STAMFORD RISK ANALYTICS   OpRisk Advisory

Industry Experts Recommend
A New Approach for Managing Operational Risk
Addressing the Issues Underlying the 2008 Global Financial Crisis

North American Actuarial Societies Publish Report on Operational Risk Management
Authored by OpRisk Advisory and Towers Perrin

Stamford, CT – December 8, 2009. The North American Actuarial Societies have published a report entitled "A New Approach for Managing Operational Risk – Addressing the Issues Underlying the 2008 Global Financial Crisis." The report was sponsored by the Joint Risk Management Section of the Canadian Institute of Actuaries, Casualty Actuarial Society and Society of Actuaries and was authored by a research team from professional services firms OpRisk Advisory and Towers Perrin. The project oversight group included risk management experts from major North American insurance companies and banking institutions.

Key findings include:

- Operational failure has played a role in virtually every catastrophic loss that has taken place during the past 20 years. In fact, the 2008 global financial crisis was largely caused by a series of massive operational failures.

- Operational losses can be caused by junior staff; but they can also be caused by mid-level officers, senior managers, C-level executives and Boards of Directors. They are sometimes caused by individuals and in other cases by groups of people working in collusion. Many of the largest losses take place when operational failures are present at the senior-most level.

- One of the most important operational risks is “principal-agent” risk. Principal-agent risk refers to the risk that, in circumstances where there is separation of ownership and control, agents (who control or act on behalf of the organization) may pursue actions that are in their own interest, but are not necessarily in the best interest of the principals (the stakeholders). Principal-agent issues have been the cause of many of the largest losses across all industries.

- For many years the conventional wisdom has held that operational risk was best managed through a traditional audit-based approach. Virtually every organization that has implemented an operational risk management (ORM) program has based the underlying framework on the principles of Traditional ORM. Yet Traditional ORM is based on a conception of risk which is inconsistent with that used in the risk management profession.

- Traditional ORM is very effective for preventing losses at a tactical level, but loss prevention addresses only one aspect of the risk management business problem — and not the most important one. In particular, Traditional ORM does little to mitigate exposure to the large catastrophic events, such as sales and business practices violations and acts of excessive risk taking, which are really the key drivers of operational risk.

Ali Samad-Khan, a world-renowned expert in risk management and one of the authors of paper commented: “In recent years operational risk has become a pejorative – and has generally been associated with operations or back-office processing issues. We hope that this report will draw attention to the fact that operational risk is one of the most significant risks organizations face and that developing an effective Modern ORM program is a strategic imperative for every major corporation and its stakeholders.”

It is anticipated that this report might also be used as a basis for constructive dialogue with rating agencies and regulators concerning how future risk regulations, including risk capital requirements, should be developed.

The complete research study is available at the OpRisk Advisory, Society of Actuaries, Stamford Risk Analytics and Towers Perrin websites.

About OpRisk Advisory

OpRisk Advisory is one of the world's leading operational risk management consulting firms. The firm provides the full range of services to help its clients develop highly efficient, cost-effective operational risk management programs that meet or exceed industry best practices and satisfy the highest level of Basel II and Solvency II compliance. OpRisk Advisory has changed its name to Stamford Risk Analytics. Stamford Risk Analytics has retained all of its predecessor firm's trademarks and copyrights.

About Stamford Risk Analytics

Stamford Risk Analytics is a leading provider of ORM and ERM products and services. The firm provides public and private educational seminars, advisory and consulting services and a unique set of four software products designed to make implementing Modern ERM a practical reality. These products and services are offered in collaboration with MEGA International. More information about Stamford Risk Analytics is available at www.stamfordrisk.com.

For further information on OpRisk Advisory/Stamford Risk Analytics, please contact:

Mayraj Fahim
Stamford Risk Analytics
One Stamford Plaza
263 Tresser Boulevard, 9th Floor
Stamford, CT 06901 USA
Telephone: +1 203 559 0883
Fax: +1 203 978 0856
Email: mayraj.fahim@stamfordrisk.com
Web: www.stamfordrisk.com