

# OIC RBC 2



## **An initial assessment of data requirements**

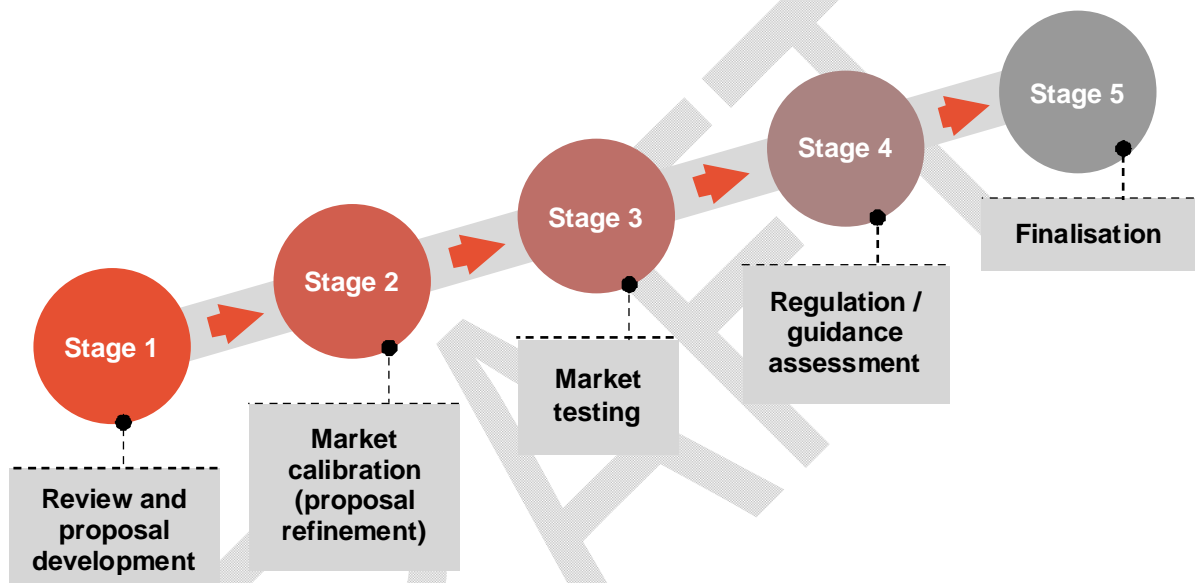
**Draft version 3: 4 September 2013**

# Introduction

The implementation of risk-based capital (RBC) regulations on 1 September 2011 was the first time the OIC introduced principles-based supervisory regulation. The OIC wants to continuously monitor and develop its supervisory approach to the industry; since 2012 the OIC has sought feedback and comments on the current RBC regime from related parties.

The OIC has now launched phase 2 of the RBC framework development, and has engaged Towers Watson to work together with the OIC in further developing and refining the RBC framework.

There are five stages to this project, namely:



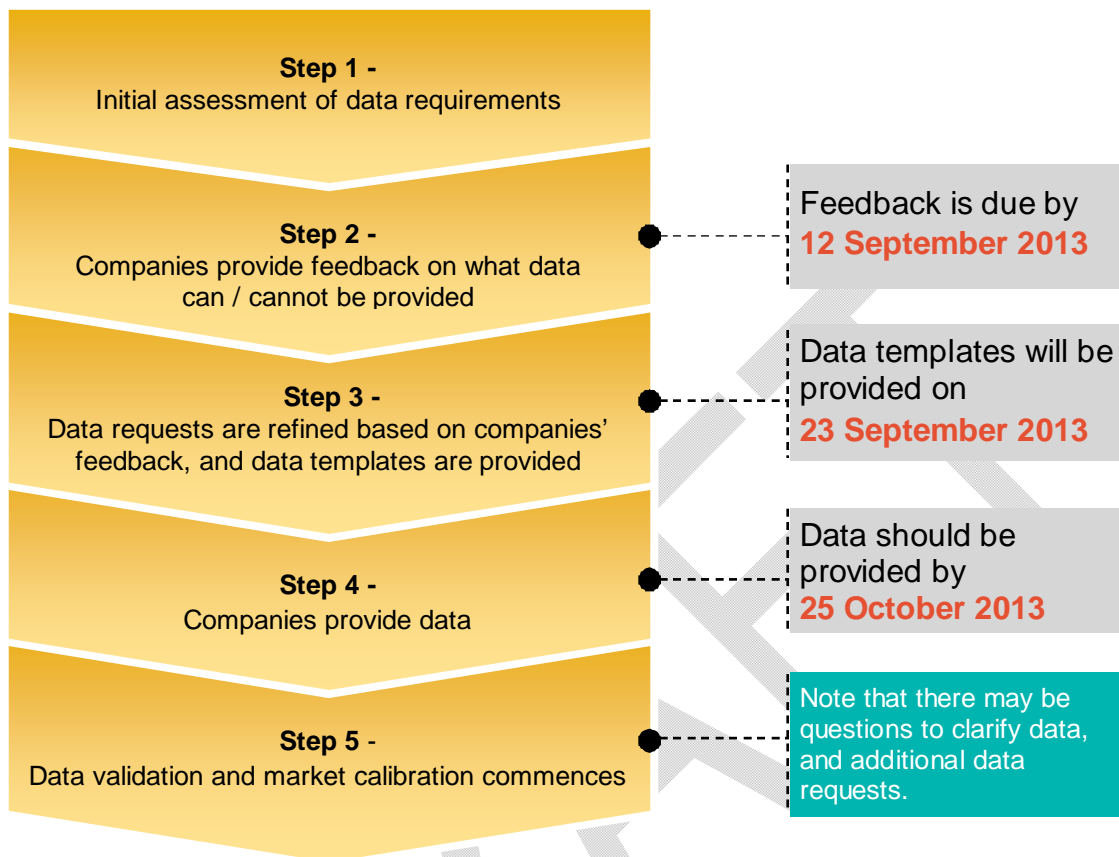
As preparation for Stage 1 (methodology / proposal development) and Stage 2 (calibration development) we have prepared a set of initial data request lists for the following areas:

