

Integration of Operational Risk Management

CT RIMS/CPCU/ASSE Annual Chapter Meeting

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January, 2010

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Principals of Risk Management



Financial Risk

Risks that effect the profitability, cash position, access to capital or external financial ratings through investments, business relationships or the timing of the recognition of revenue or expenses.

- **Credit Risk**
- **Foreign Currency Risk**
- **Tax Opinion Exposures**
- **Commodity Cost Fluctuations**
- **Contract Liability**
- **Claim Reserves**
- **Research & Development**
- **Fraud**
- **Collateral**
- **Risk Transfer Costs**
- **Government Controls**
- **Inflation**
- **Bankruptcy**
- **Contract Liability**
- **Interest Rate Risk**
- **Investment Performance**
- **Non-Payment**
- **Credit Cards!**

Hazard Risk

Risks attributable to physical loss of assets or a reduction in their value, injury to others or their property including customers, employees or other business entities.

- **Workplace Safety**
- **Transportation of Goods**
- **Fire/Explosion**
- **Natural Hazard Loss**
- **Business Interruption**
- **Environmental**
- **Fleet Liability**
- **Product Recall**
- **Vandalism**
- **Falling Objects**
- **Sewer Back-up**
- **Winter Storm**
- **Earthquake**
- **Windstorm**
- **Tornado**
- **Flood**
- **Forest Fire**
- **Asbestos**

Strategic Risk

Risks to reputation, market position or ability to pursue your company's strategic goals and objectives.

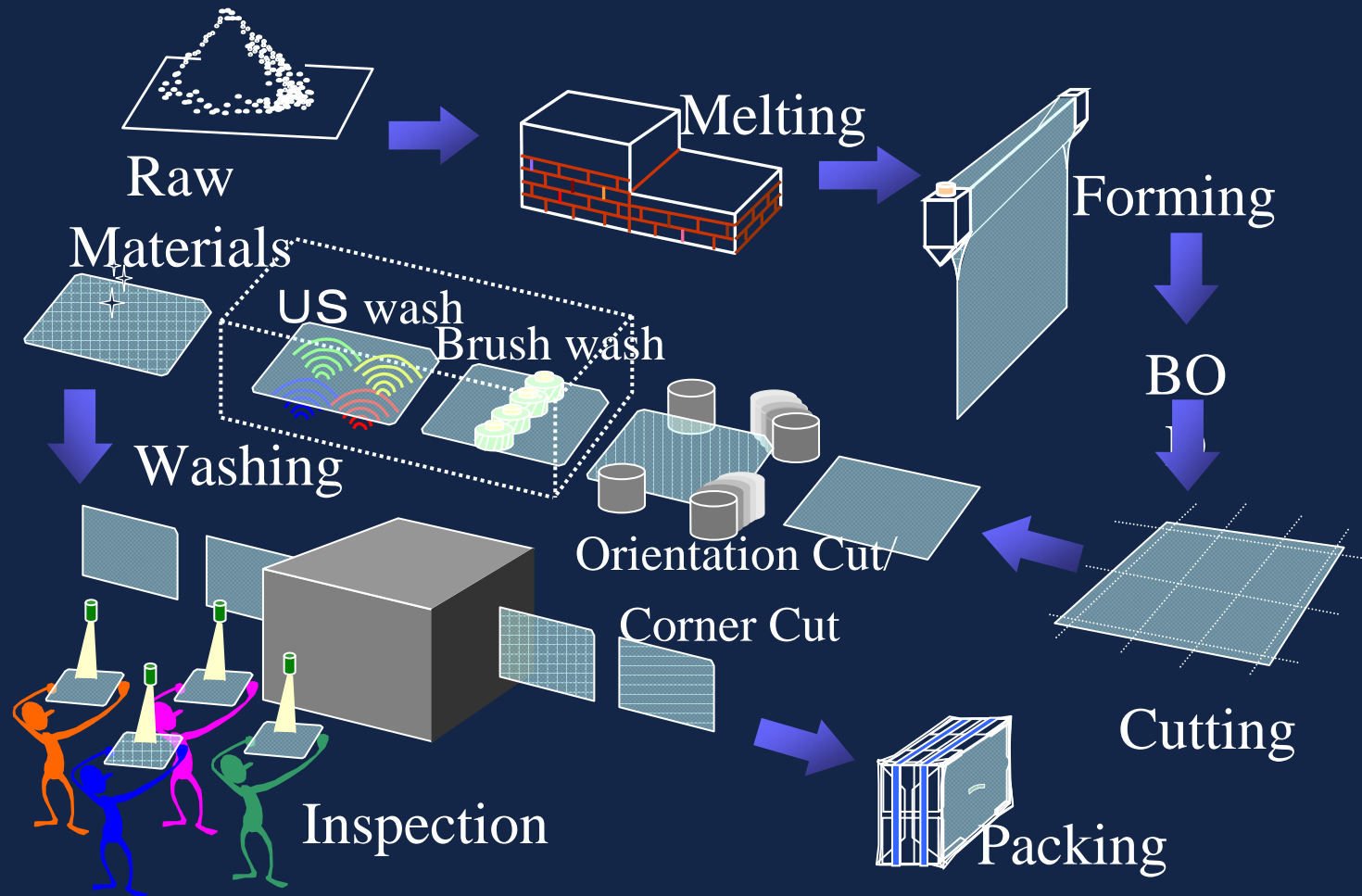
- **Growth Strategies**
- **Customer Loyalty**
- **Marketing**
- **Service Delivery**
- **Merger/Acquisitions**
- **Joint Ventures**
- **Patent Infringement**
- **Brand Reputation**
- **Political Risk**
- **Regulatory Compliance**
- **Succession Planning**
- **Technology Integration**
- **Business Partnerships**
- **Product Development**
- **Key Employees**
- **Product Pricing**
- **Risk Identification**
- **Risk Management**

