6 Q's & A's on OPERATIONAL RISK

Created by TAI & LOGiQ³

Daytime CEOs and Moonlighting Interviewees

Tom Freitas, CEO, TAI

As CEO of TAI, Tom is responsible for overseeing day-to-day operations and creating and implementing the strategic and tactical plans of the organization.

Tom holds a Bachelor of Science in Business Administration from Boston College and an MBA from Fordham University. He started his career in IT development in investment banking and has spent the last 17 years in the reinsurance industry specializing in Operations and IT management.

Ray DiDonna, CEO, LOGiQ^3

In his role as CEO of LOGiQ^3, Ray leads the company's core reinsurance administration and underwriting consulting and outsourcing business. Ray has been in the insurance and reinsurance businesses for over 30 years. Prior to joining LOGiQ^3, he was the SVP and COO of mL^3 global life, a LOGiQ^3 subsidiary.

Why Operational Risk?

How it all started

Polling the people

At the 2016 Society of Actuaries Annual Meeting, we polled attendees on the conference session that interested them the most.

Based on the feedback, the overwhelming winning topic of interest was “Operational Risk – A Gap in Approach”.

It was evident that attendees were hungry for more information on Operational Risk and its implications in a world of big data.

Enlisting our experts

We tapped into the combined expertise of Tom Freitas, CEO of TAI, and former COO of SCOR Global Life Americas and Ray DiDonna, a Fellow of the Society Of Actuaries, CEO of LOGiQ³ and Six-Sigma Master Black Belt, to provide insight on how Operational Risk affects the insurance industry.

What are the types of operational risks

that Insurers & Reinsurers face?

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The operational risks that are faced by Insurers and Reinsurers can be thought of as layers of cake, although eating a cake is likely a better problem to have.

All of the people, processes and technology of an institution must compliment one another and harmonize for the risk to be mitigated. Over-reliance on any one component exposes a company to potential excess and unmitigated risk.

Some examples are:

- Regulatory Risk
- IT/Infrastructure Risk
- Business Process Risk
- Business Practice Risk
- Reputational Risk

Can you give some examples of these types of risks, and their implications?

In the area of **regulatory risk,** a key challenge for companies these days is maintaining the privacy of personally identifiable information (PII). There is a substantial amount of personal data from customers held within company systems. Having unmitigated Regulatory Risk, can affect your ability to deploy capital in the long term. In the short-term, it introduces additional oversight and obligations that can create incredible strain on the organization.

That, coupled with a preponderance of hacking schemes for either financial gain or simply sabotage, makes the job of protecting the private information of customers an extremely critical role. Chief Privacy Officer titles are becoming much more common these days.

In the area of **IT/Infrastructure Risk**, there remains far too many legacy systems still operating in the insurance industry. Earnings pressure over the years has often translated into deferring IT investment—often times, the insurance industry has taken the position of *"if it's not totally broken, don't even think about spending money to upgrade it".* It will potentially be easier and easier for new entrants to race past blue chip companies in terms of technology advancement in the insurance industry.

Data Security and Data Privacy are two Operational Risks that are front and center to any organization. A breach to either of these results in **reputational risk** and opens a company to potential financial loss and **legal risk.**

Why should people care about operational risks?

Certain operational risks or breaches can lead to organizational failure.

The insurance industry plays a vital role in every economic system around the world. Insurance companies must operate in a safe, legal, and efficient manner to maintain that role.

From a positive view, adopting a "continuous improvement" approach to operational risk creates a proper control structure in the organization, mitigates risk and will have the added benefit of creating operational efficiency.

From a negative view, it is the cost of doing business and must be incorporated into an organization's practices around people, process and technology.

Who do operational risks affect?

Are some of us more at risk than others?