- Asset valuation and classification
- Liability valuation and classification
- Insurance risk calibration and diversification (Life)
- Market, liquidity and credit (default) risk calibration
- Group risk
- Operational risk calibration

**Your feedback on what data can be provided will determine the analysis that can be performed in Stage 2 (calibration), and also influence our conclusions for Stage 1.**

The data collection process is outlined on the next page.

## Data collection process



Feedback on the initial assessment of data requirements should be provided via the feedback form provided. These forms should be sent to the OIC.

Please note that the data request templates for quantitative (i.e. numerical) data will be in Excel format and we expect the format of the tables to be similar to the tables presented in this data request list. For qualitative information (i.e. explanations), these might be requested in a Word format.

**Data request templates will be similar to the tables in this data request list.  
Data preparation can start before templates are provided.**

# Asset valuation and classification

## Data required:

### Rationale:

In general, the asset information requested below is to enable an assessment of how each company treats non-typical assets. This information will be useful for us to develop more comprehensive asset valuation related guidance notes as part of the output of the project.

## 1. Description of valuation methodology for non-listed assets

### Rationale:

Based on feedback provided in the industry surveys, we have observed that a range of different methods are used to value non-listed assets, and there is a lack of consistency across companies. For example, some companies use a discounted cash flow approach to value private equity, while others use a price-to-book value approach. Some companies also note that there are inconsistencies between the RBC requirements and other reporting standards.

We would like to understand in more detail how your company values non-listed assets, so that we can assess how best to reduce the inconsistencies where possible.

**Please note that we will use the information that has already been provided in the industry surveys,** however we would like to invite you to provide further details of how your company treats non-listed assets, as well as the reasons for adopting such approaches, as this will help us form a better understanding of the current situation.

In addition to providing a description of your current methodology, we also **invite you to provide further suggestions** (including as much detail as possible), on how improvements to the valuation of non-listed assets can be made.

Please provide **a description** of how non-listed assets are currently valued. This should include the following (**where applicable**):

- a) Methodology used;
- b) Description of methodology;
- c) Key assumptions, and how these assumptions have been derived
- d) A description of any differences between the valuation methodologies (i.e. not values) adopted for RBC and accounting purposes.

Where internal models are used, please provide a description of these internal models as well, for e.g. the methodology adopted in these internal models.

These descriptions should be provided for all non-listed asset types, which may include:

- Fixed income assets
- Equities
- Loans
- Policy loans
- Derivatives
- Property
- Reinsurance assets
- Any other assets where applicable, in particular assets that you think need improvements in the valuation methodology for RBC.

## 2. Description of valuation methodology for listed assets

### Rationale:

Some companies have mentioned that there is a lack of consistency in the valuation of listed assets between the RBC method and other reporting standards.

Please provide a description of how listed assets are valued for RBC reporting purposes and any differences between the valuation methodologies adopted for RBC and accounting purposes (where applicable).

Please also provide any suggestions for improvement.

## 3. “Look-through” method for unit trusts

### Rationale:

There have been several comments raised in the industry surveys about the difficulty in applying the “look-through” method for unit trusts. We would like to understand how each company currently applies this method, and assess any potential improvements that could be made to the approach.

