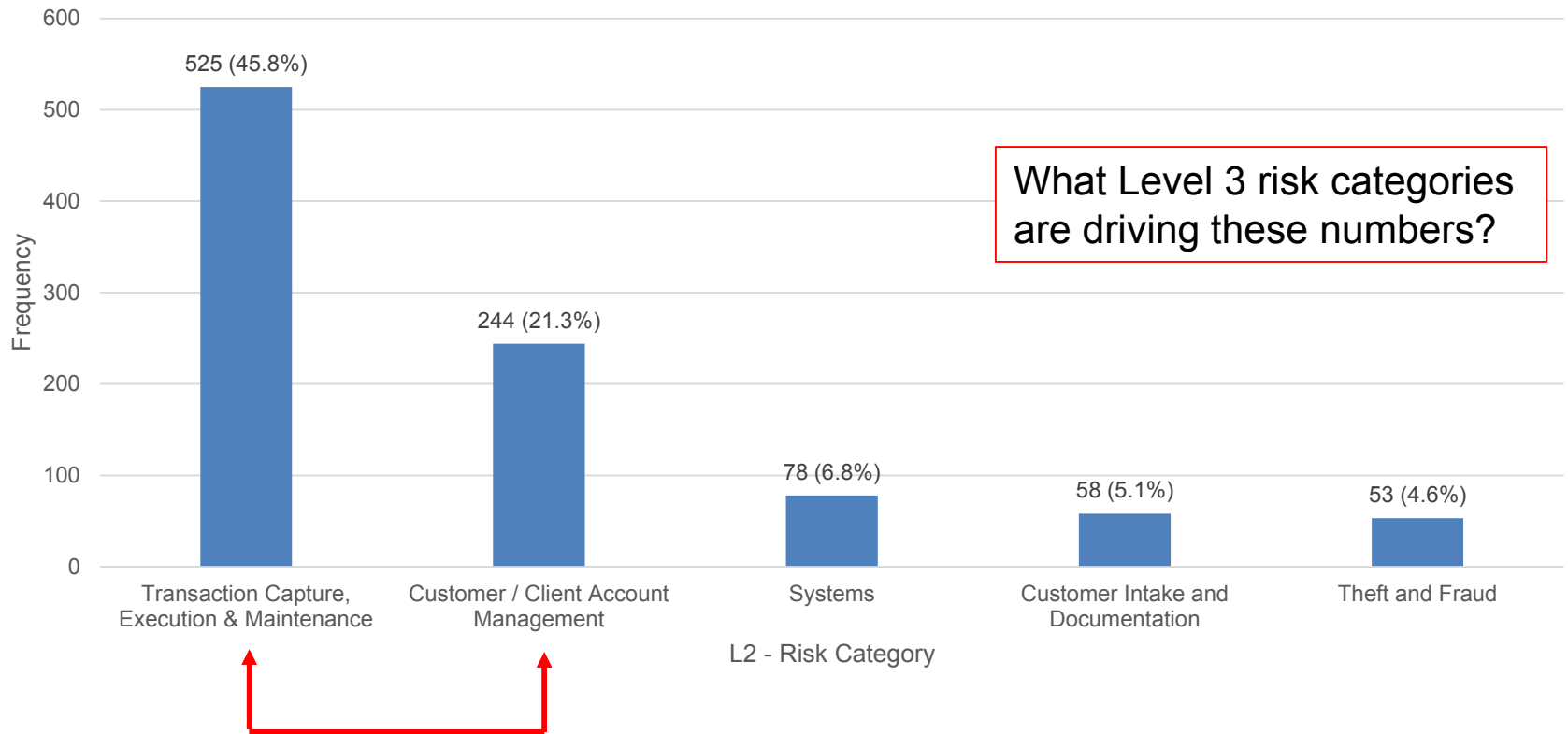


# Operational risk trends

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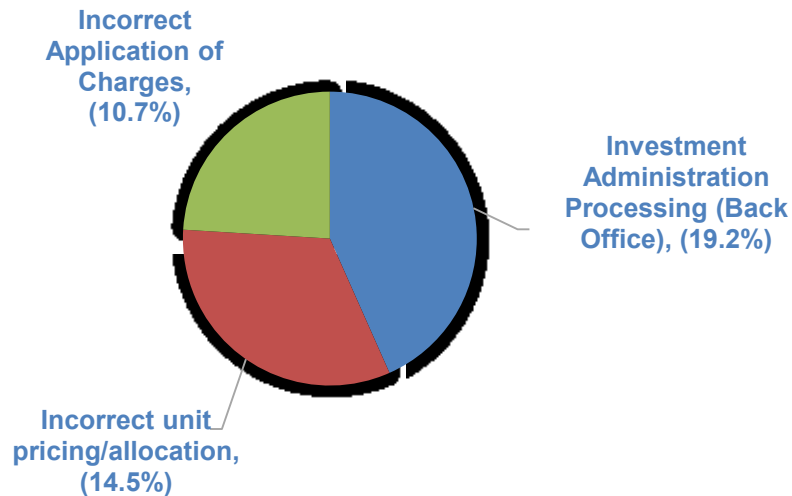
# Frequency

