



## The Operational Risk Consortium (ORIC)

*Providing essential operational risk data for insurers*



**Technology provider:**



**Service host:**





# Operational Risk Consortium (ORIC)

ORIC is a leading international consortium, which collects, standardizes and reports operational risk loss data for the insurance and asset management industry. The consortium was launched in 2005 to deal with the apparent lack of high-quality loss data within the insurance industry.

The absence of quality data is a key obstacle to successful operational risk measurement. ORIC provides best practice and a quality-controlled loss database to support risk management activities and improve managerial decision-making – with a potential to drive down costs while meeting regulatory requirements.

The Association of British Insurers (ABI) founded ORIC together with 16 core insurers to provide thought leadership and enhance quantitative and qualitative understanding of operational risk. The Consortium is constantly growing both in the UK and internationally, adding new members every year. It remains a not-for-profit organisation, and its current 21 members are drawn from both life and non-life types of business.

## List of members

- Aegon
- Allianz
- AXA
- Axeria Prévoyance
- BUPA
- Friends Provident
- Hiscox
- IAG
- Just Retirement
- Legal & General
- LV=
- NFU Mutual
- Pearl Group
- Prudential
- Royal London Group
- RSA Group
- Scottish Widows
- Skandia
- Standard Life
- Travelers Insurance
- UNUM

Member companies submit quarterly data on losses caused by human error, external events and failed processes or systems, both by monetary amounts and by narrative descriptions. ORIC then validates the internal quality and consistency of this information, aggregates it, and reports it back in the form of risk intelligence, benchmarking and reporting.

## ORIC and the regulatory landscape

ORIC has been launched partly as a response to new regulations. The UK Financial Services Authority (FSA) and Solvency II, the EU Directive, both consider operational risk when defining solvency requirements for insurers.

The FSA is supportive of this industry-led initiative on operational risk and is showing a keen interest in the future development and expansion of the consortium.

The consortium participates actively in regulatory initiatives to represent ORIC members and promote good risk-management practices across the industry. For example, we maintain close dialogue with the FSA on a number of areas and sit on its ISG Operational Risk Expert Group, which discusses topics linked to the UK supervision of insurance companies and issues raised by the EU Solvency II Directive.

## Importance of external loss data

Quantifying appropriate capital requirements for operational risk remains a challenge for many insurers. This is because internal data on operational losses are often limited and biased. An external source of loss information not only provides evidence for the robust assessment of capital requirements for operational risk. Consortium data also offer an adequate benchmark against which a company's individual loss experience and risk-management approach can be compared.

At the EU level, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) has recently set up an Internal Models Group to take forward the work on internal models within Solvency II. CEIOPS is also developing detailed advice on implementation measures around operational risk. Against this backdrop, ORIC continues co-operating with CEIOPS to ensure its database helps insurance companies foster their modelling capability in anticipation of internal model approval.



**“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 Ltd

## **Members’ testimonials**

**“Membership of ORIC has provided us with several distinct benefits. Greater levels of industry data that enhances our op risk reporting and helps inform decision making; access to like minded skilled operational risk professionals; analytics that provide a check to loss assumptions used within our ICAS return; and constructive debate regarding Solvency II.”**

Andrew Pain  
Group Operational Risk Manager  
Friends Provident

**“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

**“ORIC has several distinct benefits for its members. Industry data is immediately available to compare areas and causes of loss against internal data. This helps to stimulate the identification of losses and can even be used to sense check assumptions of severity and frequency of operational losses under ICAS. Probably one of the biggest benefits, however, is working with forward thinking people to understand the direction needed to meet operational risk responsibilities under Solvency 2 and rating agency assessments.”**

Dan Wilkinson  
Head of Operations, Risk and Compliance  
Travelers Insurance Company

**“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 & Taxation, ABI and Chairman of ORIC**



## ORIC data

ORIC deals with operational risk data - information on losses due to failed people, processes, systems or external events. It provides a quality-controlled database to improve the risk measurement and modeling skills of its members.

