Identify – Measure – Report

Operational Risk

- Systems Risks

  – Disaster Recovery/Business Continuity
  – Smaller systems failures/outages
  – Systems/controls not working as expected
  – Underwriting systems
  – Accounting systems
  – Actuarial Systems
  – Unit Pricing Systems
  – Point of Sales Systems

Operational Risk

- Systems Risks - Indicators

  – Space available on system

  – Number of small outages

  – Time for batch files to run

  – Preventative Maintenance

  – Change Projects

  – Reconciliations & Internal Control Framework

  – Internal Audits

Operational Risk

- HR/Management Risk

  – Key Person Dependency

  – Dysfunctional behavior

  – Unclear objectives

  – Insufficient resources

  – Business Continuity (Swine Flu)

  – Retention and absenteeism rates / staff morale

  – Poor training or controls

  – Payroll/Data Protection

  – Mis-placed initiative

Operational Risk

- HR/Management Risk - Indicators

  - Succession plan in place
  - Staff survey results
  - 1:1 meetings taking place
  - Training plan in place
  - Remuneration structures
  - Strategy and objectives in place
  - Change projects ongoing
  - High staff turnover/absenteeism
  - Internal control framework
  - Internal Audit

Operational Risk

- Fraud Risk

  – External and internal
  – Fraudulent claims from policyholders
  – Fraudulent invoices/commissions paid out
  – Client monies
  – Manipulating results for bonus schemes
  – Altering systems parameters
  – etc

Operational Risk

- Fraud Risk - Indicators

  – Lifestyle vs salary

  – Unexplained results/expenses etc

  – Early CI claims

  – High claims in a particular region/sales channel/cover

  – 1st year CI claims vs later year claims

  – Changing economic environment

  – Multiple policies

  – Complaints

Operational Risk

- Mis-selling risks

  - Product not meeting particular needs of consumers
  - Consumers not understanding important terms/conditions or exclusions
  - Sales people not understanding the product / poor training
  - Promotional material not accurately reflecting the product
  - Inappropriate remuneration policies / sales targets
  - Dysfunctional behavior

Operational Risk

- Mis-selling risks - Indicators

  - Early cancellations
  - Complaints volumes
  - Claims declinature rates
  - Sudden change in sales volumes
  - Sudden change in mix of business
  - Sudden change in source of sales volumes
  - New remuneration scheme
  - Compare similar sales channels/products
  - Internal control framework
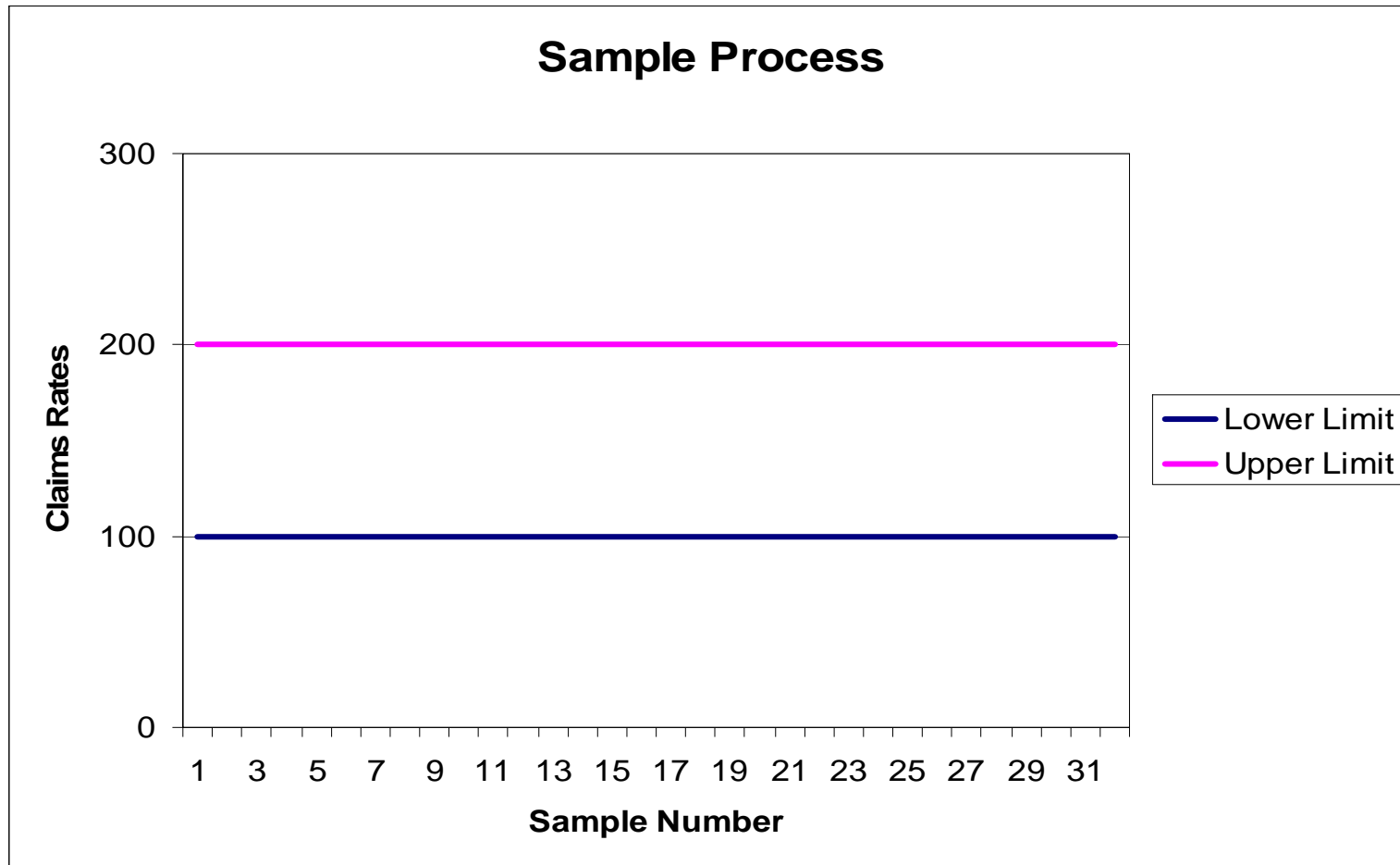
Statistical Process Control

