

Integrating Emerging Risks

ORIC presentation – 21 July 2015

Buu Truong



Contents

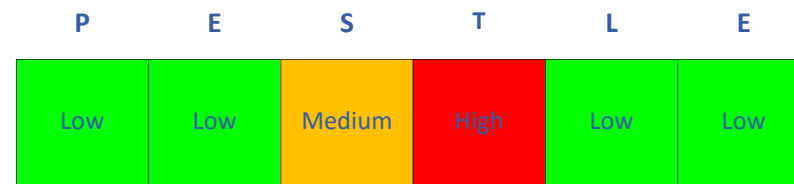
- ▶ Similarities to operational risk
- ▶ Cause vs. effect
- ▶ The relevance of emerging risk today
- ▶ Linking to capital models

Similarities to operational risk

- ▶ There are many reasons why it is sensible to discuss emerging risk and operational risk together:
 - ▶ Existing methods are scenario based
 - ▶ Common lack of data and information so significant use of expert judgement
 - ▶ Despite often being the reason for business failure don't get enough allocation of scarce resources
 - ▶ Wide potential risk universe
 - ▶ Definition difficulties
 - ▶ The exercise rather than the outcome might be the most valuable aspect of an analysis
- ▶ There are therefore benefits of integrating these processes.

Cause vs. effect

- ▶ Focus on particular scenarios can be useful but in a limited capacity.
- ▶ The typical event based taxonomy is people, processes, systems etc... The equivalent for emerging risk is across the main risk types.
- ▶ Risk drivers now increasingly common in operational risk analysis.
- ▶ Possibility to link the scenarios which use an event based taxonomy to a causal taxonomy.
- ▶ We need to go back to go forward, as it creates a common language with other risks.



The relevance of emerging risk today

- ▶ Emerging risk does affect our current risk profile.
- ▶ Emerging risk does exist on current balance sheets.
- ▶ Emerging risk does therefore need to be capitalised.
- ▶ Emerging risk is also required for ORSA.
- ▶ Emerging risks are also strategic risks.
- ▶ This requires a change in perception.

	Balance Sheet Risks	Future Risks
Insurance	High	High
Market	Low	Low
Credit	Low	Low
Operational	Low	Medium

Linking to capital models

- ▶ Extension to existing driver based operational risk work.
- ▶ SCR/ICA relates to balance sheet risks whilst the emerging risk discussion is wider including future risks.
- ▶ Capital modellers can link with causal drivers easier than specific scenarios – indices can be used as modifiers.

Balance sheet risks

	P	E	S	T	L	E
Insurance	Orange	Green	Green	Red	Green	Green
Market	Green	Green	Green	Green	Green	Green
Credit	Orange	Green	Green	Orange	Green	Green
Operational	Orange	Green	Green	Orange	Green	Green

Future risks

	P	E	S	T	L	E
Insurance	Red	Green	Red	Red	Orange	Green
Market	Green	Green	Orange	Red	Green	Green
Credit	Green	Green	Green	Red	Green	Green
Operational	Red	Green	Green	Red	Orange	Green

Questions?



▶ buu.truong@insightriskconsulting.co.uk