OPERATIONAL RISKS MANAGEMENT PRACTICES AT THE JUBILEE INSURANCE COMPANY OF KENYA LTD.

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DECLARATION

I hereby declare that this research project is my original work and that it has not been presented to any other institution of higher learning for academic purposes.

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This project has been submitted for examination with my approval as the university supervisor.

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To all I say thank you and God bless you.

DEDICATION

I dedicate this project to my lovely daughters, Debra and Kimberly who keenly followed my working in the house with so much interest and always reminded me to finish my 'Homework'. May you always work hard to finish that which I started.

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LIST OF ABREVIATIONS AND ACRONYMS.

AIG – *American Investment Group*

BBK – *Barclays Bank of Kenya Ltd.*

GARP- *Global Association of Risk Professionals.*

IRA- *Insurance Regulatory Authority*

ISO- *International Standards Organization*

IRM- *Institute of Risk Management.*

JICJL- *Jubilee Insurance Company of Kenya Ltd*

JHL- *Jubilee Holdings Ltd*

KCB- *Kenya Commercial Bank*

NSE- *Nairobi Stock Exchange*

ORM – *Operational Risk Management*

RBV- *Resource Based View*

ABSTRACT

Operational risk, broadly speaking, is the risk of loss from an operational failure. It encompasses a wide range of events and actions as well as inactions and includes, for example, inadvertent execution errors, system failures, acts of nature, conscious violations of policy, law and regulation, and direct and indirect acts of excessive risk taking. Jubilee Insurance, just like any other Insurance company writes policies that deal with specific risks, and in some cases, even underwrite exotic risks. As a direct corollary, therefore, insurance companies should be good at managing their own risks. However the truth is a little far from that! In this study, I have examined the operational risks inherent at the Jubilee Insurance's business, how they are managed and the challenges experienced in their management. The findings based on the analysis of interviews with six senior staff reveals that although the Company has an elaborate risk management policy, many of its operational risks among them fraud, employee infidelity, processing errors, people and skills attrition and product misspelling remain a challenge. The company's risk management policy is supported by risk manuals and checklists which are developed through consultative process and is administered by the Risk & Compliance Manager. The major challenges facing the management of operational risks are the mutating nature of fraud risks, loss of key staff to competition and lengthy process of system acquisition. Today it is well recognized that sound management of an insurer and other financial sector entities is dependent on how well the various risks including operational risks are managed across the organization. The management of Jubilee Insurance therefore faced with the challenge of managing operational risks as established by the findings of this study.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study.

Organisations exist for a purpose, perhaps to deliver a service, or to achieve particular outcomes. In the private sector, the primary purpose of an organisation is generally concerned with the enhancement of shareholder value; in the central government sector the purpose is more about the delivery of service or with the delivery of a beneficial outcome in the public interest (Hopkin 2010). Whatever the purpose of the organisation may be, the delivery of its objectives is surrounded by uncertainty which poses threats to success and offers opportunities for increasing success (Crown 2004). The successful achievement of outcomes by corporate and government agencies can be inhibited by the risks that arise as a result of the environment they operate in (Comcover 2008).

Risks not only come from the external environment but also from within the organisation posing a greater threat to successful realisation of its objectives. Among those risks internal to the organisation are the operational risks which result from the day to day running of the organisation. Operational risks refer to the risk of loss resulting from inadequate or failed internal process, people and systems (Basel 2003). A simple vision of successful risk taking is that organisations should expand their exposure to upside risks while reducing the potential for downside risks (Bowman 1980) thus adopting prudential risk management strategies. The agencies that develop robust risk management strategies will be better placed to ensure the efficient, effective and ethical delivery of their outcomes across a wide range of policy and programme areas (Watt 2008).

The study is anchored on the concepts of; Resource based view (RBV) theory and stakeholder theories of management. The resource based view theory imposes a duty on the firm's management to safeguard the organization's assets and resources in the best interest of all stakeholders (Akio 2005). In its support, the stake holder theory proposes that the purpose of an organization is to create as much value as possible for the stakeholders. Stakeholder refers to any group or individual who can affect or is affected by the achievement of the organization's objectives (Freeman 1984). In order to succeed and be sustainable, over time, executives must keep the interests of customers, suppliers, employees, communities and shareholders aligned and going in the same direction (Freeman 1984).

1.1.1 Risk Management.

There is no single, universally accepted definition of the word risk and this means that it is used to describe many different situations (Bowman 1980). In most of the published definitions, the underlying concept in the description of the term risk is a phenomenon closely associated with uncertainty of events (Poojari2003). However, in light of corporate risk management and insurance, Risk can be defined as the threat that an event or action will adversely affect the organisation's ability to maximise shareholder value and to achieve desired business's objectives (Young 2012). International standards organisation (ISO) published ISO 31000 in late 2009 which broadly define risk as the effect of uncertainty on objectives. The older version specifically defines risk as the combination of the probability of an event and its consequences (ISO/IEC/Guide 73).

