



Operation Risk More than Disaster Recovery

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Operational Risk

- How do you define Operational Risk?
- Solvency II
A firm must have a risk management system which covers at least the following risks
 - Underwriting and Reserving Risks
 - ALM Risks
 - Investment Risks
 - Liquidity Risks
 - Reinsurance Risks
 - Operational Risks

Defining Op Risk is like defining a dog by saying that it is not a cat

Operational Risk



- Could any of these happen in your company
 - Unit Pricing Error leads to 50m refund to policyholders
 - Incorrect pricing assumptions lead to collapse of insurance company
 - Mis-selling of insurance leads to refunds and regulatory fines
 - New entrant into industry causes losses in existing firms
 - Failure of supplier leads to delays in launching new product
 - Employee pays fraudulent claims into their own bank account
 - Work outsourced within group leads to unexpected VAT bill
 - Accounts manipulated to attain bonuses
 - Telecom Eireann confused with Telecom Iran

Operational Risk



- How do you define Operational Risk?
- Operation Risk is any event caused by failures in technology, staff and or controls that **could** lead to a failure to meet the company objectives.
- Company Objectives
 - Solvency
 - Return on Capital
 - Profit/EV
 - Expenses/Efficiency
 - Sales Volumes
 - etc

Operational Risk



- Principles of Risk Management
 - Identify
 - Measure/Predict/Report
 - Reduce/Mitigate/Transfer
 - Hold Capital

Operational Risk



- Operational Risk can be divided into the following Categories
 - Mis-Selling Risk
 - Systems Risk
 - HR/Management Risk
 - Fraud Risk