Operational Risk

Risks to the conduct of the business operations that result from on-going or changes in business practices, use of resources, external regulations or requirements, inadequate or failed internal processes, people or systems

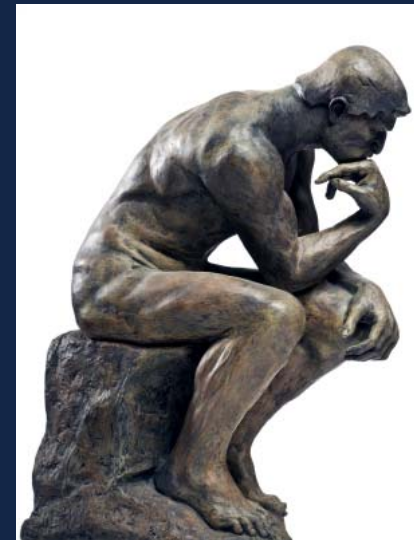
- **Management Decisions**
- **Supply Chain**
- **Production**
- **Product/Service Warranty**
- **Interdependencies**
- **Information Technology**
- **Product/Service Quality**
- **Inventory Management**
- **Training/Recruiting of Employees**
- **Equipment Maintenance**
- **Customer Relations**
- **Real Estate**
- **Outside Contractors**
- **Vendor Reliability**
- **Contractual Risk**
- **Employers Liability**
- **Company Sponsored Events**
- **Employee Turnover**

How Does Operational Risk Fit In?



How Can We Figure This Out?

- **Risks have become more complex.**
- **The impact on your operations can change with time.**
- **Business studies indicate an increase in strategic and operational related losses.**
- **Create a roadmap that can frame your risk management concerns.**
- **Enlist the input of your senior management**
- **Become the critical thinker!**

