

# Strategic Operational Risks

**2007 Enterprise Risk Management Symposium**

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March 28, 2007



# Operational Risk Management

- How do ERM and operational risk management add value?
- How is operational risk management different from what we are already doing?

Operational Risk Management  
adds value by managing the  
risks to the business strategy  
*(strategic operational risks)*

# Examples of strategic operational risks

- Regional P/C insurer
  - Diversify to new non-insurance lines of business
  - Leverage existing distribution channel to sell new products
  - Concentration of exposure to relationship with agents
- High tech firm
  - Wants to double in size in two years
  - Needs to grow staff from 10,000 to 20,000 employees
  - Needs to hire 16,000 employees and conduct 80,000 to 120,000 interviews in two years
- Global bank
  - Grow through major acquisitions
  - Integration of information systems critical in order to extract savings from synergies
  - Geographic risks: political risk, corporate culture

Continued...

# Examples of strategic operational risks

- Start-up specialty reinsurer
  - Grow through major acquisitions
  - Disparate financial systems expose firm to mismanagement of product pricing and underwriting
- National media company
  - Virtually an unregulated monopoly in single line of business
  - Wants to leverage its brand by expanding to other competitive, retail lines of business
  - Corporate culture is not at all customer focused (typical of a monopoly)

Continued...

# Examples of strategic operational risks

## ■ Financial institutions

- Market conduct
- Managing general agents (MGA)
- Knowledge of product
- Reinsurance
- Political risk
- Ratings downgrade
- Class-action lawsuits
- Growth strategies
- ...

## ■ Non-financial institutions

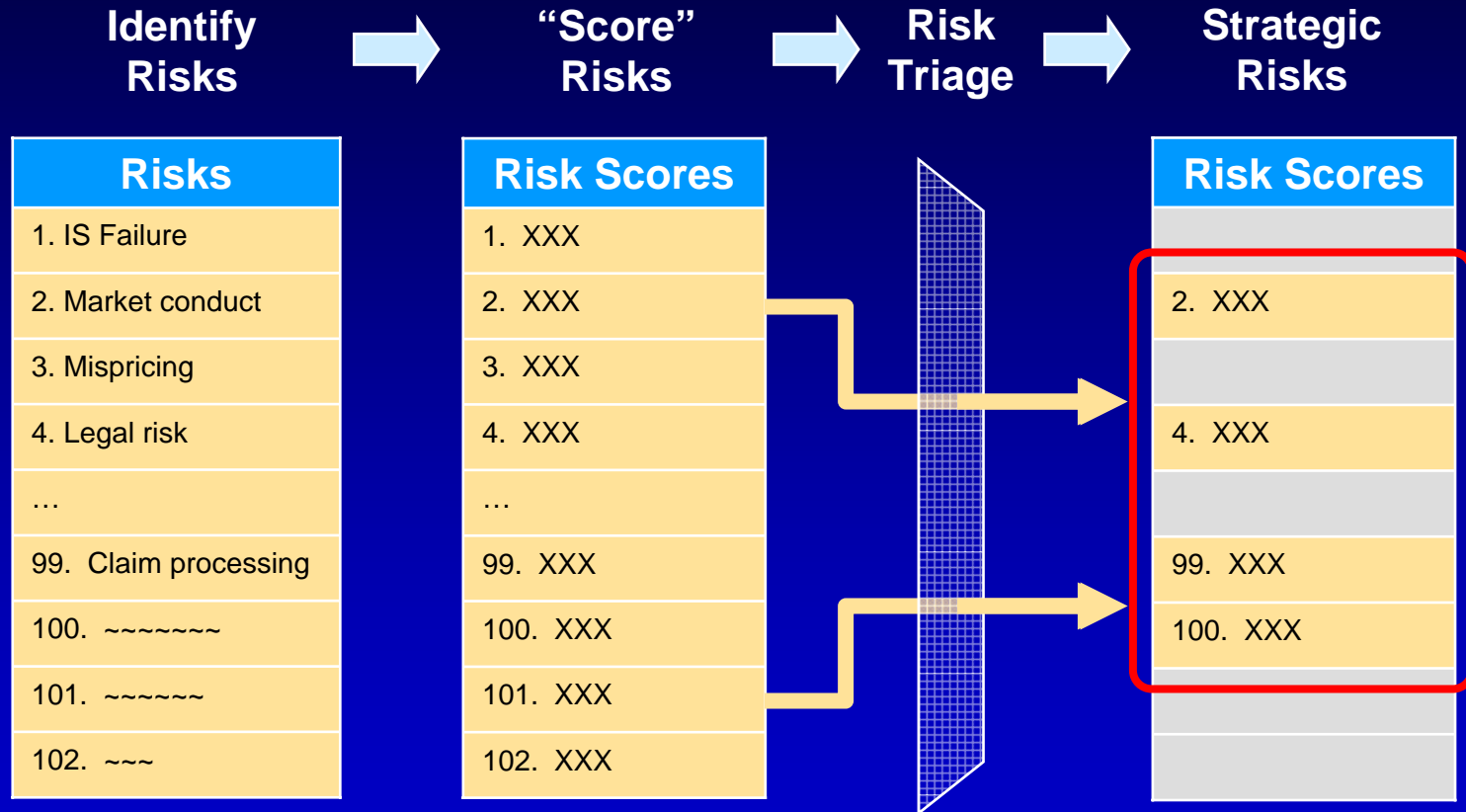
- Business interruption
- Supply chain risks
- Political risk
- Product failure
- Labor strike; unionization
- Class-action lawsuits
- Growth strategies
- ...

# How do ERM and operational risk management add value?

**ERM :: Value**  
**Brakes :: Speed**

*Risk management enables pursuit of high return strategies*

# Overview of the process to identify strategic operational risks



# Risks are “scored” to identify strategic risks

- Develop an approach (“scoring”) that is effective in separating strategic risks from tactical risks

**Tactical Risks**

- Known environment
- Capabilities and resources on hand to address
- Low financial impact
- Requires little or no investment to address risk



- Assign to appropriate management level
- Business as usual

**Strategic Risks**

- Unknown environment
- Not well understood
- Not well equipped to address
- Significant financial impact
- Significant investment needed to address risk



- Quantify financial impact
- Optimize capital budgeting to manage risks

# "Risk Triage" process separates strategic risks from tactical risks

