MODERN OPERATIONAL RISK MANAGEMENT

A comprehensive two-day masterclass led by Ali Samad-Khan and Tigran Kalberer
14-15 October 2008 Widder Hotel, Zürich
Immense competitive, stakeholder and regulatory pressures are leading financial firms to conclude better operational risk management produces rewards beyond compliance. European firms are re-evaluating their risk management programmes in search of real business benefits, with the Solvency II ‘Use test’ proving to be a strong catalyst. Catastrophic losses in the financial sector and operational failures behind the US sub-prime crisis also suggest existing risk management paradigms just don’t work.

Managing operational risk, increasingly recognised as one of the most significant risks organisations face, requires a new approach. Traditional operational risk management (ORM), designed to address control weaknesses and improve process efficiencies, does little to improve the management of material risks. Modern ORM focuses directly on risk issues and employs methods to ensure that risks are managed to conform with the tolerance levels of the stakeholders. As excessive risk exposure can quickly lead to major losses, establishing a robust modern ORM programme has become a strategic imperative.

Please join us to learn more about the methodology, core concepts and key issues underlying this evolving discipline from Towers Perrin’s operational risk experts, Ali Samad-Khan and Tigran Kalberer. The opportunity to explore ORM with two of the world’s leading risk experts is an experience you can’t afford to miss. We look forward to your confirmed registration.

UNDERSTAND THE FUNDAMENTALS OF OPERATIONAL RISK

- Defining and classifying risk
- Risk tolerance
- Risk assessment
- Control assessment
- Integrated framework
- Expected loss
- Unexpected loss
- Key risk indicators and predictive analysis
- Scenario analysis
- Value at Risk (VaR) modeling.

WHO SHOULD ATTEND?

- Chief risk officers
- Chief financial officers
- Chief of operations
- Operational risk department heads and managers
- Compliance officers and auditors
- Line-of-business heads and managers.

MASTERCLASS TOPICS WILL INCLUDE:

- Why are there so many definitions of ‘risk’? Which are appropriate for modern ORM?
- What is risk and control self-assessment (RCSA), and how should it be implemented?
- What is risk tolerance and how should it be expressed? Who should determine the level of risk tolerance, and how should the business strategy align?
- What is scenario analysis? How can it be used to measure operational risk exposure, identify potential control weaknesses and/or address broader risk management objectives?
- How can organisations integrate risk and control self-assessment, internal and external loss data, VaR modeling, scenario analysis, audit issues, indicators, etc., into a common framework that supports managerial decision making?
- How can actuarial science techniques model operational risk? What assumptions underlie these techniques? What are the advantages/disadvantages of using ‘expert judgment’ instead of empirical methods?
- Is your organisation keeping pace with the evolving standard for industry best practices? How do you pass the ‘use test’ under Basel II and Solvency II, and what programmes do you need to put in place today to ensure that you will continue to pass this test in the coming years?
Ali Samad-Khan is global operational risk practice leader at Towers Perrin. He has over 10 years’ experience in operational risk measurement and management, and more than 20 years’ experience in financial services. Ali has advised more than 50 of the world’s leading banks, insurance companies, and energy and transportation companies on the full range of operational risk issues. He has also advised leading bank regulators and multilateral organisations, including the Federal Reserve Board, the UK Financial Services Authority, the World Bank and the International Monetary Fund. Recognised globally as a thought leader, Ali’s articles and white papers have served as a catalyst for change in the way organisations manage risk and, for his pioneering work, Treasury & Risk magazine named him ‘one of the 100 most influential people in finance’.

Ali holds a BA in quantitative economics from Stanford and an MBA in finance from Yale.

Tigran Kalberer is a Principal of Towers Perrin in Zurich, Switzerland. In 1999 he joined Tillinghast to start their Swiss office in Zurich. He is also very active in the Nordic and German markets. His project experience encompasses:

- Hedging equity exposure of insurance products;
- Risk management implementation, including governance, organisation, responsibilities and risk procedures (including measurement of risk)
- Risk measurement projects, including SST-implementation
- Implementation of market consistent financial reporting frameworks (Market Consistent Embedded Value)
- ALM-projects, de-risking of the balance sheet;
- M&A due diligence projects.

