

Global FINEX - Operational Risk Solutions

Financial Institutions

February 2021



Willis Towers Watson



An aerial photograph of a modern urban landscape. In the center, a large stadium with a green roof and a circular base is visible. To the left, a multi-lane highway interchange curves through the city. Various other buildings, including a large rectangular one with a green roof, and parking lots are scattered throughout the scene. The image is taken from a high angle, looking down on the city.

Are you facing these challenges?

“My board has requested evidence of the extent to which operational risks facing the firm are mitigated through our current insurance program.”

“How much insurance should we buy for the risks we are managing? Peer group benchmarking is not appropriate for our unique business profile.”

“We are instituting a strategic approach to the way we buy insurance, with a view to aligning our requirements to the firm’s stated risk appetite. How do we ensure our approach is optimised in terms of price and coverage?”

“We don’t have sufficient data coverage to take informed decisions about the expected value of operational losses. Can we use external operational loss databases?”



Willis Towers Watson has developed a proprietary methodology to:

- Challenge your operational risk framework
- Quantify your key risk exposures
- Optimise your insurance programme
- Integrate insurance into your operational risk framework

Our services

Willis Towers Watson has a dedicated team of professionals who are focused on effectively supporting your risk management. Where required, we can deliver end-to-end assistance in operational risk framework development. However, we always offer a bespoke service in line with your actual needs and can provide consultancy in any or all of the following areas:

Risk Framework Review

Operational Risk Solutions can support the development and enhancement of your firm's specific risk framework by mapping your key risks to actual loss events suffered by firms with similar business characteristics. Risk gaps can then be identified to better inform your understanding of the risks you face.

In addition, Operational Risk Solutions can support quantification of risks through a scenario based approach to provide a forward-looking aspect to your risk profile. Review and quantification of risk profiles is supported by detailed analysis of our proprietary databases.



- Deeper understanding of the risks faced by your industry
- Risk profile reviewed by an external expert
- Backward and forward looking approach to operational risk through access to historical data to support the development of risk scenarios


Key Benefits

Insurability Assessment

Not all risks are insurable; the optimal insurance limit is sufficient to cover the insurable aspects of your firm's risks.

You can look at insurability of risk from two angles:

- **Qualitative** – What is insured – We map your key risks to your current insurance wordings, clearly outlining how insurance would be expected to respond and where changes to wordings or new policies would increase coverage.
- **Quantitative** – How much is insured – Each risk may have insurable elements (e.g. compensation to third parties) and uninsurable elements (e.g. fines). We calculate the percentage of each risk that is insurable. This quantitative insurability is used to set optimal insurance limits.



- Better appreciation of the extent to which operational risk can be mitigated by insurance
- Knowledge transfer to enable clear rationale and justification of recommended insurance structure

Key Benefits

Insurance Programme Optimisation

The optimal insurance structure is a complex function of risk appetite, risk mitigation and cost.

You should buy enough insurance to cover your firm's risk profile; buying too much is a waste of premium whilst buying too little exposes the firm to increased risk. We work with clients to link their insurance buying strategy to their risk profile, taking into account the insurability of their risks, their risk appetite and the cost of insurance.

Key Benefits

- Optimal insurance limits / deductibles based on operational risk profile.
- Enhanced cost-benefit analysis – Calculate operational risk exposure net of insurance to show the financial benefit of different insurance structures given the cost of insurance.
- Deductible structuring within risk appetite – The ability to see how changing deductibles impact the retention of different parts of the business.
- Audit trail – Knowledge transfer to enable you to demonstrate clear rationale and justification of recommended insurance structure.

Regulatory/Economic Capital Model Development

Operational Risk Solutions can support the development or validation of an economic / regulatory capital model using our proprietary data combined with client's own internal loss data.

The insurance purchased can subsequently be factored in to achieve capital mitigation. During this process aggregated insurable risk profile and certain required 'insurance haircuts' are factored into the capital model as per regulatory requirements and industry best practice.

Key Benefits

- Control and ownership of regulatory / economic capital model supported by Willis Towers Watson
- Bespoke model that incorporates insurance to better reflect your actual risk profile
- Economic / regulatory capital relief through the inclusion of insurance in internal model
- Capital model in line with industry best practice and leading regulatory requirements



Data Capabilities

Our aim is to deliver measurable value from risk management and insurance that will help clients achieve their commercial goals. As part of our approach we maintain two key proprietary risk databases, Insurance Claims Database and WORLD, capturing data from financial institutions and professional service firms to provide risk insights to our clients.