Operational Risk

- Statistical Process Control

    - Define upper and lower acceptable boundaries

Operational Risk

- Statistical Process Control
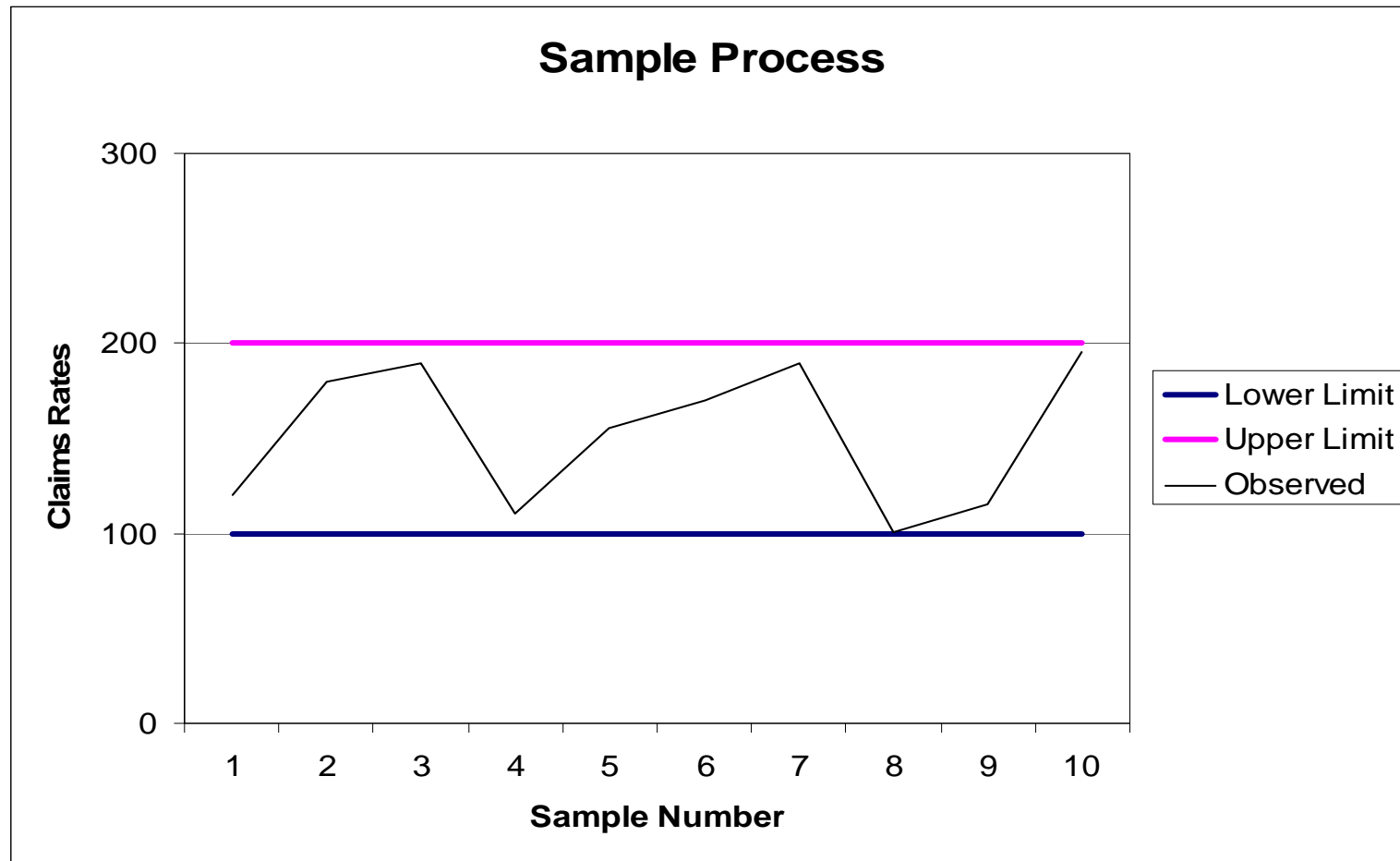
Operational Risk