Top 5 Operational risks by frequency of risk events over the last 12 months

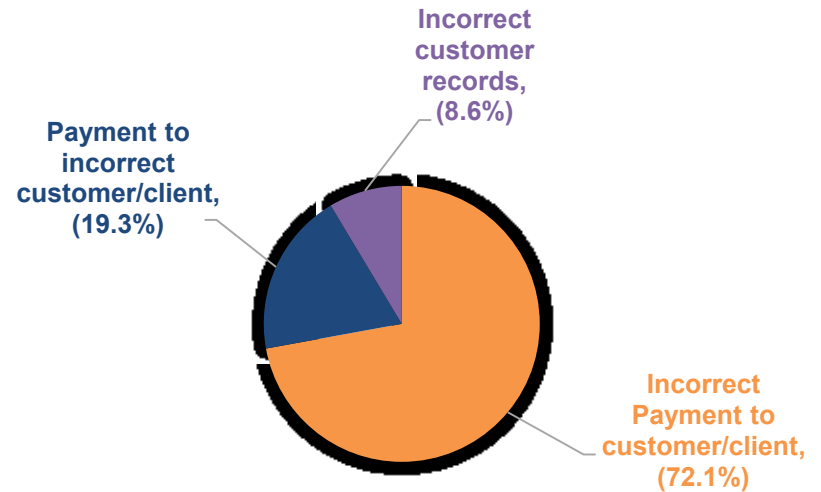


# Risk category level 3's for TCEM and CCAM

## LARGEST LEVEL 3 RISK CATEGORIES - TCEM

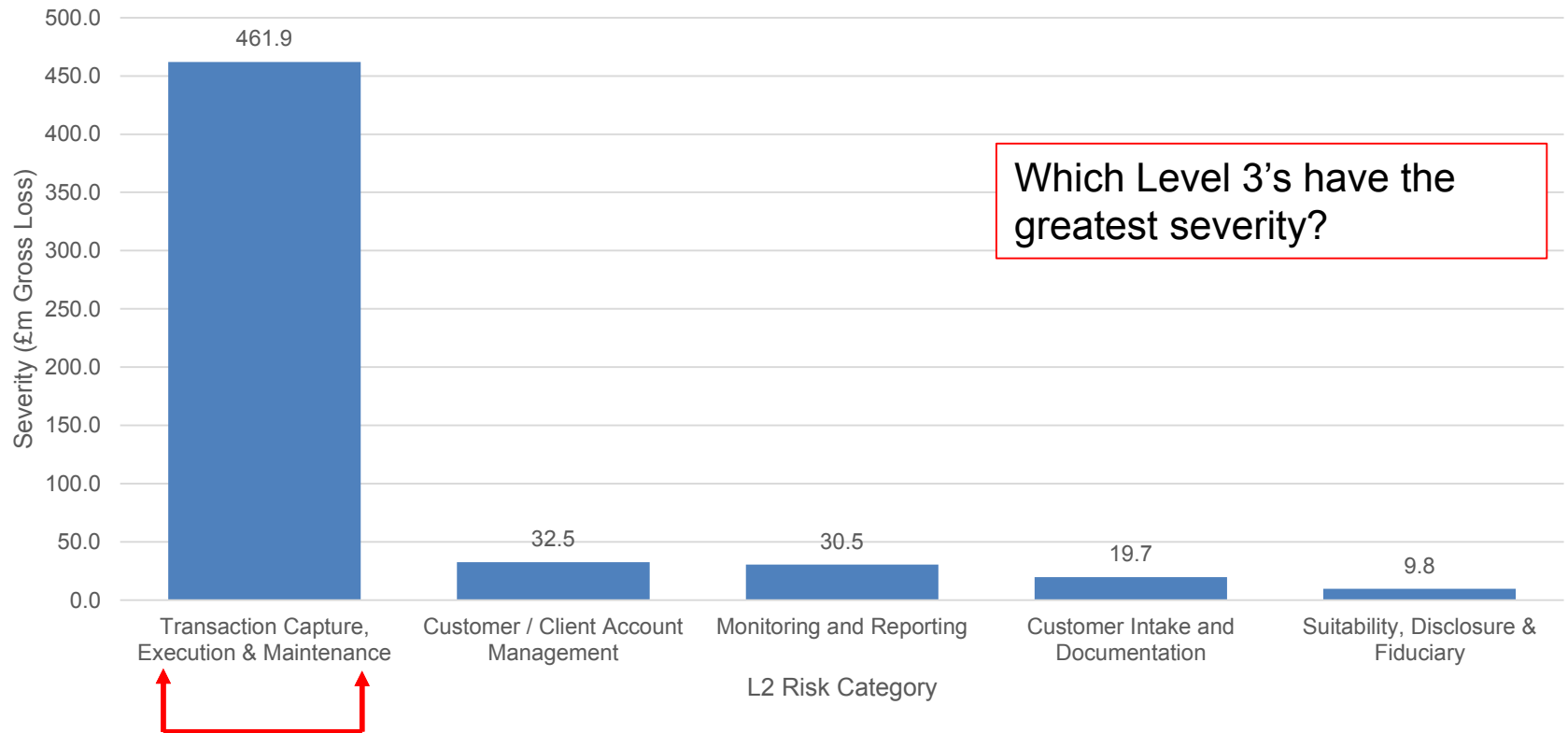


## LARGEST LEVEL 3 RISK CATEGORIES - CCAM



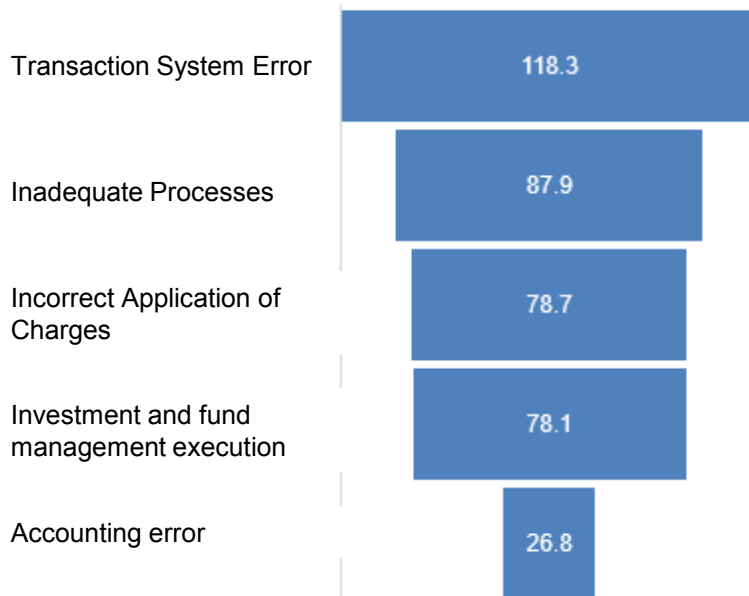