The consortium has set a standard for the industry in terms of risk event categorisation. The Level 1 and 2 categories are consistent with the Basel II Accord. ORIC and its members have developed a further Level 3 categorisation system to increase the granularity of the database.

The 'Loss' database maintained by the consortium provides in-depth narratives of the events leading to losses. It also captures the causes that lead risks to materialize and turn into loss events. The database design suits the international expansion of ORIC as it captures the geography of losses and allows firms to submit data in various currencies.

The database infrastructure supports data relating to actual monetary losses as well as near misses. In addition, when it is not possible to accurately quantify near miss losses in monetary terms they can be stored in the ORIC database as 'unquantifiable near misses'.

The database currently stores over 2,200 loss events collected over the last three years, with total gross operational risk losses over £1bn.

## How ORIC works?

- ORIC members submit their 'loss' data every quarter with complete anonymity using an online tool;
- Data are then pooled and checked against standards set by the Consortium;
- ORIC Standards ensure that only relevant and high-quality data is stored in the consortium's database.

The Consortium produces some standard reports in each quarter, which are available to all its members. In addition, the on-line reporting tool allows ORIC members to perform their own analysis, develop and save customised reports.

The technology powering ORIC's system has been provided by CCH Sword, part of Wolters Kluwer, and the solution is hosted by Detica. Together they ensure safe transmission and storage of data in a facility rated as 'restricted', which is critical to the consortium and its members.

## Benefits from ORIC – How it supports your business

### Data analysis

The foremost benefit of ORIC is the data it provides.

- **Reporting** Powerful reporting and graphical tools help users to visualise risks, analyze trends and predict future outcomes. The reporting tools provide ORIC members with insights into industry trends and help them focus resources on key areas of concern.
- **Analytics** Apart from basic reporting, ORIC data can be used to benchmark individual companies against the industry. The consortium also assists members wishing to identify peer groups in the industry and perform more sophisticated in-depth statistical analysis.
- **Modelling** ORIC members can use the high-quality data on operational losses for their individual capital adequacy standards (ICAs) modelling of operational risk.

### Think Tank

ORIC provides a unique forum for risk practitioners across the industry to get together and discuss issues connected to operational risk. Over the years, the consortium has been able to develop OpRisk standards for the industry and build consensus on best practices.

The ORIC Management Committee, which meets every five weeks, is a powerful source of thought leadership on the operational risk arena. For example, it has developed the Level 3 categories for operational risk events that are now taken as the industry standard.

### Workshops

The consortium regularly organises workshops on relevant hot topics. They provide a good opportunity to network and meet forward-looking industry peers. In 2007 and 2008, for example, workshops on Key Risk Indicators and Scenario Analysis have proved to be very successful.

Show-and-share sessions where people get to know peers' risk-management practices are also effective ways to foster cross learning and disseminate good practices across the industry.



## ORIC and ABI

The ABI launched ORIC in 2005, to deal with the apparent lack of high-quality loss data and foster operational risk intelligence. The ABI represents the voice of the insurance and investment industry. Its members constitute over 90 per cent of the insurance market in the UK and 20 per cent across the EU. They are the risk managers of the UK's economy and society.

The ABI oversees the consortium and administers its data as it is uniquely placed to provide an impartial, centralised and dedicated resource.

For more information about the ABI visit: [www.abi.org.uk](http://www.abi.org.uk)

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## CCH Sword

Part of Wolters Kluwer, CCH SWORD are experts in risk control, compliance and certainty. Sword is a sophisticated yet elegant solution for risk management, compliance, internal audit and corporate governance. Launched in 2000, Sword has since evolved into a powerful, easy to configure and deploy system with which organisations can support all of their oversight functions.

ORIC's web-based IT platform has powerful reporting and graphical tools that help members visualise risks, analyse trends and predict loss events. ORIC loss data is also used to benchmark individual firms relative to the whole industry and selected peer groups.

The CCH Sword platform will be automatically rolled out to new ORIC members to facilitate seamless integration of IT processes and early alignment of classification systems for operational loss events. Both features are expected to be particularly attractive to insurers located outside the UK.







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