

ORIC

Operational Risk for Insurance

The Operational Risk Insurance Consortium (ORIC)

An initiative to provide essential risk data for insurers



Strategic partner:



Service host:





In a global survey by SAS, over a third of organisations reported operational losses of more than US\$20 million per annum... ORIC is designed to help reduce such losses in the insurance industry, which means massive potential savings for firms.

FACT: The absence of quality loss data is a key obstacle to successful operational risk measurement.

FACT: ORIC provides best practice and a quality-controlled database to support risk measurement activities and improve decision-making – with the potential to reduce losses and drive down costs while meeting regulatory requirements.

The catalysts

From January 2005 the FSA required operational risk to be included in an insurer's individual capital assessment. Meanwhile, European developments like Solvency II will require a sophisticated treatment of operational risk as part of the proposed capital requirements for insurers. To address these requirements, and ensure robust internal controls, insurers need access to high quality loss data to enhance their risk modelling and predictive capabilities. In addition, they need robust risk analysis to evaluate their operational risks against their peer group of firms. In reality, individual firms lack the critical mass of data to enable them to effectively analyse, calculate and report on operational risk capital. Until now.

The solution: thought leadership, practical tools

Three types of data are required to measure and calculate operational risk:

- Internal loss data
- Consortium data
- External data (publicly reported events).

ABI and SAS have launched a priority initiative to provide both thought leadership and a high-quality database drawing on these data sources, with industry-leading functionality to enhance both quantitative and qualitative understanding of operational risk.

The ABI is uniquely placed to provide an impartial, centralised and dedicated resource, while SAS has expertise in operational risk management and related software solutions. The banking sector already has two consortium databases to turn to. Now, insurers can benefit from an operational risk database with leading edge analytic capabilities.

The ORIC database

On a quarterly basis, ORIC members receive high quality intelligence on losses due to failed people, processes, systems or external events, by both monetary amount and narrative description. For example, incorrect pricing models, contractual breaches or IT downtime.

This is the only consortium database currently available for insurers.

A powerful yet easy-to-use resource, ORIC provides insurers with:

- High quality data for Individual Capital Assessment modelling
- Benchmarks to assess your experiences against other firms, with secure multi-user access
- Custom reports via a secure website
- Intelligence that enables risk managers to identify areas of concern and focus resources.
- Powerful reporting and graphics to visualise, analyse and present results for different users
- A robust complementary element to enhance existing internal processes
- Access to trend/ABI analyses
- Secure data storage and transmission are completely secure.

"As an ORIC member you are at the forefront of tackling operational risk within the industry with access to quarterly analysis and a centrally dedicated resource".

Mohammed Saghir
Operational Risk Officer
Legal & General Insurance Limited



The ABI has full responsibility for ORIC data collection and administration which uses the SAS® technology platform to deliver high levels of data quality, powerful risk analytics and reporting capabilities, and a secure data repository hosted by Detica.

How it works

The shared ORIC environment is based on individual firms submitting their own data with complete anonymity. This valuable data is pooled and made accessible via a standard web browser. ORIC members can then perform their own modelling, analysis and reporting. A further benefit is the provision of a reporting standard for the insurance industry.

Why join ORIC?

SAS' worldwide survey of 250 firms in 2004 concluded that the top five benefits of improved operational risk management were found in: improved performance management; reduced losses; reputation protection; cultural accountability; and in optimal capital allocation.

ORIC is designed to provide such benefits for insurers – with the more benefits gained, including cost savings and reduced losses, the earlier you join. Moreover, with the FSA expecting a capital amount to be calculated for operational risk, if a firm wants to claim an internal model it must demonstrate that its model has a wide field of vision that includes external data. ORIC provides this visibility. So much so that the FSA is showing a keen interest in the consortium and, in addition, the ORIC platform has already been demonstrated to European Insurance Supervisors at the European Committee of Insurance and Occupational Pensions Supervisors (CEIOPS).

Through its Management Committee, ORIC members have an opportunity to help shape the consortium's future development. This project is not for profit and is driven by members for mutual benefit.

The time is right for ORIC: in light of the requirements now laid down for capital setting and risk management, and the fact that most insurers are in the early stages of data collection.

Estimates of rewards for more effective operational risk management include:

- 10% average reduction in economic capital
- 17% average reduction in operational losses.

"ORIC provides an invaluable resource for insurance companies seeking to reduce their losses from operational risk and enhance their in-house risk processes".

Peter Vipond
Director of Financial Regulation
and Taxation, ABI



How ORIC supports your business

- Shared data from multiple firms helps in capital modelling and in developing your field of vision
- Learning from experience: “Could that happen here – and what would be the potential loss to our business?”
- Driving internal recognition that operational risk management follows internal best practice – and can reduce actual losses.

With ORIC, your organisation has access to a dedicated resource to monitor data and an advanced technology platform for analysts, with additional benefits gained in areas such as data quality, data governance and consistency in standards.

“ORIC has enabled us to have access to the greater levels of data we need to more effectively manage operational risk”.

Andrew Gascoyne
Chief Risk Officer
Allianz-Cornhill

About the ORIC database

ORIC provides an insurance industry database of quality operational loss event information that enhances both quantitative and qualitative understanding.

- Built on the experience of other consortiums including GOLD, ORX, and Opbase
- Developed with the help of 15 leading insurers and three industry consultant firms
- Design is based on a ‘best of breed operating system’ together with advanced capabilities in data storage and consistency, security, anonymity, access and flexibility
- Data consistency is also monitored by the ABI
- High-level categories are consistent with other regulations such as Basel New Accord
- This dynamic system will evolve over time as industry uptake and expertise grows – while ORIC members can play an active role in shaping future developments.

“Membership of ORIC supports our drive to develop a positive risk culture where risk-based management decisions are taken with the confidence understanding experiences across the industry brings”.

Phil Sellen
Group Operational Risk Manager
Friends Provident



About the ABI

The ABI is the trade association for Britain's insurance industry; an industry with most international companies actively present in retail or wholesale markets. Its nearly 400 member companies provide over 94% of the insurance business in the UK. It represents insurance companies to the Government, and to the regulatory and other agencies, and is an influential voice on public policy and financial services issues.

For more information about the ABI visit: www.abi.org.uk

For more information about ORIC, please contact:

Steven Wells, Head of ORIC

Tel: 020 7216 7643

Email: steven.wells@abi.org.uk

About SAS

SAS is the market leader in providing a new generation of business intelligence software and services that create true enterprise intelligence. SAS® solutions are used at more than 40,000 sites – including 96 of the top 100 companies on the FORTUNE Global 500® – to develop more profitable relationships with customers and suppliers; to enable better, more accurate and informed decisions; and to drive organisations forward.

SAS also has extensive experience in supporting other successful industry consortiums. For ORIC, SAS provides the underlying technology required to convert loss event data into risk intelligence, together with data management, data quality, benchmarking and reporting capabilities.

For more information, visit:

www.sas.com/uk

"Lack of quality loss data is recognised as a key obstacle to successful operational risk measurement – ORIC will provide a quality controlled database to facilitate risk measurement and decision making. ABI's decision to partner with SAS is a reflection of SAS' thought-leadership in enterprise-wide risk management and its reputation for delivering high quality software solutions".

Peyman Mestchian
Head of Risk Intelligence
Practice SAS EMEA







Association of British Insurers
51 Gresham Street, London EC2V 7HQ
Tel: +44 (0)20 7600 3333
Fax: +44 (0)20 7696 8999
Email: info@abi.org.uk

www.abi.org.uk