# Severity

Top 5 Operational Risks by severity of risk events over the last 12 months



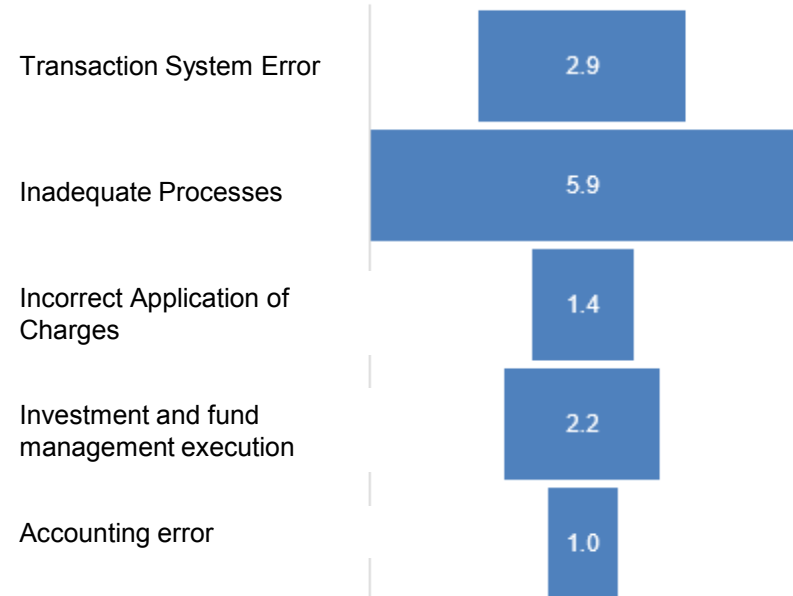
# Risk event type level 3's for TCEM

Highest Severity Risk Category Level 3's  
(£m Gross Loss)



Average Risk Category Level 3 Gross Loss:  
**£10.2m**

Highest Severity Risk Category Level 3's  
(£m Average Loss)



Average risk event severity:  