He has been member of a government commission on potential failures of the Swiss insurance supervision which resulted in a total reform of the regulatory approach, notably a new solvency regime. He thus has deep insight into the Solvency II process, the Swiss implementation of Solvency II, recent IFRS Developments and the implementation process of these issues. Tigran specialises in risk and capital management, ALM, market consistent life assurance valuation including embedded options and IFRS implementation.

He has significant experience in applying modern financial economics to insurance products and companies. Tigran received a Master’s degree in mathematics from the University of Cologne, Germany in 1989. He is a qualified Swiss actuary.
Should risks be assessed before controls, in the absence of controls or after controls; should risks and controls be assessed jointly or independently? How can one use loss data and other information to improve the relevance of risk and control assessments? What assessment methods can be used to optimise the risk-control relationship in the context of risk/loss tolerance and allow senior executives to make more educated business decisions? In this session you will gain a solid understanding of the underlying issues in risk assessment and the pros and cons of the different approaches.

12:00pm NETWORKING LUNCHEON

1:00pm RISK TAXONOMY AND DATA CLASSIFICATION

A structured approach to ORM requires a sound taxonomy. But this is a significant challenge because operational ‘risks’ span causes (lack of supervision, events (fraud) and consequences (lawsuits). How can one incorporate all these elements into a single comprehensive definition and how will doing so facilitate better managerial decision making? In this session, you will learn the fundamentals of loss data classification, the evolution of thinking in this field over the past decade, the different approaches used, as well as which methods best support an advanced measurement and management framework.

This session will also include a loss data classification workshop.

2:30pm AN INTEGRATED ORM FRAMEWORK

A holistic ORM programme requires both qualitative and quantitative information, but how can one integrate risk assessment, control assessment, internal loss data, external loss data, VaR modeling, scenario analysis, audit issues, indicators, etc. into a common framework that supports managerial decision making? In this session we will discuss how to create a uniform structure for analysing this information in a ‘normalised’ view, one which is transparent, easy to understand, and can be used to monitor risk and control levels as they change over time.

3:00pm AFTERNOON BREAK

3:15pm CONTROL ASSESSMENT

After identifying and assessing its major risks, an organisation needs to assess the quality of its corresponding internal controls to determine whether it is over-controlled, under-controlled or adequately controlled in the context of its risk appetite and risk tolerance standards. But assessing controls is a very subjective process. How can one make this process more objective so that the results are meaningful and can be turned into metrics to be monitored on a continuous basis? In this session, you will gain an understanding of the issues one has to address in developing a viable control assessment programme.

4:00pm THE EVOLUTION OF INDUSTRY BEST PRACTICES IN ORM

Major corporations, across all industries, are currently following a wide variety of approaches to managing operational risk. What’s driving this diversity in views and, where there is commonality in thinking, has the industry really converged to the ‘right’ standards? What are the evolving trends both in terms of industry best practices and regulation? In this session you will learn what leading institutions and regulators have learned about ORM during the past ten years and what impact this will have on the future direction of the industry.

4:30pm DAILY SUMMARY AND CONCLUSIONS; QUESTIONS AND ANSWERS

4:45pm CLOSING COMMENTS AND ADJOURN

5:30pm NETWORKING COCKTAIL RECEPTION
AGENDA — DAY 2

7:45am
BUFFET BREAKFAST

8:30am
REVIEW OF TOPICS COVERED ON DAY ONE

9:30am
EXPECTED LOSS, UNEXPECTED LOSS AND RISK-ADJUSTED PRICING

What are expected loss (EL) and unexpected loss (UL)? Are expected losses the smaller losses and unexpected losses the larger losses? Clearly, these definitions are not very practical. In this session we will discuss what these terms mean and why they are important in the context of pricing, budgeting and business decision making. Going beyond operational risk we will explore whether fundamental changes need to be made in the way we measure market, credit and operational risk in order for our models to be aligned with management requirements.