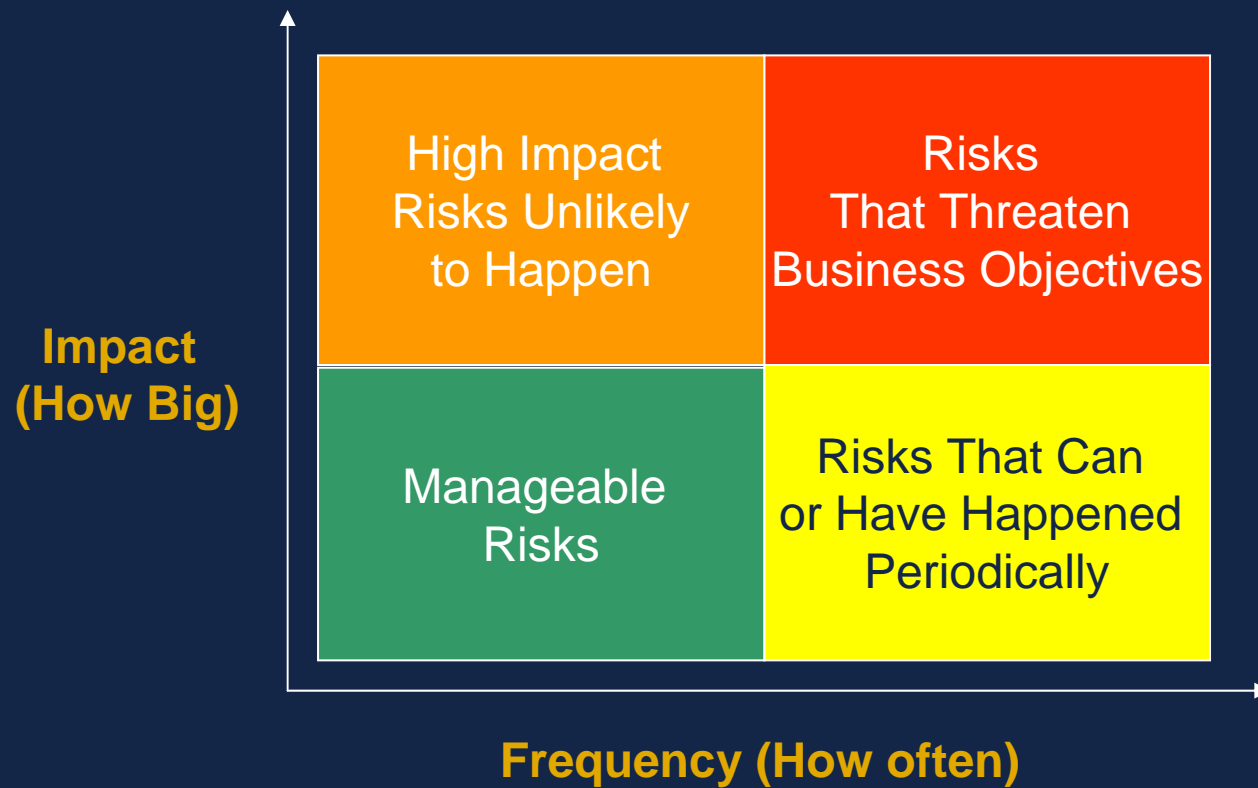


Develop A “Risk Map”

THE PROCESS:

- Gather a cross-section of key people within your organization.
- Provide a preliminary list of “Risks” to jump-start the conversation.
 - Hazard
 - Strategic
 - Operational
 - Financial
- Ask them to express “what keeps them awake at night”.
- Start developing your list of principal risks.
- Force rank/prioritize the list to a manageable group.
- Proceed to mapping your risk...

The "Risk Map"



Frequency Scale

How Often - Likelihood

1. Remote	• 1 in 100 year event
2. Unlikely	• 1 in 50 to 100 year event
3. Possible	• 1 in 15 to 25 year event
4. Likely	• 1 in 5 to 15 year event
5. Almost Certain	• 1 in 1 to 5 year event