**~£550k**

## Significant changes in frequency over 12 months

### Increases

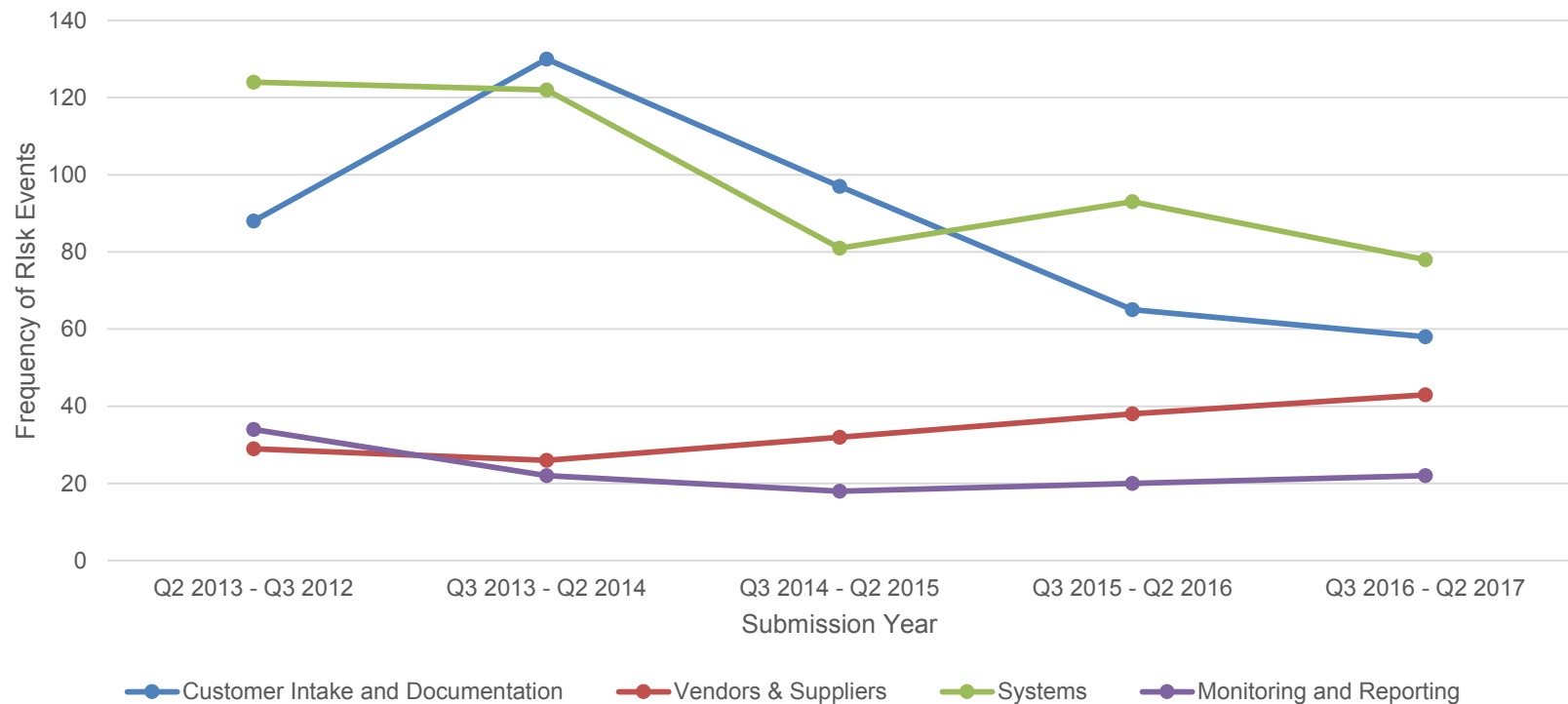
Risk Category Level 2	Q2 2017 – Q3 2016	Q2 2016 – Q3 2015	% Change
Diversity & Discrimination	5	1	500.00
Systems Security	4	2	200.00
Transaction Capture, Execution & Maintenance	525	361	145.43
Product Flaws	22	18	122.22
Vendors & Suppliers	43	38	113.16