Risk Management has been defined as a group of actions that are integrated within the wider context of a company or organisation, which are directed toward assessing and measuring possible risk situations as well as elaborating the strategies necessary for managing them (Hopkin 2010). Risk management encompasses; identifying and assessing risks inherent to an organisation and then responding to them in a manner that will reduce their impact and maximise the shareholder value (Rejda 2008). It comprises the activities and actions taken to ensure that an organisation is conscious of the risks it faces, makes informed decisions in managing these risks, and identifies and harnesses potential opportunities (Comcover 2008).

Managing risks well requires careful considerations of the key concepts of minimising loss, maximising opportunity and preparing for uncertainty. These concepts should be outlined in the organisation's management framework that enlists a structured approach to managing risks and developing a culture of positive risk management within the organisation. Risk management is also a developing subject, not least because the economic, social, legal, technical, and political environments in which organisation operate are constantly changing (Poojari 2003). This implies that the effective risk management within an organisation require a proactive approach in responding to the ever evolving challenges in the work place and the general business environment.

On broader perspective, Risks imply uncertainty associated with the conduct of any business and has been classified in different types such as; financial risks, marketing and distribution risks, personnel and production risk, and environmental risk (Gokte 2008).

Financial risks in an organisation range from an increase in the cost of borrowing, over dependence on loan capital to the risk of failure by the debtors due to insolvency
(Greene & Serbein 1983). Marketing and distribution risks could emanate from; transportation and storage risks or from competition, who charge lower prices or offers better alternatives to those of the organisation (Poojari 2003). Personnel and productions risks within an organisation are more difficult to establish owing to the fact that they may come from soft sources such as poor employee skills and deficient planning (Greene & Serbein 1983). Environmental risks has assumed a great importance for business firms in recent years owing to the rising negative environmental factors ranging from poverty, crime, poor law enforcement to inconsistent regulatory regimes (Deloitte 2007).

In a more refined approach, risks have been categorised as; pure versus speculative risks and fundamental versus particular risks. Pure risks refer to the risk whose occurrence will lead to a loss only whereas the speculative risks are those whose occurrence will cause either a loss or gain (Greene & Serbein 1983). Fundamental risks are the risks that affect a large number of people, organisations in a single occurrence while particular risks affect one or just a few organisations in one occurrence (Vaughan & Vaughan 2008). The above classifications give rise to the diversity and perhaps complexity of the concept risks which therefore calls for a more structured and systematic approach in its study and treatment within an organisation in furtherance of its objectives thereby leading to the concept of risk Management.

1.1.2 Operational Risk Management

Operational risks refer to the risk of loss resulting from inadequate or failed internal process, people and systems or from external events (Basel 2001). They are the risks encountered during the daily operations of a business relating to the specific functions and which can be typically managed from within the organization (Kloman 2003). Some of the operational risks result in an increase in the organisations' operating cost for example, legal suits while others lead to a decrease in the organisation's revenue for example the loss of a customer to competition due to poor service (Hull 2007).

The Basel Committee on Banking Supervision 2010 identified seven categories of operational risk exposures which are applicable in the general financial services sector. They include; internal fraud, external fraud, employment practices and workplace safety, clients, products and business practices, damage to physical assets, business disruption and system failures and execution, delivery and process management. Although those risks are typical to general financial services industry, sources more specific to insurance were enumerated by Gokte (2012) as including; Fraud & defalcation, Sales practices, People & skills Attrition, External disruption, Inadequate employee training, Computer security, Processing errors, Non-compliance, Contractual risks, and Changes in laws/regulations.

Internal fraud refers to the acts intended to defraud, misappropriate property or circumvent regulations, the law or company policies which involve at least one party internal to the organisation. External fraud on the other hand refers to those but which are committed by a third party (Basel 2001). Examples include; forgery and damage from computer hacking. Fraud can be committed by various stakeholders ranging from customers, suppliers, to organization's own

blue collar workers, clerical workers and managers (Sadgrove 2005). Employment practices and workplace safety category involves losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity or discrimination events. Their management would range from employee relations to safe working environment to fairness and equity in the workplace. (Basel 2001). This would save the organisation fines due from compensation for wrongful termination, unapproved labour activity and slip and fall claims.