Please provide a description of how your company currently applies the “look-through” method for unit trusts (i.e. in RBC form 5.6).

Please also provide any suggestions for improvement.

## 4. Asset market values by asset type as at 31 December 2012

### Rationale:

To assess the materiality of other asset types that may not be captured appropriately in the current RBC framework.

Please note that this differs from Question 1 in that Question 1 is asking for the current treatment of assets in the RBC forms, whereas for this question we are trying to assess if the granularity of the asset classes needs to be improved, and hence would like to understand the materiality of certain assets that are currently not reported separately in the RBC forms.

Please provide asset market values split between the following asset types. For non-listed assets please provide these asset values on the same basis that is described in ID1 (details on how non-listed assets are valued):

Fixed interest assets:

- Real interest rates (i.e. bonds that have coupons that are linked to an inflation index)
- Floating interest rates (i.e. bonds that have coupons that are linked to some index / indicator, and are not fixed)

Property:

- Direct property
- Unlisted property trusts
- Listed property trusts

Others (for example):

- Hedge funds
- Infrastructure debt

# Liability valuation and classification

## Data required:

### 1. GPV reserves by detailed product group (based on RBC form 4.3)

#### Rationale:

These product group scenario reserves will be used to perform impact testing (Stage 2) of proposed changes in insurance risk PADs. This is requested (in addition to the RBC forms that will be provided by the OIC) because the RBC forms do not contain details of each scenario, but only of the selected scenario.

Please note that for companies that perform scenario selection at the policy level, this information does not need to be provided if it is not available.

GPV reserves by product group, as at 31 December 2012, for the following scenarios:

- Best estimate (“BE”) , i.e. with no PADs

#### At 75% confidence level:

- Mortality up (BE+PAD@75%), lapse up (BE+PAD@75%) and expense (BE+PAD@75%)
- Mortality up (BE+PAD@75%), lapse down (BE-PAD@75%) and expense (BE+PAD@75%)
- Mortality down (BE-PAD@75%), lapse up (BE+PAD@75%) and expense (BE+PAD@75%)
- Mortality down (BE-PAD@75%), lapse down (BE-PAD@75%) and expense (BE+PAD@75%)

#### At 95% confidence level:

- Mortality up (BE+PAD@95%), lapse up (BE+PAD@95%) and expense (BE+PAD@95%)
- Mortality up (BE+PAD@95%), lapse down (BE-PAD@95%) and expense (BE+PAD@95%)
- Mortality down (BE-PAD@95%), lapse up (BE+PAD@95%) and expense (BE+PAD@95%)
- Mortality down (BE-PAD@95%), lapse down (BE-PAD@95%) and expense (BE+PAD@95%)

The product groups should be consistent with the product groups reported in **RBC Form 4.3**.

The PADs used should be consistent with the PADs that are prescribed by the OIC for RBC reporting purposes, namely:

PADs prescribed by the OIC for GPV calculations		
Parameter	PAD@75%	PAD@95%
Mortality / Morbidity	+/- 12%	+/- 28%
Lapses	+/- 17%	+/- 40%
Renewal expenses	+ 5%	+ 10%

## 2. Dividends and coupons (i.e. survival benefits) with guaranteed deposit rates

### Rationale:

This information will be used to assess the impact of different valuation methods for these guarantees.

Fund balance of dividends and coupons on deposit as at 31 December 2012, and details of guaranteed deposit rates and reserving methodology for this product feature.

### Details on non-guaranteed benefits (i.e. dividends, bonuses) (items 3, 4 and 5)

#### Rationale (for items 3, 4 and 5):

To understand how each company values non-guaranteed benefits, and assess the need for consistency / clearer guidelines regarding this aspect.

3. Details on how future non-guaranteed benefits are projected in the GPV calculations, in particular how management actions (i.e. actions that management takes to reduce dividends) are allowed for / reflected in determining future non-guaranteed benefits.
  - In particular, please provide the projected non-guaranteed benefit cashflows as at 31 December 2012, on the following three scenarios:
    - **Base case:** the non-guaranteed benefit cashflows used to produce the best estimate (i.e. without PADs) GPV reserves as at 31 December 2012  
These should be the cashflows that are used to calculate the present value figures reported in column N of RBC form 4.3;
    - **Interest down scenario:** assuming that interest rates fall by 0.50%  
i.e. how would your company project dividends if the interest rates at the valuation date are 0.50% lower? Please assume that other market returns (e.g. equity, cash, etc.) will also fall by 0.50%.  
If your company does not currently take into consideration the interest rates at the valuation date, then this scenario should have the same results as the base case
    - **Interest up scenario:** assuming that interest rates rise by 0.50%  
i.e. how would your company project dividends if the interest rates at the valuation date are 0.50% higher? Please assume that other market returns (e.g. equity, cash, etc.) will also increase by 0.50%.