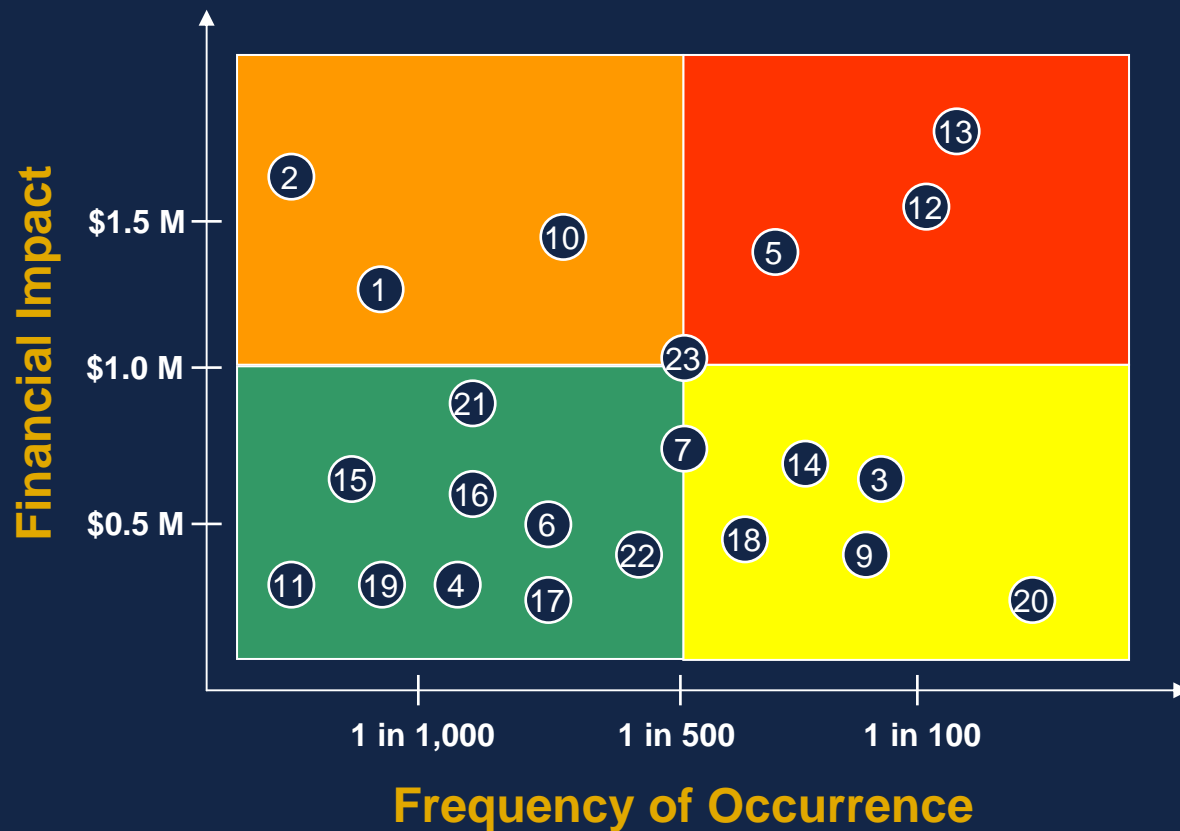
Impact Scale

How Big – Financial Impact

A. Low	• Less than \$250,000
B. Moderate	• \$250,000 to \$1,000,000
C. Significant	• \$1,000,000 to \$5,000,000
D. Serious	• \$5,000,000 to \$25,000,000
E. Severe	• Greater than \$25,000,000

The "Risk Map"

Example: **Annual RIMS/CPCU/ASSE Chapter Meeting**



Let's Develop A "Risk Map"

OUR COMPANY:

Chocolate Chip Cookies "R" Us



- **Located here in Middletown, CT along the CT River**
- **Been in Business for 10 Years**
- **Expanding Operations into each region of the USA this year**
- **Will spend \$1.0 Million for a 30 second Super Bowl commercial**
- **2009 Revenue: \$5,000,000**
- **2010 Projected Revenue: \$20,000,000**

Risk Factors

Chocolate Chip Cookies "R" Us



FINANCIAL RISKS:

- ① **Credit Risk**
- ② **Commodity Cost Fluctuations**
- ③ **Contract Liability**
- ④ **Non-Payment**
- ⑤ **Risk Transfer Costs**

HAZARD RISKS:

- ⑥ **Flood**
- ⑦ **Transportation of Goods**
- ⑧ **Product Recall**
- ⑨ **Windstorm**
- ⑩ **Vandalism**

Risk Factors

Chocolate Chip Cookies "R" Us



STRATEGIC RISK:

- ⑪ Marketing
- ⑫ Brand Reputation
- ⑬ Business Partnerships
- ⑭ Product Pricing
- ⑮ Service Delivery

OPERATIONAL RISKS:

- ⑯ Supply Chain
- ⑰ Interdependencies
- ⑱ Information Technology
- ⑲ Employee Turnover
- ⑳ Real Estate