Execution, Delivery and Process Management refers to losses due to failed transaction processing or process management, from relations with trade counterparts and vendors. The problems arise from poor transaction capture, execution and maintenance which may cause; miscommunication, accounting error, negligent loss or damage to customer assets. Business Disruption and System Failures refers to the losses following the disruption of the normal business processes due to system failure of hardware, software, telecommunications, utility outages and disruptions (Basel 2001). These risks can be managed by designing workable business continuity programmes within the organisations operations to anticipate the risk and devise proper recovery mechanisms.

An organisation therefore needs to develop a clear programme in which these risks are comprehensively identified, listed, and prudently managed to minimise their effects on the firm's profitability (Gokte 2012). Operational risks management therefore has been defined as, the anticipation, analysis and modification of operational risks within an organization in a structured format, using clearly defined programmes and risk management tools to reduce the probability of an unfortunate occurrence (Bagchi 2008).

Some of the operational risk programmes enlisted by Gotze (2012) include; Fraud control programmes, Information Security programme, Business continuity programme, Quality programmes, legal/compliance programme. These represent a brilliant array of programmes which is easy to construct and document in the form of policies and procedures in the custody of chief risk officer. However, without communication and mechanism of implementation, they are likely to become ineffective towards the organization's risk management culture. There is therefore the need for Organizations in general and insurance companies in specific to put in place implementation and communication strategies that would help actualize the operational risk management policies and develop the right risk management culture in which the company's risks are assessed, understood and adequately controlled.

1.1.3. Insurance Industry in Kenya

Kenya's Insurance industry is regulated by the Insurance Act; Laws of Kenya Chapter 487 and supervised by the Insurance Regulatory Authority. The industry's main players are Insurance Companies, Reinsurance Companies, intermediaries such as insurance Brokers and Insurance Agents, risk Managers or loss adjusters and other service providers (IRA Quarterly report 2010).

1.1.4. Jubilee Insurance Company of Kenya Limited

Jubilee Insurance Company of Kenya Limited (JICKL) is a Composite insurer in East Africa, handling Life, Pensions, General and Medical insurance. Having been incorporated in 1937 as a composite insurer based in Mombasa, the company rose through humble beginnings, relocated its headquarters to Nairobi in 1968 and expanded its network of branches across east Africa covering Tanzania, Uganda, Burundi and Mauritius.

Today, Jubilee Insurance Company of Kenya prides itself in being the number one insurer in East Africa with over 450,000 clients and controlling 5.5B worth of premium which is 12.8% of the market share (Business Daily19th June 2014). It has formed a launch pad for the establishment of several regional branches under the holding company, Jubilee Holdings Limited (JHL). Being in the Insurance Business, the company's undertakes risks in the form of Insurance through its operational units of Business Development, Underwriting and Claims departments. Besides, it has a risk management functions being executed by the Risk and Compliance and internal audit departments.

1.2 Research problem

Operational risk is not a new risk, but hard evidence suggests that this risk is significant and may be growing. Virtually every catastrophic financial institution loss that has taken place during the past 20 years including Barings Bank, Long Term Capital Management, Allied Irish Bank-All First, SociétéGénérale, Bear Stearns, Lehman Brothers and American Insurance Group (AIG) has been caused or exacerbated by operational failure. As a result, ORM is gaining greater visibility within the insurance industry as well as many other industries (Society of Actuaries 2012).

The Kenya's Insurance market is no exception with a number of Companies such Invesco, Blue Shield Insurance Company and Standard Assurance having collapsed due to factors that are attributable to failed systems and inadequate controls. Besides, the Kenyan Industry is currently facing stiff competition with local and foreign owned firms competing for the slowly growing market (Kenya Insurance Report 2012). Therefore, to maximize the returns, the companies need not only to take considerable and controlled risks, but also minimize the losses that may arise

from operational lapses within their routine processes. Consequently, prudent management of operational risks would help the companies achieve a competitive edge by minimizing loss of revenue due to loss of customers to competition.

The main problem experienced by the Kenya's insurance industry is low penetration. Which was 1.8% in the year 2012 (Kenya- Re Report 2012). Kiragu (2014) enumerates various challenges facing the Kenya's Insurance industry including; Premium undercutting (23%), non compliance with the cash and carry system (9%), inappropriate staff skills in some areas (7%), poor quality of intermediary services (7%), corruption and fraud (7%) low customer retention (7%) all which are traceable to lapses in operational controls within the industry.

Just like the Basel Committee and the Solvency reports, majority of the studies in the Kenya's financial services industry have targeted the Banking sector to the exclusion of other institutions including Insurance Companies. Waweru (2012) studied Risk Management practices in cash operations at the Barclays Bank of Kenya (BBK) while Mutema (2012) investigated Fraud risk management among Commercial Banks in Kenya in light of the financial innovations. Njuguna (2012) looked at the impact of Risk Based supervision on the performance of pension funds in Kenya. Even within the Insurance sector, most of the studies have been directed at the aspects of strategy, product penetration and response mechanisms to the changing business environment.

