For much of the last decade, there was no insurance company specific definition of operational risk. However, this lack of clarity is disappearing as insurers, regulators and rating agencies have largely borrowed from the Basel Accord definition. From this increasing clarity comes a growing intent of purpose around how this risk is managed. Insurers are beginning to realize the practical benefits of dedicated operational risk management activities and regulators and rating agencies are expecting companies to have formal frameworks and processes in place. Yet, the industry remains in a state of flux with respect to the rigor and effectiveness of operational risk management capabilities.

The professionals at KPMG LLP (KPMG) have many years of operational risk management advisory experience, built upon borrowing from banking operational risk management methodologies, firsthand experience with managing operational risks, as well as lessons learned from advising many insurance companies with assessing, designing and implementing operational risk management capabilities. Information about this key service offering from KPMG is summarized below.

### The Challenges

- Defining the scope and associated boundaries of operational risk vis-à-vis other risks such as insurance, market and credit risk
- Developing useful methodologies for quantifying operational risk and developing associated metrics
- Applying risk appetite, risk tolerance and limit setting to operational risk in a meaningful and practical way
- Identifying an operational risk taxonomy and associated risk assessment process to develop risk measures that are effective in communicating risk to stakeholders and facilitate responsive actions to manage risk
- Providing and understanding of operational risk/reward trade-off framework for the purposes of supporting operational risk and control decisions
- Aligning and coordinating multiple risk stakeholders (e.g. Risk Management, Compliance and Internal Audit) with respect to an enterprise-wide operational risk management approach
- Selecting and implementing an appropriate technology tool to facilitate the operational risk management process
- Change management and managing adoption risk associated with introducing new business processes that impact a large population of employees
The Goals

- Development and implementation of a target operating model (TOM) for operational risk in the context of a broader risk management TOM
- Creation or enhancement of an enterprise-wide policy and standards with respect to how much operational risk to assume (typically as part of a risk-appetite statement)
- Development and implementation of analytic capabilities to support management decisions regarding acceptable operational risk levels
- Development and implementation of a methodology for leveraging operational risk management across compliance, risk, and internal audit (e.g., integrated risk management, compliance, and assurance)

- Improve the efficiency and effectiveness of underlying business processes to create cost savings and competitive advantages
- Drive an embedded risk-management culture throughout the organization
- Development and implementation of a key risk indicator (KRI) capability, including alignment of internal metrics to key operational risk types, KRI tolerance thresholds, and KRI dashboards that provide the ability to report KRI levels against established tolerances and limits for stakeholders to monitor and respond to risk levels by operational risk type
- Definition of business requirements for technology solutions for the conduct of vendor assessments and for system implementations

Our Approach

- Leverage well-established operational risk management approaches developed from Basel II as appropriate for insurance operations as well as our extensive work with insurance companies
- Deliver a cross-functional team of risk management professionals across the spectrum of insurance operations and related processes
- Bring an orientation that aligns various risk management frameworks to facilitate efficient and effective cooperation between Risk Management, Compliance, Internal Audit and the business, including risk technology resources to identify, design, implement, and enhance Governance Risk and Compliance (GRC) tools

- Provide practical methods for quantifying and aggregating operational risk exposures for risk monitoring, control remediation cost benefit decision support, and capital management
- Deliver awareness, learning, training and other change management services to assist with the successful implementation of operational risk management behavior throughout the organization
The Operational Risk Management Framework - Conceptual Illustration

• **A senior team leadership with deep, relevant skills.** Our senior team is a seasoned group of professionals with both industry experience as Chief Risk Officers, Operational Risk Managers, Insurance Operations Managers, and risk modelers as well as many years of professional services experience assisting insurers develop operational risk management capabilities.

• **A global team with multidisciplinary experience.** We can deliver a talented multidisciplinary team from around the globe to assist companies with developing risk management capabilities and reviewing and assessing your insurance risk management program on a global scale. Our team includes specialists from a variety of disciplines such as Enterprise Risk Management, insurance risk, market risk, credit risk, actuarial, reinsurance, hedging, modeling and finance professionals, and global insights on operational risk.

• **A practical and well-developed approach.** Technical knowledge and both industry-based and advisory-focused experience are important, but quality of delivery is equally important. We have a tried and tested approach and a demonstrated track record of efficient, quality delivery on our projects.
Contact us

For more information on KPMG’s Insurance Risk Management Advisory Solutions, or to arrange an in-house presentation, please contact one of the representatives listed below or visit the KPMG Insurance Web site at http://www.kpmg.com/US/en/industry/insurance.

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