- Statistical Process Control

    – Define upper and lower acceptable boundaries
    – Observe/Measure actual results

Operational Risk

- Statistical Process Control

Operational Risk

- Statistical Process Control

  – Define upper and lower acceptable boundaries

  – Observe/Measure actual results

  – Determine distribution based on measured results

  – Determine confidence levels of remaining within acceptable boundaries based on calculated distribution

Operational Risk

- Statistical Process Control
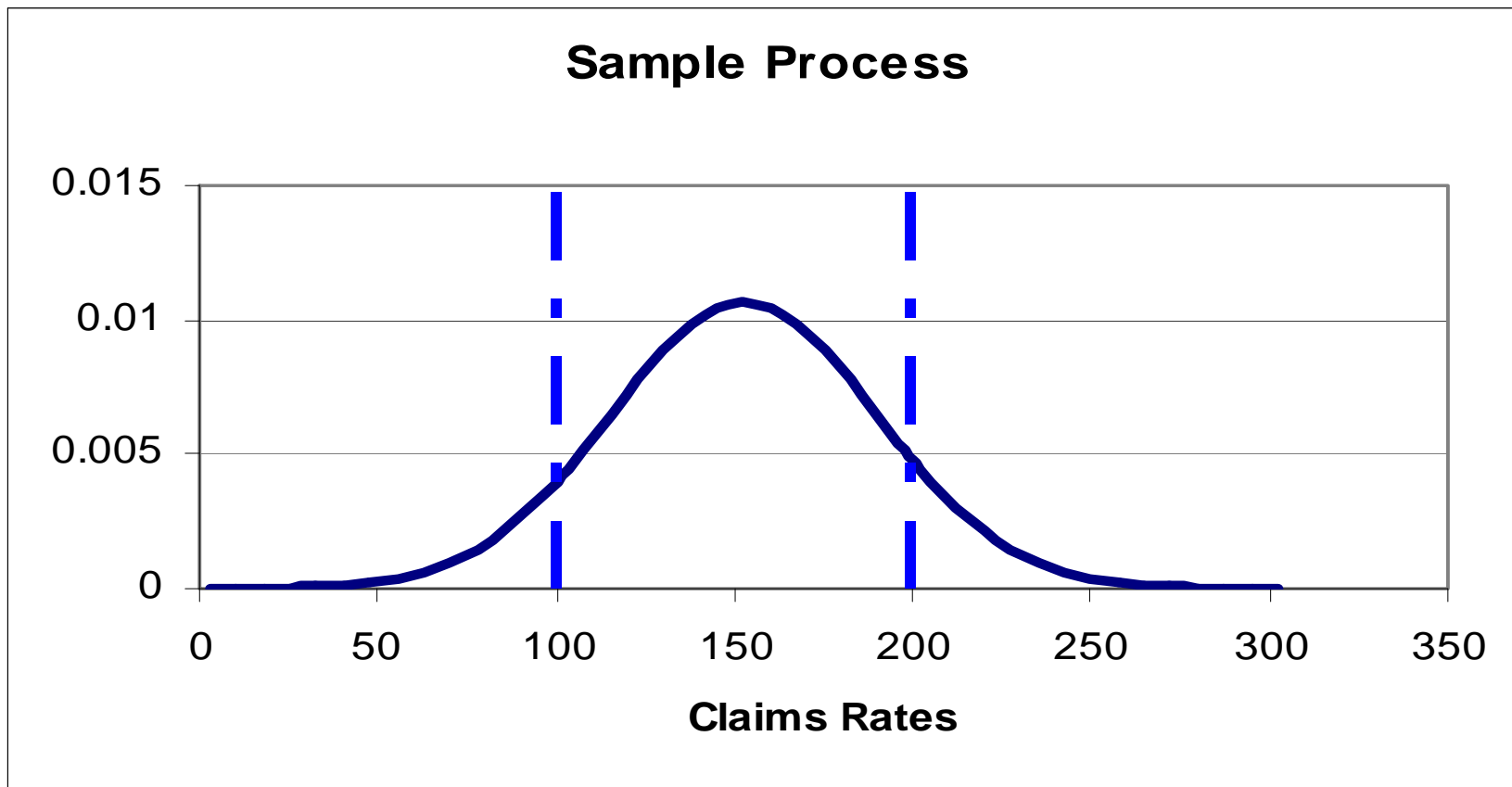
Operational Risk

- Summary

  Identify the risks that might stop the Company from achieving it's objectives

  Measure and report those risks

  Reduce mitigate or transfer those risks

  Determine the capital required to cover those risks – ORSA…..