If no management actions are assumed, please just provide the base case cashflows.
4. Details on the discount rate used to value non-guaranteed benefits, and how this is derived.
5. For reversionary bonus products (i.e. products where bonuses are paid in the form of increases to the sum assured, instead of cash payments) – please separate out the reserves held for vested bonuses (i.e. bonuses credited to the sum assured prior to the valuation date), and the reserves held for future bonuses.



## Risk mitigation (items 6 and 7)

### Rationale (for items 6 and 7):

To assess how various forms of risk mitigation might be allowed for in the valuation.

6. A description of any risk mitigation techniques used, and the classes of business this risk mitigation is applied to.
7. A description of any risk mitigation techniques modelled, including decision making processes and model validation approaches used.
- 8. Classification of short-term and long-term business**

### Rationale:

To understand how each company classifies products between short-term and long-term, and derive clearer guidelines for the classification.

A description of the criteria currently used for classification of short / long-term business, and justification for the classification. Please also include any suggestions on how you think the classification should be performed.

## 9. Reinsurance

### Rationale:

To assess the current treatment of reinsurance and to understand what forms of reinsurance might not currently be allowed for appropriately in the RBC framework.

A high-level description of the nature and type of reinsurance arrangements currently in place, for e.g. YRT, coinsurance, financial reinsurance, etc. Please also describe the relative importance / materiality of each reinsurance arrangement.

## 10. Diversification between risks

### Rationale

To understand if any diversification effects exist between risks. Note that this is not limited to insurance risks, but may include diversification of risks between insurance and market risks as an example.

Do you have any evidence that diversification between risk factors occurs? What risk factors is this between? What form does the evidence take? Please provide an outline of the evidence.



# Insurance risk calibration (Life)

## Data required:

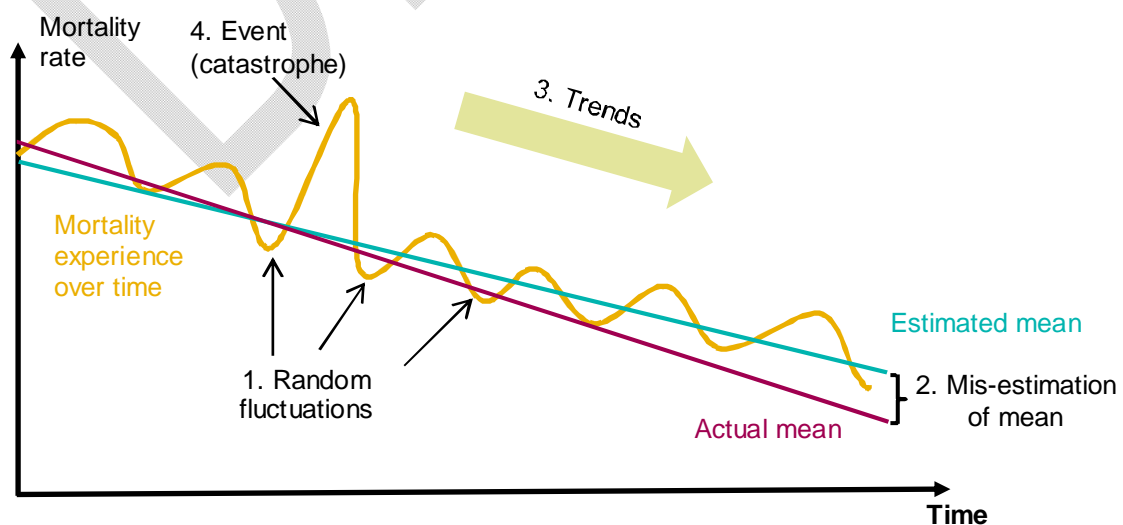
### Rationale (in general):

The data requested in this section is to enable a review / recalibration of the insurance risk PADs. To provide context on why each data item is requested, a brief outline of the methodology used for calibration of insurance risk PADs is described here.

