

# Operational Risk Advisory Services

---

Financial institutions face an increasingly complex regulatory and economic environment. The heightened expectations from Basel III as well as the macroprudential regulatory oversight required by the Dodd-Frank Act after the financial crisis have created a period of material change across the industry.

All business activities are impacted, but a number of common themes have emerged: pressure on profitability, increased capital requirements, stricter rules around leverage and liquidity, and increasing requirements for risk management and measurement.

Banks between \$10bn and \$50bn in assets are having to balance the need to comply with complex new regulatory requirements with managing day-to-day activities and achieving growth targets. Meanwhile, for banks with more than \$50bn in assets, the CCAR process has introduced a high bar for paying dividends to shareholders, further reducing the attractiveness and return on bank equity investment.

## We're here to empower results:

Contact a member of Aon's Financial Institutions Risk Advisory team to learn more.

**Jin Kang**  
Director & Practice Leader  
+1 (917) 946-4963  
jin.kang@aon.com

**Derrick Oracki**  
Director  
+1 (202) 429-8539  
derrick.oracki@aon.com

## Operational risk management frameworks

The operational risk management framework is a cornerstone of an institution's risk management infrastructure. A well-designed framework helps to ensure that management understands the risks inherent to the organization, and have actively accepted or mitigated the risk. Further, while regulatory requirements may change and advance, a strong framework allows a firm to meet requirements without recreating itself. Aon helps clients to:

- Establish a comprehensive risk taxonomy.
- Set up an internal loss data collection system.
- Implement a risk and control self-assessment (RCSA) program.
- Design and implement a library of key risk indicators and key control indicators.
- Review existing frameworks and produce development plans to address identified gaps.
- Put in place a comprehensive plan to ensure readiness for regulatory expectations relative for the size and complexity of your institution

## Data analytics and data management

Effective management of operational risk data is critical for analyzing risk exposure accurately. The challenge is accurately collecting the volumes of available and interdisciplinary data and then developing the analytical tools to make sense of it. Aon helps client to:

- Review their existing data collection procedures to ensure the accuracy and completeness of management information.
- Gain a deeper understanding of their business through insightful data analytics.

## **CCAR and DFAST modeling**

The annual stress testing cycle has increased the regulatory focus on risk management and risk measurement techniques. Aon helps clients to:

- Project operational risk losses, using a variety of quantitative modeling approaches that identify and isolate the macroeconomic effects on operational risk.
- Develop and facilitate scenario analysis workshops that identify the macroeconomic and idiosyncratic risks faced by the institution.
- Build internal loss data collection systems and processes that ensure management can have confidence in the output from stress test models.

## **Operational risk economic capital modeling**

More and more small and mid-sized banks are developing economic capital models using techniques applied at AMA banks to quantify their exposure to operational risk. Aon helps clients to:

- Conduct exploratory data analysis on their internal and external loss data.
- Design a unit of measure structure with sufficient granularity to support risk management, while maintaining enough data in each unit to accurately model the risk.
- Build and code a flexible infrastructure to fit and select frequency and severity distributions, and perform Monte Carlo simulation of losses.
- Model the dependence structures between units of measure to identify the appropriate level of diversification.

## **Scenario analysis**

Many institutions face challenges in developing a robust scenario analysis framework that ensures complete coverage of all key risks. A well-designed scenario analysis framework helps an institution to better understand its risk exposures, and provides an essential input into the DFAST and CCAR stress testing processes. Aon helps clients to:

- Develop a scenario analysis framework that identifies the macroeconomic and idiosyncratic risks an institution faces. Such scenarios are a required element of the CCAR process.
- Provide a forward-looking element to their operational risk capital modeling methodology, with a comprehensive scenario analysis library across all units of measure.
- Gain insight into their risk profile by estimating their quantitative (loss frequency and severity), as well as qualitative risk exposure.

## **Model validation and model risk management**

Aon has extensive experience in supporting clients through in depth model review and formal model validation. Thorough model validation increases management and regulatory confidence in the results of models, enabling their use as important business management tools. Aon helps clients to:

- Review and validate existing models for statistical soundness, compliance with relevant regulation and adherence with existing and emerging industry best-practice.
- Produce model development plans designed to address gaps found during validation process.

## **Insurance program review and optimization**

Insurance is one of the primary methods of operational risk loss mitigation, particularly against large and unexpected losses. Aon works with clients to design optimal insurance solutions that tailor coverage to the institution's underlying risk exposure and risk appetite.

With Aon's unique combination of modeling and insurance brokerage expertise, we are able to help clients balance premium cost against effective risk mitigation.

## **Why work with Aon?**

Leading institutions know that the key to an effective and successful enterprise risk management framework lies in ensuring compliance with evolving regulatory expectations whilst simultaneously adding tangible value to the business. We understand this too. Our team has real-world experience of being of developing risk management tools and processes both as consultants, and in the industry.

A "one size fits all" is counterproductive when working with complex financial institutions. We believe that the key to successfully supporting our clients is for us to understand their unique issues and approach to risk management. Our clients see us as trusted advisors who provide in-depth advice blending regulatory insights with practical recommendations and support.

## **About Aon**

Aon plc (NYSE:AON) is the leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 66,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, reinsurance intermediary, captives manager and best employee benefits consulting firm by multiple industry sources. Visit [www.aon.com](http://www.aon.com) for more information on Aon and [www.aon.com/manchesterunited](http://www.aon.com/manchesterunited) to learn about Aon's global and principle partnership with Manchester United.