### Decreases

Risk Category Level 2	Q2 2017 – Q3 2016	Q2 2016 – Q3 2015	% Change
Improper Business or Market Practices	9	40	-77.50
Unauthorised Activity	3	8	-62.50
Selection, Sponsorship & Exposure	2	5	-60.00
Employee Relations	5	10	-50.00
Disasters and Other Events	4	7	-42.86

# Frequency changes over the last 5 years

Top operational risks for which the frequency of loss has significantly changed over the last 5 years



## Significant changes in severity over the last 12 months

### Increases

Risk Category Level 2	Q2 2017 – Q3 2016	Q2 2016 – Q3 2015	% Change
Monitoring & Reporting	£30.5m	£0.4m	7226.55
Systems Security	£38.5k	£15.3k	252.10
Transaction Capture, Execution & Maintenance	£461.9m	£230.8m	200.10
Vendors & Suppliers	£9.6m	£5.1m	185.59
Suitability, Disclosure & Fiduciary	£9.8m	£7.3m	132.84

### Decreases

Risk Category Level 2	Q2 2017 – Q3 2016	Q2 2016 – Q3 2015	% Change
Unauthorised Activity	£0.1m	£2.1m	-95.14
Disasters and other events	£0.2m	£3.8m	-94.55
Selection, Sponsorship & Exposure	£0.5m	£7.9m	-93.59
Employee Relations	£0.2m	£1.8m	-88.73
Customer / Client Account Management	£32.5m	£95.4m	-65.89



# Top 5 operational risks on the radar of insurance firms for the next 12 months

1. Cyber Security Risk
2. Regulatory Risk
3. Geopolitical Risk
4. Outsourcing
5. Conduct Risk

# ORIC International work in 2018

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- Cyber service
- Third party risk management working group
- Emerging risks database and benchmarking tool

# Key Benefits of ORIC International



A best in class framework & toolkit to help our member firms manage & measure operational risk

## Risk Intelligence

- **Databases & Libraries**
  - 10,000+ Anonymised risk events from our members
  - 20,000+ risk events updated daily from the public domain
  - 180+ detailed scenario assessments
  - 2,500+ detailed KRIs & controls
  - Scaled dataset
- **Analytics**
  - Inbuilt analytics in our purpose built system ORIS
  - Detailed quarterly reports
  - Personalised notifications
  - Taxonomy service
  - Industry Risk Profiles

## Community & Networking

- **Working Groups**
  - Cyber Risk
  - Data Focus
  - Emerging Risks
  - Internal Modelling
  - Investment Management
  - Leaders Forum
  - Quarterly Member Forum
  - Scenarios
  - Standard Formula
  - Supply Chain Management
- **Networking**
  - 200+ Risk Professionals from 50 firms & subsidiaries
  - 300+ External risk affiliates