Four factors are commonly considered in relation to insurance risks:

- 1 Random fluctuations –**  
The risk that the numbers and amounts of claims paid are higher due to natural statistical volatility, i.e. deviation from expected values.
- 2 Mis-estimation of the mean –**  
The risk of mis-estimating the current best estimate level parameters. In reality, the underlying mortality and morbidity rates are not known, but are estimated based on the past experience of the company / industry. The best estimate rates will vary from the true (unknown) rates, as past experience includes the impact of random fluctuations or because the standard used to represent the assumptions (e.g. the base mortality table or risk premium structure) does not accurately represent the underlying risks (e.g. use of aggregate rates rather than gender specific or smoker / non-smoker rates).
- 3 Adverse trends and systemic risk –**  
The risk of mis-estimating the best estimate of any future trend, or that the underlying mean changes over time. Future trends are not known with certainty, and are subject to mis-estimation. There are many factors that will influence future trends. Some examples include changes in experience arising from changes in medical practice or changes in diet and lifestyle.
- 4 Event risk –**  
The risk that the numbers and amounts of claims paid will be higher due to a catastrophic or mass event (such as a pandemic).

An illustration for mortality risk is provided below:



We are requesting experience data to be provided for **at least 5 years**, and for **both “actual” and “expected”** numbers / claims to be included in the data provision, to enable variation of experience levels to be analysed. The experience will be of particular relevance in consideration of the “mis-estimation of the mean” (i.e. point 2 above).

In general, for any particular risk it would be beneficial for the analysis if the assumptions basis for “expected” claims is the same for all years analysed (e.g. use a standard table, or the current best estimate assumption). While this would be preferred, it is not a strict requirement. We would expect that for analysis of expenses, the basis of expected expenses would vary by year.

Details of the assumption bases used in the experience analyses should be provided, including any bases for future improvement (if applicable). If the basis of “expected” claims varies over the analysis period, please provide detail of the each basis that has been utilised. Detail of the basis of “expected” claims may be utilised to aggregate results to broader groupings, to standardise the results such that they reflect a single basis for expected claims and for calibration of assumptions to be used in the model office that is to be developed.

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## Mortality / longevity

For mortality risk, please provide the following items **by product group** for a minimum of 5 years:

Actual and Expected mortality / longevity						
Year	2012	2011	2010	2009	2008	...
Actual claim count						
Expected claim count						
Ratio A/E count						
Actual claim amount						
Expected claim amount						
Ratio A/E amount						

Notes:

1. The assumptions basis for “expected” claims should be the same for all years analysed (e.g. use a standard table, or the current best estimate assumption). If the assumptions basis is different for some years, please provide additional details on the assumptions basis used for each year.
2. Details of the assumptions basis used in the experience analysis should be provided (for each year if applicable), including any basis for future improvement (if applicable).
3. The claim basis (i.e. “paid” or “incurred”) should be consistent with the claim basis that the company uses in its mortality experience studies.

### Product groupings

The following product groupings should be applied:

- Ordinary Life annuity business
- Ordinary Life non-annuity business
- Industrial Life annuity business
- Industrial Life non-annuity business
- Group credit life business
- Group other business

In addition to the above product groupings, the mortality data should also be split between “simplified” and “normal/full” underwriting for each product group.

In particular, please note that “annuity” business is intended to capture longevity risk, i.e. the risk that insured mortality is lower than expected. Therefore it would be ideal if the mortality experience provided for the “annuity” business only reflects such policies that are no longer premium paying, and are already paying annuity benefits.

## Morbidity and other risks

For morbidity risk, please provide the following items **by product group** for a minimum of 5 years:

Actual and Expected morbidity / other risks						
Year	2012	2011	2010	2009	2008	...
Actual claim count						
Expected claim count						
Ratio A/E count						
Actual claim amount						
Expected claim amount						
Ratio A/E amount						

Notes:

1. The assumptions basis for “expected” claims should be the same for all years analysed (e.g. use a standard table, or the current best estimate assumption). If the assumptions basis is different for some years, please provide additional details on the assumptions basis used for each year.
2. For business modelled using loss ratios, the premiums earned should be provided as well (on a basis that is consistent with what you use for experience studies).
3. The claim basis (i.e. “paid” or “incurred”) should be consistent with the claim basis that the company uses in its morbidity experience studies.

### Product groupings

The following product groupings should be applied:

- Critical illness (further split by number of diseases covered, e.g. 44 diseases, 11 diseases, etc. where this is relevant)
- Total and Permanent Disability (“TPD”)
- Accidental death
- Personal accident
- Hospitalisation coverage
- Disability income
- Waiver of premium
- Others (where relevant)

Please note that the classification of “short-term” or “long-term” products does not matter for this exercise, because we are also assessing the product classification in this project, and product classification may change in the future. If your company has performed experience studies on products that are currently classified as “short-term” products, please provide this information, i.e. only provide information that is already available.

**Please feel free to provide any suggestions on how this product grouping can be improved.**

In addition to the above product groupings, the morbidity data should also be split between “simplified” and “normal/full” underwriting for each product group.

