

New Basel Accord
Annex 7 – Detailed Loss Event Type Classification
(Insurance version)

Event-Type Category (Level 1)	Definition	Categories (Level 2)	Activity (Level 3)	Insurance Activity Examples
Internal Fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party.	Unauthorised Activity	Unauthorised use of computer systems to defraud firm or customer Unauthorised transactions Unreported transactions Over-reporting of transactions Falsifying personal details	Inappropriate use of a system username & password to circumvent application controls Inappropriately authorised payment Non disclosure of investment losses Intentionally circumventing claims payment limits Use of false personal details in order to make a claim
		Theft and Fraud(also see External Fraud>>Theft and Fraud)	Theft of assets Destruction of assets Forgery, impersonation Disclosure of confidential_information Accounting Irregularities Misappropriation of assets	Office Burglaries, with internal collusion Deliberate sabotage of a firm's property with internal collusion An employee impersonating a client, in order to perpetrate a fraudulent claim An employee colluding with an individual making a fraudulent claim Deliberately following an incorrect accounting procedure for fraudulent gain

Event-Type Category (Level 1)	Definition	Categories (Level 2)	Activity (Level 3)	Insurance Activity Examples
External Fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.	Theft and Fraud	Theft of assets Forgery, impersonation Fraudulent billing by suppliers Fraudulent claims	An office burglary A policyholder knowingly supplies incorrect policy data to obtain cover. A supplier deliberately overcharging for their services Fraudulent Surrenders e.g. commission fraud
		Systems Security (see also Business Disruption and Systems Failure>>Systems>>External Interference)	Hacking Theft of information Viruses	
Employment Practices and Workplace Safety	Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity / discrimination events.	Employee Relations	Harassment Terminations, including tribunals Industrial activity Management Loss of Key Personnel	Fines due to workplace harassment An individual wins a case for constructive dismissal Downtime costs associated with a general strike by staff Lack of succession planning Key man dependency
		Safe Environment	Health and safety Public Liability Employee Liability	Fines by the Health & Safety Executive Public compensation claims due to negligence, or personal injury Employee compensation claims due to negligence, or personal injury

Event-Type Category (Level 1)	Definition	Categories (Level 2)	Activity (Level 3)	Insurance Activity Examples
		Diversity & Discrimination	Equal opportunities Human Rights	Discrimination – religious, sex, age, ethnicity etc. Fines due to breaches of human rights
Clients, Products & Business Practices	Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.	Suitability, Disclosure & Fiduciary	Regulatory iMPACT Data Protection Act Regulatory compliance of appointed representatives Customer Complaints Treating Customers Fairly	Contractual policyholder breaches. e.g. advice given around cost of re-build for home insurance, or guarantees about cover, not honoured in the future Fines under the Data Protection rules because the firm sells a database of customer's details to another Insurance firm Fines due to a regulatory breach by a Financial Advisor Fines due to a failure to ensure that a customer had sufficient information during the claims handling process
		Improper Business or Market Practices	Money laundering Other Improper market practices Insider Dealing Tax Evasion Anti-trust	Regulator imposed fines as a consequence of a non qualified individual selling or giving advice after Jan 05.e.g breach of privacy Fines due to other regulatory or tax breaches Fines incurred due anti-competitive market practices such as price-fixing

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		Product Flaws	Product defects (unauthorised, etc.) Product literature defects Product Design Unintentional guarantees	Product related complaints Mis-leading wording in a policy Costs associated with an under researched product going to market, requiring further unplanned development Customer Discounts being incorrectly applied on policies
		Selection, Sponsorship & Exposure (investigate original level 2 description)	Client Fact-finding Client Exposure	Costs associated with contractual breaches from partnerships and third parties.
		Advisory Activities	Mis-selling due to Mortgage Endowment Mis-selling (Other)	
Damage to Physical Assets	Losses arising from loss or damage to physical assets from natural disaster or other events.	Disasters and other events	Natural disaster losses Losses from external sources (terrorism, vandalism) Physical asset failure (not systems)	Claims to replace or repair assets and buildings Human Cost
Business disruption and system failures	Losses arising from disruption of business or system failures.	Systems	Hardware Software IT Network Telecommunications Utility outage / disruptions External interference (excluding fraudulent activity) see also Systems Security	IT system and telecommunications failure and downtime Software Failure Viruses and security breaches Telephone system failure Power outage Hacking

Event-Type Category (Level 1)	Definition	Categories (Level 2)	Activity (Level 3)	Insurance Activity Examples
Execution, Delivery & Process Management	Losses from failed transaction processing or process management, from relations with trade counterparties and vendors.	Transaction Capture, Execution & Maintenance	Customer service failure Data Entry Error Transaction System Error Management information error Accounting Error Incorrect Application of Charges Incorrect unit pricing/allocation Management failure Inadequate process documentation Training and Competence	Service related complaints Incorrect entry by inputter System corruption Incorrect MI Reconciliation Errors Pricing errors or backdating adjustments Projects initiated, then cancelled Failure of staff to follow required procedure
		Monitoring and Reporting	Failed mandatory reporting Inaccurate external reporting	
		Customer Intake and Documentation	Incomplete/ incorrect application documents Contract documents incorrect Inappropriate underwriting Inappropriate reinsurance Missing documentation	Re-drafting of mislaid or incorrect legal documentation Ineffective documents Exceeding underwriting limits (unintentional) Missing policy document

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		Customer / Client Account Management	Incorrect customer records Payment to incorrect customer/client Incorrect Payment to customer/client	
		Trade Counterparties	Third party actions Ethical and environmental failures	Re-insurers, Brokers advertising agencies
		Vendors & Suppliers	Vendor delivery failure Vendor disputes	Legal expenses for financial recoveries