## Thought Leadership

- **Best Practice Papers**
  - Scenario Universe
  - Principles of Operational Management & Measurement
  - Creating Value From Risk Events
- **Benchmarks**
  - Scenario Analysis Methodology & Assessment
  - Capital Modelling Methodology & Benchmarks
  - Maturity Diagnostics
  - Correlation & Diversification Benefit Benchmarks
  - Emerging Risk Benchmarks

## Stay in touch

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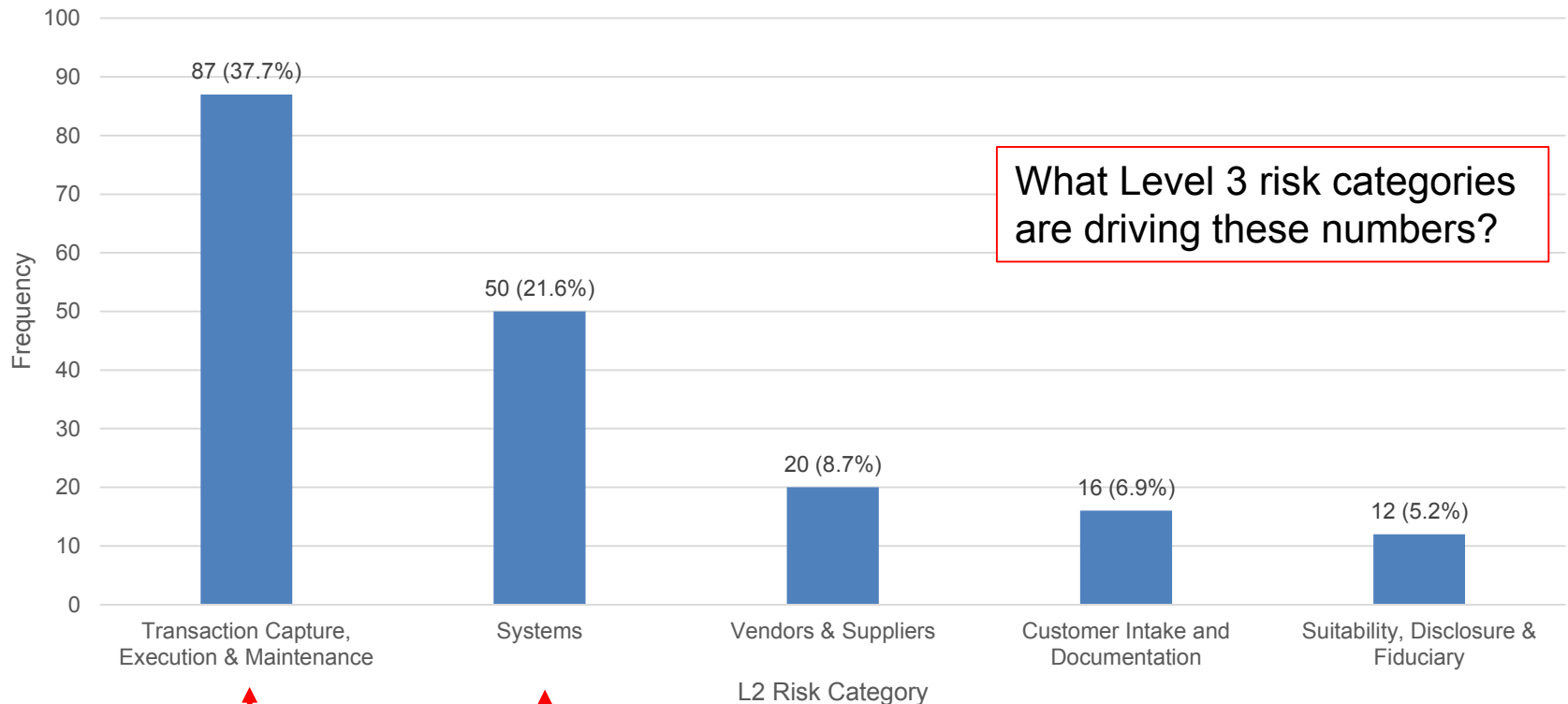




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# Near miss frequency over 12 months

Top 5 operational near misses based on frequency over the last 12 months



## Top 5 operational near misses based on frequency by L3 risk category (Last 12 months)

### TOP 5 OPERATIONAL NEAR MISSES - LEVEL 3 RISK CATEGORIES