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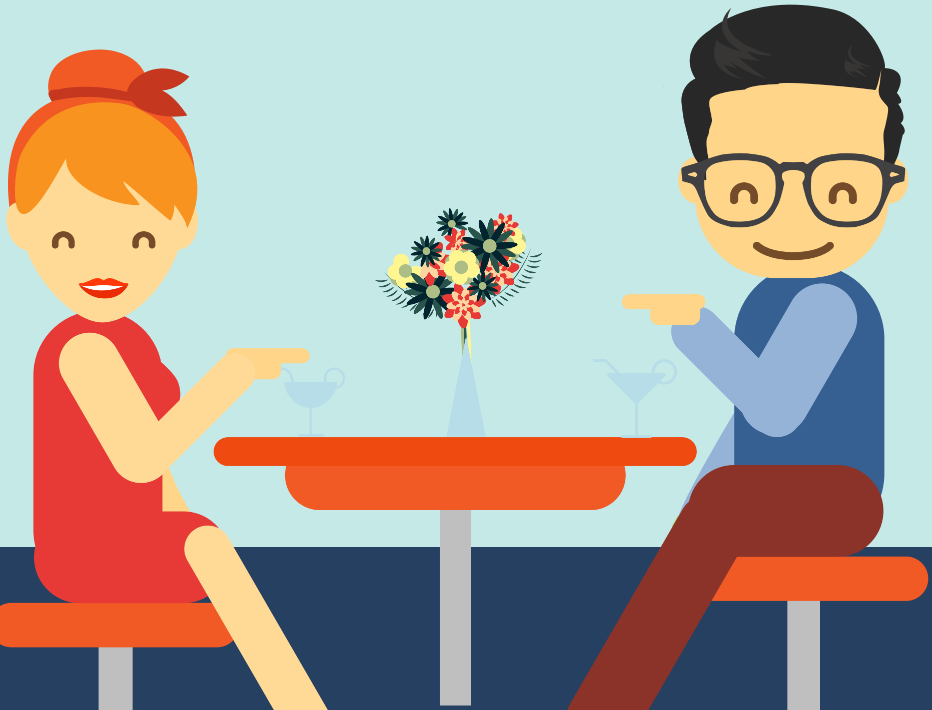
Operational risk is an enterprise concern, it effects the entire company.

Operational risks can impact all departments within an insurance company, as well as their policyholders, agents, and partners such as reinsurers.

Psst! Is Operational Risk a Threat to your Business?

Are you starting to get concerned about how Operational Risk might affect your business?

Reach out to one of our experts here.



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How would operational risks/breaches

affect the careers of actuaries?

More and more actuaries are moving into risk management roles as companies have introduced Chief Risk Officer titles to their senior management teams.

Rather than traditional actuarial roles such as pricing/product development and valuation, actuaries are becoming business/operational risk managers and starting to look at risk from a broader, company viewpoint. A significant focus of this is operational risk within a company.

What are some of the ways we can
mitigate operational risks within our organizations?

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Overall, the best way to mitigate operational risks is to give these risks the same transparency as financial risks.

There should be focus at the senior management level and appropriate metrics should be employed to constantly measure the likelihood of these risks becoming real issues. In addition, there needs to be clear plans in place to combat any operational risks that do need to be mitigated.

Controlling and mitigating Operational Risk needs to be important to everyone in a company. The practices that an organization creates to fit its risk profile and culture needs to be a part of everyone's daily role.

The Barbara Walters of this Operation

Nick Joly

Nicolas Joly, Marketing Coordinator at LOGiQ^3, has taken the lead on the company's social progression campaign of the life insurance and reinsurance industries. He contributes to the company's overall inbound marketing strategy, as well as towards growth initiatives to help drive awareness and market presence.

Nicolas holds experience in different industries from financial services management with one of Canada's "big-six" banks, to marketing for a tech start-up of less than 10 employees. Nicolas relocated to Toronto after completing his Bachelor's Degree in Business Commerce, Marketing from John Molson's School of Business at Concordia University in Montreal, and has obtained a number of professional marketing designations.

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