

Operational Risk Management

An Element of Enterprise Risk Management at MetLife

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Corporate Risk Management

Enterprise Risk Management Framework

Risk Governance

- Board and Executive Group Oversight
- Consistent Standards and Common Risk Policy
- Independent, Integrated, Risk Management

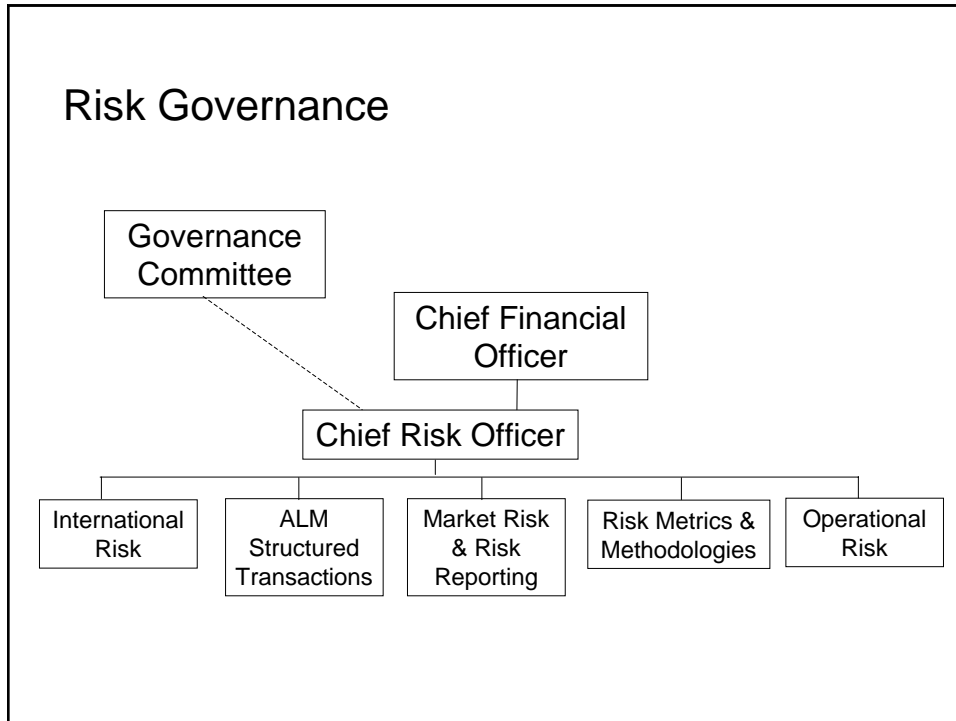
Risk Quantification / Aggregation / Monitoring

- Common Platform to Aggregate Risk
- Best Practice Risk Measurement Methodologies
- Key Risk Indicator Reporting

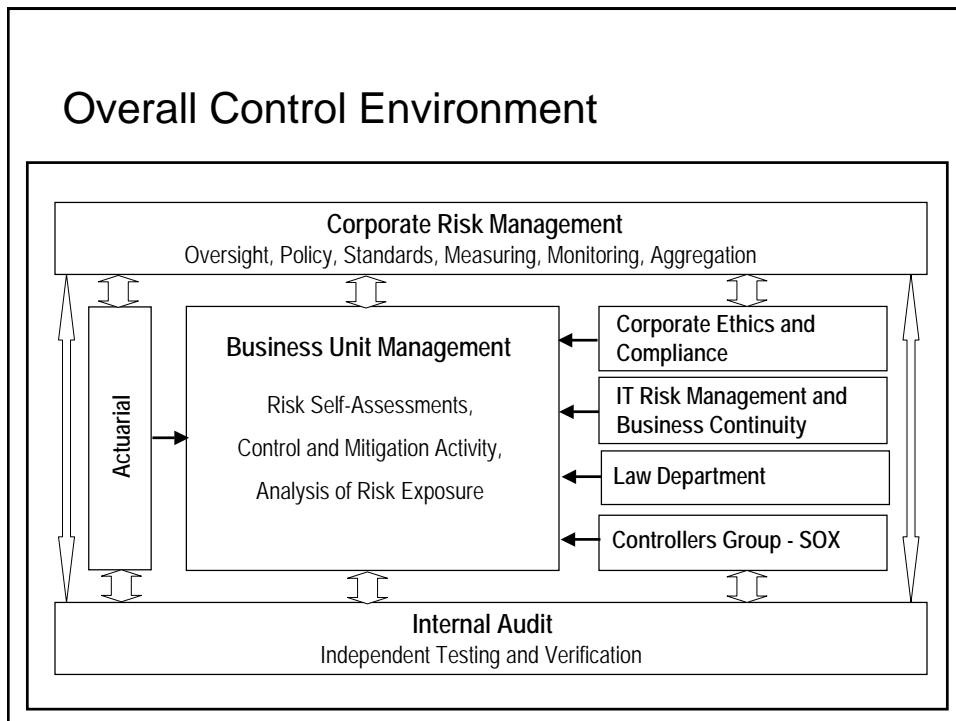
Risk Appetite and Control

- Formal Process to Set Risk Tolerance and Limits
- Risk Retention and Transfer Strategies

