

Global FINEX - Operational Risk Solutions

# Professional Services

February 2021



Willis Towers Watson



An aerial photograph of a modern urban landscape. In the center, a large stadium with a distinctive green and white roof is visible. To its left, a multi-story office building with a glass facade stands. A complex highway interchange with multiple overpasses and ramps dominates the lower half of the image. The surrounding area includes parking lots, smaller commercial buildings, and landscaped green spaces. The overall scene depicts a bustling, developed city center.

# 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.



### Key Benefits

- 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

## 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.



### Key Benefits

- 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

## 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.



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

# Case Study 1



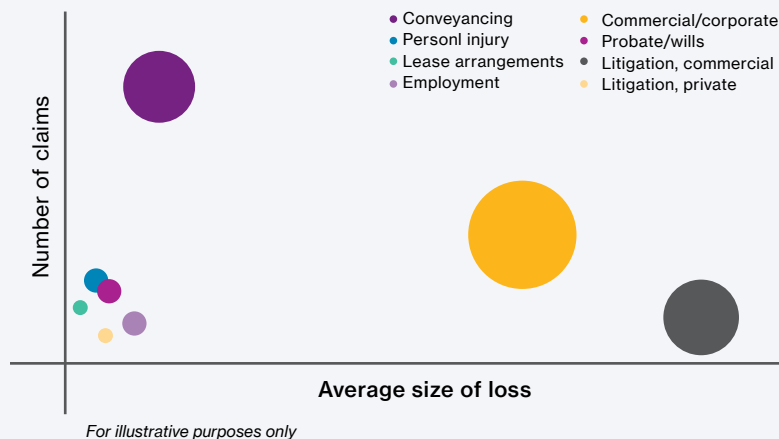
## Background

Our client was developing its risk framework and required an advisory briefing on the risks facing the industry for the Audit and Risk Committee.



## Solution

- **Internal risk awareness** – Using our proprietary data we were able to assess the key risk themes of the industry and emerging trends, enabling the client to improve its understanding of the risks it faced.
- **Risk framework review** – We compared their current risk framework to what was ‘best in class’ and provide recommendations for improvement.



## Client Benefit

- Alignment of thinking around current and emerging risk threats and prioritised actions to mitigate.
- Improved understanding around best risk management practices.

# Case Study 2



## Client

Global Engineering & Construction Contractor.



## Client requirement

Client asked Willis Towers Watson to advise on whether the current Professional Liability (PL) / General Liability (GL) structure was adequate for the specific risks they face. More specifically Willis Towers Watson was asked to review risk exposures from some of their key projects (on-shore/off-shore oil & gas and power); determine insurable/uninsurable risk landscape, and; stress test current PL/GL insurances.



## Outcomes

- Partnership across the firm: Engaged specialists in Willis Global Markets International to assist in identifying engineering risk exposures and worked well as a team to execute a complex and detailed project;
- Allowed Insurance manager to demonstrate to the board that the current insurance program was adequate;
- Process likely to be reviewed in future as and when key projects change.

# Contacts

**Alicia Birchall**

+44 203 124 7564

[Alicia.Birchall@WillisTowersWatson.com](mailto:Alicia.Birchall@WillisTowersWatson.com)

**Alexandra Cosma**

+44 203 124 7721

[Alexandra.Cosma@WillisTowersWatson.com](mailto:Alexandra.Cosma@WillisTowersWatson.com)

**Mark Hannam**

+44 203 124 7809

[Mark.Hannam@WillisTowersWatson.com](mailto:Mark.Hannam@WillisTowersWatson.com)

**Charlotte McDermottroe**

+44 203 124 7809

[Charlotte.McDermottroe@WillisTowersWatson.com](mailto:Charlotte.McDermottroe@WillisTowersWatson.com)

**Laura Kelly**

+44 7572 476314

[Laura.M.Kelly@WillisTowersWatson.com](mailto:Laura.M.Kelly@WillisTowersWatson.com)

**Willis Towers Watson**

51 Lime Street London  
EC3M 7DQ



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