Risk Map

Chocolate Chip Cookies "R" Us

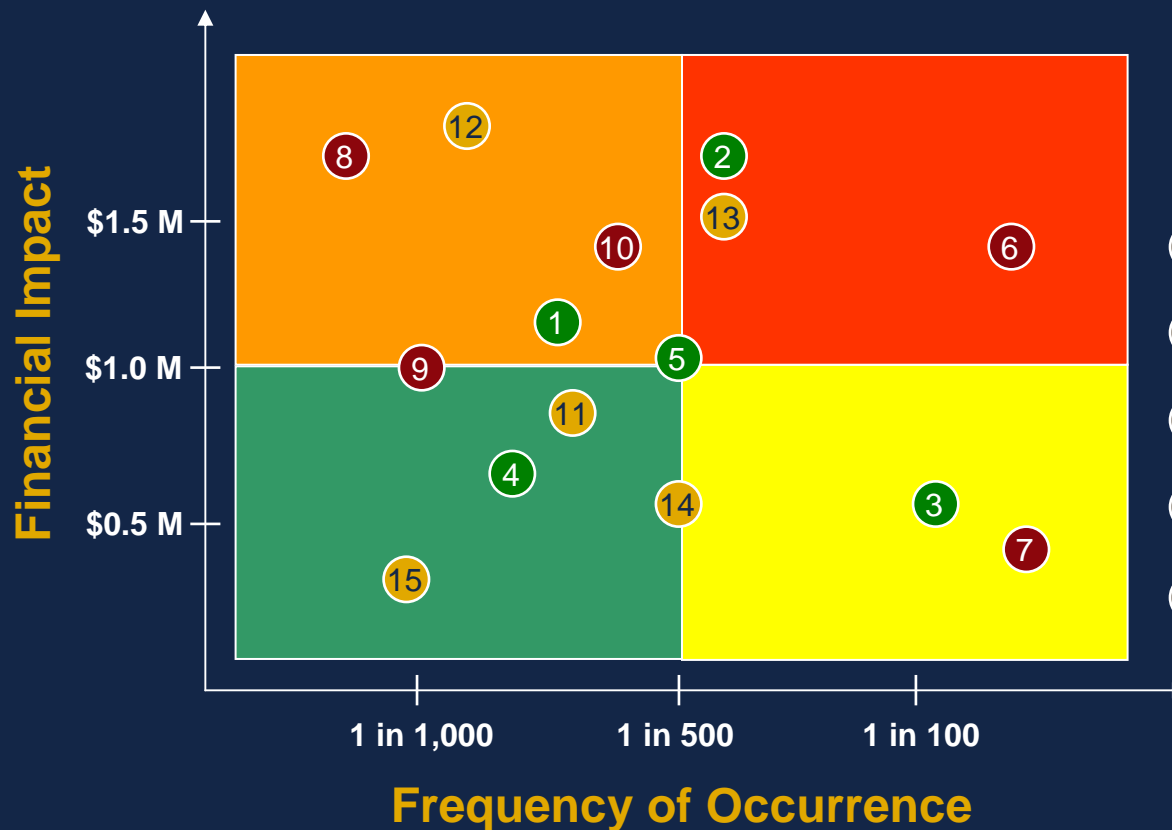


YOUR TASK AS A TABLE:

1. Take a copy of the “Risk Map” on your table.
2. Based on the “draft” placement of the FINANCIAL, HAZARD, and STRATEGIC risks, discuss and come to a consensus as a table as to where to map the OPERATIONAL risks.
3. Discuss as a table what one additional RISK element from any of the 4 groups and where would it be placed on the Risk Map?
 - Financial
 - Hazard
 - Strategic
 - Operational

Risk Map

Chocolate Chip Cookies "R" Us



OPERATIONAL RISKS:

- ⑩ Supply Chain
- ⑩ Interdependencies
- ⑩ Information Technology
- ⑩ Employee Turnover
- ⑩ Real Estate

Operational Risk

Operational Risks are becoming significant risk issues to most companies and require more risk management involvement...

- **Management Decisions**
- **Supply Chain**
- **Production**
- **Product/Service Warranty**
- **Interdependencies**
- **Information Technology**
- **Product/Service Quality**
- **Inventory Management**
- **Training/Recruiting of Employees**
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Operational Risk

QUESTIONS & COMMENTS?