Insurance Claims Database

Willis Towers Watson is ideally placed as a leading insurance broker to collect and analyse data on losses and claims that our clients have experienced. We have invested significant resources in developing a comprehensive insurance claims database. This allows us to advise our clients on the risks their industry faces and highlight valuable trend information.

The Insurance Claims Database is comprised of over 45,000 insurance notifications made by financial institutions and professional service firms. Our claims analysis, whilst maintaining confidentiality, illustrates important details about the nature, trends, causes and cost breakdown of loss events impacting financial institutions globally. For each claim analysed, over 170 individual pieces of information are captured ranging from event type as classified up to Basel Level 5, to who the claimant was and the location of the event. Our clients are provided with risk trend information to assist in risk management and our risk consultancy is able to provide bespoke support where required.

Insurance claims information is available to clients in two forms; a dynamic online tool which enables clients to interrogate the data and detailed claims reports which provide additional detail around key risk areas.

Key data collected includes:

Event Information	Business Type	Claimant Type
<ul style="list-style-type: none"> 5 levels of Basel categorisation Root causes Work activity, date of event, discovery of claim and date of formal claim Regulatory involvement 	<ul style="list-style-type: none"> Industry Geographical location of event 	<ul style="list-style-type: none"> Claimant's industry and geography When claimant is an organisation: size of firm and scope of work
Resolution Information	Cost Breakdown	Insurance Information
<ul style="list-style-type: none"> Development of notification; e.g. Settlement by insurer, no claim made against insured, loss below retention, out of court commercial settlement Settlement method, e.g. by arbitration, in court, etc. 	<ul style="list-style-type: none"> Payment split by insurer, insured and other policies Breakdown of costs for each event by settlement, defence, mitigation costs etc. Cost breakdown by type e.g. settlement, defence, mitigation costs 	<ul style="list-style-type: none"> Applicable policy Insurability of each event

Willis Operational Loss Database (WORLD)

The Willis Operational Loss Database provides publicly available details of over 1,800 operational risk loss events that financial institutions have suffered. It highlights worst case loss values and reveals important industry trends. Clients are able to access WORLD via a dedicated web portal.

Key data collected includes:

Institution	Event Information	Business Type
<ul style="list-style-type: none"> Institution involved Geographical location of event Geographical location of head office 	<ul style="list-style-type: none"> Business line affected Loss by Basel categorisation Date of event Regulatory involvement 	<ul style="list-style-type: none"> Business line Geographical location of event Geographical location of head office
Event Cost	Insurance Information	Event Summary
<ul style="list-style-type: none"> Gross loss 	<ul style="list-style-type: none"> Insurance cover most likely to be involved, if any 	<ul style="list-style-type: none"> Summarised loss description containing breakdown of event costs where available

Case Study 1: Global Insurer



Background

Our client believed it was currently under insured but had a fixed budget for insurance premium spend. They wanted to know if they should buy more cyber insurance or buy a catastrophe program (covering a number of their policies including crime) to sit above their other insurances.



Solution

Produced a detailed risk map outlining how current policies would expect to respond to their operational risks and highlighting where potential improvements to wordings could increase coverage for their renewal.

- Delivered a quantitative assessment of the insurable financial impact of key operational risks, using the client's financial impact assessments and our insurance claims database.
- Provided a comparison of insurable value-at-risk for different insurance structures to determine their optimal insurance structure.



Client Benefit

- Wording amendment recommendations were implemented at renewal by the FINEX broking team improving the likelihood of insurance recovery for the identified operational risks.
- Increased insurability of risk profile by the placement of an additional catastrophe layer.
- Clear, quantified demonstration of the extent to which their Operational Value at Risk was transferred to the insurance market.

Case Study 2: Global Bank



Client need

Our client requested assistance from WTW in respect of the following key concerns:

- The business units wanted to use insurance as a strategic enabler yet did not understand exactly what was and was not transferred through insurance;
- The central insurance team wanted a clearer understanding of where there were overlaps between policies and if there were any gaps in coverage;
- The board wanted assurance that the insurance policies bought were fit for purpose.



Action

- Carried out risk workshops with front line staff from all business units;
- Clearly mapped insurance to risks in simple language, free from insurance jargon;
- Worked with colleagues across lines of insurance to ensure policy wordings were clear and where overlaps existed that protocol was clear.



Deliverables

- For the business units - A clear document outlining exactly how insurance ties into their daily business and how it would respond to the extreme scenarios they had identified
- For the central risk team - A central database to cross-reference the interaction between risk and insurance across the business
- For the board - An audit trail of decision making

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