## Persistency

For persistency risks including surrenders / lapses, conversions and restatements, please provide the following items by **product group and type** for a minimum of 5 years:

Actual / Expected Persistency	Calendar year that lapse occurs					
	2012	2011	2010	2009	2008	...
Actual surrender count						
Expected surrender count						
Ratio A/E count						
Actual surrender amount						
Expected surrender amount						
Ratio A/E amount						

Notes:

1. The assumptions basis for “expected” claims should be the same for all years analysed (e.g. use a standard table, or the current best estimate assumption). If the assumptions basis is different for some years, please provide additional details on the assumptions basis used for each year.
2. The “actual” and “expected” counts and claims should be on a calendar year basis, not a policy year basis. The table below illustrates the desired figures:

Policy year	Calendar year that lapse occurs					
	2012	2011	2010	2009	2008	...
1	X	X	X	X	X	x
2	X	X	X	X	X	
3	X	X	X	X		
4	X	X	X			
5+	X	X				
<b>Total</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>

The figures provided should be the **total** of the “actual” and “expected” lapses in each calendar year.

### Discontinuance types

We have requested a separation of lapses/surrenders experience from ETI / RPU conversion / reinstatement experience because we are aware that ETI / RPU conversion rates can be relatively high for some companies.

**Therefore we would appreciate, in particular, your feedback on whether the ETI / RPU conversion / reinstatement rates might be available.**

The persistency experience should be split by the following types:

- Surrenders / lapses
- Extended Term Insurance (“ETI”) / Reduced Paid-Up (“RPU”) conversions
- ETI / RPU reinstatements

**Product groupings (for persistency experience data)**

The following product groupings should be applied:

- Whole Life (long pay)
- Whole Life (short pay)
- Whole Life (single pay)
- Endowment (long pay)
- Endowment (short pay)
- Endowment (single pay)
- Term
- Credit Life
- Accident and health

The definition of “long pay” and “short pay” should be determined by each company based on its judgement of the key influencing factors of each lapse group. This is because we are aware that several companies adopt different approaches to classifying “short pay” versus “long pay” (for example some companies assume that a premium term of less than 10 years is “short pay”).

Note that data for unit-linked and universal life product groups has currently not been requested, as we understand that data for these products are expected to be limited, due to such product types being relatively new in Thailand. We intend to consider these products based on observations from other markets.

**We also welcome any feedback on how the product groupings can be improved to capture key lapse characteristics.**

## Expenses / Commissions

For expense / commission risks, please provide the following items at the **company level** for a minimum of 5 years.

Actual and Expected expenses						
Year	2012	2011	2010	2009	2008	...
Actual acquisition expenses						
BE basis acquisition expenses						
Ratio A/E acquisition						
Acquisition expense overrun						
Actual maintenance expenses						
BE basis maintenance expenses						
Ratio A/E maintenance						
Maintenance expense overrun						

Actual and Expected expenses / commissions						
Year	2012	2011	2010	2009	2008	...
Actual initial commissions						
BE basis initial commissions						
Ratio A/E initial						
Initial commission overrun						
Actual renewal commissions						
BE basis renewal commissions						
Ratio A/E renewal						
Renewal commission overrun						

### Notes:

1. The expenses used should be consistent with the expenses used to derive the best estimate expense assumptions used in the GPV calculations, i.e. the expenses that are presented in the annual actuarial report that is submitted to the OIC. Likewise, the expense overruns should be consistent with what is presented in the RBC actuarial report (table 3.3).
2. The definition of commissions and commission overrides should be consistent with how expenses are allocated for the purposes of the expense study shown in the actuarial report, for e.g. if a marketing expense is classified as a commission override, it should not be counted within operating expenses / overheads.
3. The assumptions basis for "expected" expenses should be the best estimate basis that applied to the period being considered.
4. If your company does not perform a split between "acquisition" and "maintenance" expenses, please treat all expenses as maintenance expenses.



# Market, liquidity and credit (default) risk calibration

## Data required:

### 1. Market values by duration buckets

**Rationale:**

To assess the credit risk for each asset type. This is necessary because the “spread” inherent in fixed income assets includes a combination of risks such as liquidity, credit / default, etc.

A detailed breakdown (market values) of fixed income assets by duration (i.e. term to maturity) buckets (e.g. 1-3 years, 4-7 years, etc.).

These should be provided by asset type, e.g. government bonds, corporate bonds for each credit rating, etc. Please provide this data as at 31 December 2012.

### 2. Details of other counterparties

**Rationale:**

This is to enable an assessment of the default risk relating to other counterparties such as external distribution partners.