10:15am
RISK INDICATORS AND PREDICTIVE ANALYSIS

Is identifying and monitoring key risk indicators (KRIs) a prerequisite to proactively managing operational risk? Perhaps so, but legitimate risk indicators are few and far between. In this session we will discuss how to identify and validate risk/loss indicators, control indicators and performance indicators and how to transform raw and derivative indicators into metrics that support the effective management of operational risk.

10:45am
MORNING BREAK

11:00am
LOSS DATA

Historical loss data is the most objective source of information on operational risks, but even the best internal loss data is generally insufficient and most external loss data appears irrelevant. In this session, you will learn about the four types of loss data (internal data and external public, consortium and insurance data), the advantages and disadvantages of using the different types of loss data, how to establish a programme for collecting internal loss data, whether to acquire external loss data and which vendors have the best products. We will also cover the many uses and misuses of historical loss data, how to scale external loss data to the size of your organisation and many other important topics.

12:00pm
LUNCH

1:00pm
MODELING AND SCENARIO ANALYSIS IN AN ORM CONTEXT

What are the pros and cons of using pure statistical models as opposed to measurement methods that rely on expert opinion and scenario analysis? What are the fundamental assumptions underlying an actuarial approach? What systematic biases exist in internal and external data (eg, size, controls, threshold, data capture, non-stationary risk environments), and how can they be overcome? How can one objectively determine which frequency and severity distributions best fit the data? How can one objectively combine internal and external data, and what is the amount of data required to estimate VaR at a 99% confidence level? In this session we will discuss the approaches that are commonly used today, their underlying assumptions, how they compare conceptually and practically as well as the pros and cons of the different alternatives. We will also briefly cover how modeling operational risk is different from modeling the other major risks? Where is there more reliable data? (The answer may surprise you.)

2:30pm
AFTERNOON BREAK

2:45pm
MODELING AND SCENARIO ANALYSIS WORKSHOP

In this session we will build an end-to-end operational risk model for a hypothetical financial institution. In doing so, we will address a variety of commonly observed data issues, fit statistical distributions to the loss data, and calculate EL and UL figures for a full set of risk categories within one business line on a stand-alone and a diversified basis. We will also follow a parallel process for calculating EL and UL figures using Towers Perrin’s proprietary scenario-based approach.

4:00pm
DAILY SUMMARY AND CONCLUSIONS; QUESTIONS AND ANSWERS

4:30pm
CLOSING COMMENTS AND ADJOURN
HOW TO REGISTER

REGISTRATION
To book your place, please complete either the response form and return to David Wright at Towers Perrin or email david.wright@towersperrin.com. You will be contacted by email as soon as your application has been received to acknowledge its receipt. Please ensure that you include your email address.

FEES
The masterclass fee is 2,500 CHF plus VAT per delegate. If you register before Monday 15 September 2008, the fee is reduced to 2,250 CHF plus VAT per delegate. The fee includes a set of masterclass materials, breakfast and lunch, and morning and afternoon refreshments on both days. This price does not include hotel accommodation.

SPECIAL GROUP RATES
We offer special discounts for groups of three or more persons. For more information, please contact David Wright on +44 20 7170 2025.

CANCELLATIONS
A refund of registration fees will be made if notice of cancellation is received no later than two weeks prior to the date of the event. If notice of cancellation is received within two weeks of the masterclass, we will deduct 250 CHF for committed costs and refund the remainder of your registration fee. Registration is transferable, and attendee substitutions can be made at no charge.

VENUE
The location for the masterclass is Widder Hotel. The hotel is ideally situated on Widdergasse.

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Delegates are asked to arrange and pay for their own travel and accommodation costs.

ABOUT TOWERS PERRIN
Towers Perrin is a global professional services firm that helps organisations improve performance through effective people, risk and financial management. The firm provides innovative solutions in the areas of human capital strategy, programme design and management, and in the areas of risk and capital management, insurance and reinsurance intermediary services and actuarial consulting.

Towers Perrin has offices and alliance partners in the world’s major markets. More information about Towers Perrin is available at www.towersperrin.com

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