Risk Governance



Overall Control Environment



Operational Risk – Defined and Categorized

Definition

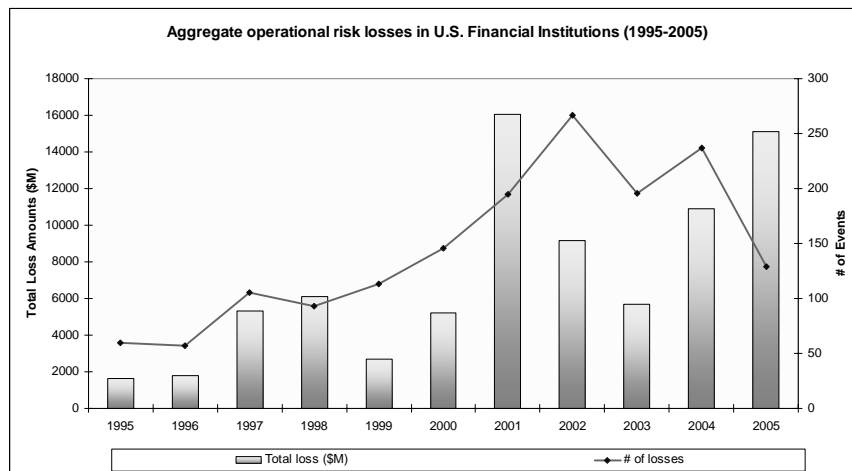
- “The risk of loss resulting from inadequate or failed internal processes or systems, human factors, or from external events”

(based on Basel II)

Categories of Op Risk Events

- Fraud
- Employment Practices & Workplace Safety
- Interactions with Clients
 - Products, Business Practices
- Damage to Physical Assets
- Technology
- Ongoing Operations
 - Process Control Issues

Operational Risk Losses at Financial Institutions



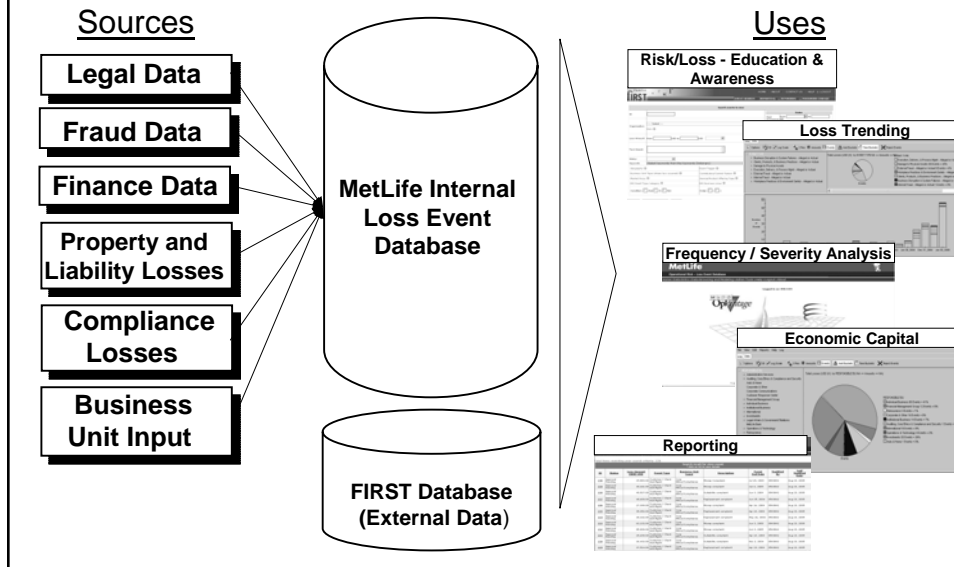
MetLife's Operational Risk Program Development

- Roles:
 - Central independent oversight, line of business ownership
 - Formal Operational Risk policy, defining roles, responsibilities
- Components:
 - Risk/Control Self Assessments – standard risks, format
 - Loss Event Data – database developed and in use
 - Key Risk Indicators – quarterly collection and tracking
- Coordination:
 - Compliance, Internal Audit, Controllers, IT Risk Management

Managing the Top Operational Risks

- Travelers Integration Risk
 - Project Integration Management Office
 - Enterprise Risk Council
- Financial Systems and Processes
 - Controllers, Sarbanes-Oxley Teams
- Sales Practice Risk , External Regulatory Environment
 - Compliance, Legal
- Data Security
 - IT Risk Management

Using Loss Event Data



Challenges in Measurement

Credit, Market, Actuarial Risks	Operational Risks
<ul style="list-style-type: none"> •Developed over many years •Highly quantitative •Transactional risk •Data-rich •Extensive metrics •Known variables •Few functions involved 	<ul style="list-style-type: none"> •Emerging discipline •Mainly qualitative, starting to quantify •Process and people risk •Lack of data •Limited metrics •Multiple causal & contributing factors •All functions involved

Risk Convergence – Land of Opportunity

- Three years of Sarbanes-Oxley – premier risk and control assessments
- Compliance and IT risk assessments
- Risk-based auditing
- Availability of comprehensive tools