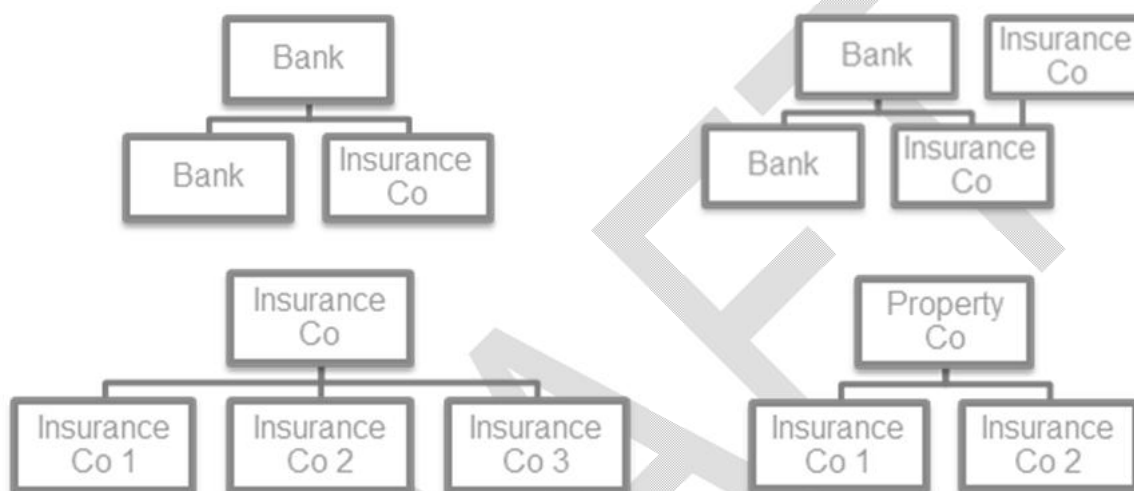
Details of premium amounts receivable from external distribution channels, and the frequency of such payments. Please provide this data as at 31 December 2012.

# Group risk

## Information required:

The information requested in this section is intended to help us gain an understanding of the **types** of group risks (for e.g. reputational, contagion, concentration, liquidity, etc.) that exist in Thailand.

For clarity, a “group” is defined as a group of companies that are related through common ownership (i.e. parent or holding company / subsidiaries / branches). Some examples of “groups” are provided below:



Note that this section only applies to companies that are a part of a group / conglomerate of companies.

1. What other types of business are conducted by companies within the group?

The information requested in items 2, 3 and 4 is intended to be qualitative, and is just intended to help us obtain a better understanding of the interdependencies between your company and the companies in your group. These are some examples of “group risk”, and if your company has experienced other instances where it has been affected by events occurring to other companies in the group, please describe this.

2. Have you ever had to transfer additional capital to your group as a result of any risk events occurring in other parts of the group?
3. Is there a risk of reputational damage to the insurance entity from these other entities i.e. is the branding similar, or are the brands closely linked in the minds of consumers?
4. Does the insurance company rely in any way on other parts of the group in any operational sense? Please provide a high-level overview.

# Operational risk calibration

## Information required:

The information requested in this section is to understand how companies currently treat and manage operational risks. We understand that the information requested in item 2 (an operational risk register) typically takes several years to accumulate, and may not be readily available.

**Therefore, please provide feedback to us on what information is available.** Please note that we would also welcome any feedback you can provide on the types of operational risks that your company may face.

### 1. Internal modelling of operational risks –

Please provide a description of any internal modelling of operational risks that your company currently performs, including a summary of the methodology adopted and risk percentiles considered.

Where modelling of operational risk has been performed, provide indicative results for the following percentiles of operational risk: 50%, 75%, 90%, 95%, 99% and 99.5%. Where amounts are provided, please indicate if they include the expected operational risk loss, or whether they reflect only operational risk losses in excess of the expected loss.

## 2. Operational risk events (operational risk register) –

Table 1 below shows the qualitative and quantitative information required on operational risk. Table 2 in the next few pages provides examples of operational risks.

Table 1 – Operational Risk Events							
Date Event Identified	Date Event Occurred	Event Type	Event Category	Description of Event	Gross Loss Estimate (Actual)	Gross Loss Estimate (Near Miss)	Recovery

### Notes:

1. Date event occurred: estimate of date if it is not possible to identify a specific date
2. Refer to Table 2 for definitions of “event type” and “event category” to assist with classification
3. Description of event: include a general description of what occurred, factors which may have worsened the risk and actions taken to alleviate the risk
4. Gross loss estimates: should be gross of any amounts recovered, and separated between actual losses and near misses (events which could have led to significant loss but did not)
5. Recovery: the amount (in Thai Baht) of any recovery

Table 2 – Operational Risk Categorisation and Examples (Based on Basel II and ABI categorisations)				
Event type	Definition	Categories	BCBS examples	ABI Insurance 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/	Unauthorised Activity	Transactions not reported (intentional) Transaction type unauthorised (w/ monetary loss) Mismarking of position (intentional)	Non-disclosure of investment losses Intentionally circumventing underwriting limits Intentionally circumventing claim payment limits Inappropriate use of a system username and password to circumvent application controls, resulting in an inappropriately authorised payment

Table 2 – Operational Risk Categorisation and Examples (Based on Basel II and ABI categorisations)				
Event type	Definition	Categories	BCBS examples	ABI Insurance examples
	discrimination events, which involves at least one internal party	Theft and Fraud	Fraud / credit fraud / worthless deposits Theft / extortion / embezzlement / robbery Misappropriation of assets Malicious destruction of assets Forgery Cheque kiting Smuggling Account take-over / impersonation / etc. Tax non-compliance / evasion (wilful) Bribes / kickbacks Insider trading (not on firm's account)	An employee colluding with an individual making a fraudulent claim An employee impersonating a client, in order to perpetrate a fraudulent claim
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 / robbery Forgery Check kiting	Assets stolen from an employee's car An office burglary A policyholder knowingly supplies incorrect policy data to obtain cover
		Systems Security	Hacking damage Theft of information (w/ monetary loss)	
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	Compensation, benefit, termination issues Organised labour activity	Downtime costs associated with a general strike by staff An individual wins a case for constructive dismissal
		Safe Environment	General liability (slip and fall, etc.) Employee health & safety rules events Workers compensation	Employee compensation claims due to negligence, or personal injury Fines by the Health and Safety Executive
		Diversity & Discrimination	All discrimination types	Discrimination – religious, sex, ethnicity, etc.

Table 2 – Operational Risk Categorisation and Examples (Based on Basel II and ABI categorisations)				
Event type	Definition	Categories	BCBS examples	ABI Insurance examples
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	Fiduciary breaches / guideline violations Suitability / disclosure issues (Know Your Customer, etc.) Retail customer disclosure violations Breach of privacy Aggressive sales Account churning Misuse of confidential information Lender liability	Contractual policyholder breaches e.g. advice given around cost of rebuild for home insurance, or guarantees about cover, not honoured in the future Fines under the Data Protection rules because the Marketing department sells a database of customer's details to another insurance firm
		Improper Business or Market Practices	Antitrust Improper trade / market practices Market manipulation Insider trading (on firm's account) Unlicensed activity Money laundering	FSA fines as a consequence of non-qualified individual who sells and gives advice Fines due to other regulatory or tax breaches
		Product Flaws	Product defects (unauthorised, etc.) Model errors	Product related complaints Costs associated with an under researched product going to market, requiring further unplanned development
		Selection, Sponsorship & Exposure	Failure to investigate client per guidelines Exceeding client exposure limits	Exceeding underwriting limit (unintentional) Costs associated with contractual breaches from partnerships and third parties
		Advisory Activities	Disputes over performance of advisory activities	
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 Human losses from external sources (terrorism, vandalism)	Claims to replace or repair assets and buildings

Table 2 – Operational Risk Categorisation and Examples (Based on Basel II and ABI categorisations)				
Event type	Definition	Categories	BCBS examples	ABI Insurance examples
Business disruption and system Failures	Losses arising from disruption of business or system Failures	Systems	Hardware Software Telecommunications Utility outage / disruptions	IT systems and telecommunications failure and downtime Viruses and security breaches
Execution, Delivery & Process Management	Losses from failed transaction processing or process management, from relations with trade counterparties and vendors	Transaction Capture, Execution & Maintenance	Miscommunication Data entry, maintenance or loading error Missed deadline or responsibility Model / system misoperation Accounting error / entity attribution error Other task misperformance Delivery failure Collateral management failure Reference data maintenance	Service-related complaint Cases requiring re-work or correction Pricing errors or backdating adjustments Projects initiated, then cancelled Interest on late payments
		Monitoring and Reporting	Failed mandatory reporting obligation Inaccurate external report (loss incurred)	Regulatory, legal or taxation fines associated with mandatory reporting requirements
		Customer Intake and Documentation	Client permissions / disclaimers missing Legal documents missing / incomplete	Re-drafting of mislaid or incorrect legal documentation
		Customer / Client Account Management	Unapproved access given to accounts Incorrect client records (loss incurred) Negligent loss or damage of client assets	
		Trade Counterparties	Non-client counterparty misperformance Misc. non-client counterparty disputes	
		Vendors & Suppliers	Outsourcing	Legal expenses
			Vendor disputes	Bad debts, write off