Kiragu (2014) conducted a study on the challenges facing the insurance Companies in Building Competitive Advantage in Kenya. Ngumo (2012) studied the response strategies to Competitive environment by the British American Insurance Company Ltd. while Tumbo (2012) studied the changes in the business environment and how Jubilee Insurance has responded to those Changes.

Although operational risks are critical to the survival and sustainability of the Insurance companies, no study has attempted to determine the Operational risks management in the Kenya's Insurance market and specifically at the Jubilee Insurance Company of Kenya, which is currently the market leader. Operational risks that face the financial services industry are well known and documented from the previous studies. However, there exists a gap concerning its measurement and management within the insurance Industry and more specifically Jubilee Insurance Company of Kenya Ltd (JICKL). This research therefore seeks to answer the questions, what are the operational risk management practices at the Jubilee Insurance Company of Kenya Limited (JICKL)?

1.3 Study Objectives

The objective of this study was to examine the operational risks management practices at the Jubilee Insurance Company of Kenya, within its general division.

1.4 Value of the study

The study highlighted the Operational risk management strategies within the General Division of Jubilee Insurance Company. It therefore provides literature for other studies on operational risk management in Insurance Companies in General.

The findings of the study are important to the various stakeholders at the Jubilee Insurance Company of Kenya (JICKL), the Insurance Industry including regulators, Insurance brokers and policy holders. The Insurance Regulatory Authority (IRA) will be able to identify and add on to its list of risks that need to be addressed by regulated Companies other than Insurance risks while

brokers and policy holders will be able to judge the prudence with which operational risks are managed within Jubilee and therefore financial sustainability of the company.

The findings of this study are also beneficial to the company's Management and employees. They will be able to identify some of the operational risks that exist within their workplace and consciously apply the precautionary measures to minimize their impact and improve efficiency in their processes.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction:

This chapter reviewed the literature on the theoretical foundations of operational risk management strategies. It explored discussions on the theoretical framework, risk management Process, operational risk management and the strategies of operational risk management.

2.2 Theoretical framework

The study was anchored on the concepts of Resource based view theory and stakeholder theory of management introduced by Wernefelt (1984) and Freedman (1984) respectively.

2.2.1 Resource Based View Theory

Resource based view (RBV) is a model that looks at resources as key to superior firm performance and an approach to achieving a competitive advantage (Hamel &Prahalad1994). The theory proposes that executives should look inside the company to find the sources of competitive advantage instead of looking at the competitive environment (Barney 1991). Those resources possessed by a firm are the primary determinants of its performance, and they may contribute to a sustainable competitive advantage of the firm (Wenerfelt, 1984). Barney (1991) listed some of the firm's resources as including ; all assets, capabilities, organizational processes, firm attributes, information, knowledge, among others being controlled by a firm and which enables it to conceive of and implement strategies that improve its efficiency and effectiveness. In the context of Insurance business, these resources are controlled within Operation functions of

an Insurance company and strategies to manage them may help the firm achieve a competitive advantage.

Together with the agency theory, the RBV imposes a duty on the firm's management to safeguard the organization's assets and resources in the best interest of all stakeholders (Akio 2005). Therefore, in focusing on the organization's operations and risk management strategies, the study establishes how the Kenya's Insurance Companies and more specifically, Jubilee Insurance of Kenya Ltd preserves its resources and uses them to achieve a competitive edge over its competition.

2.2.2 Stakeholder theory

The stake holder theory proposes that the purpose of an organisation is to create as much value as possible for the stakeholders. Stakeholder refers to any group or individual who can affect or is affected by the achievement of the organization's objectives (Freeman 1984). In order to succeed and be sustainable, over time, executives must keep the interests of customers, suppliers, employees, communities and shareholders aligned and going in the same direction (Freeman 1984).

The organization itself should be viewed as grouping of stakeholders and the purpose of the organization should be to manage their interests, needs and viewpoints. Thus stakeholder management is thought to be fulfilled by the managers of a firm (Friedman 2006). The managers should on the one hand manage the corporation for the benefit of its stakeholders in order to ensure their rights and the participation in decision making and on the other hand the management must act as the stockholder's agent to ensure the survival of the firm to safeguard the long term stakes of each group (Heath & Norman 2004). In the Insurance business

management, the most notable stakeholders include; share holders, policy holders who are the customers, suppliers, intermediaries who include Insurance brokers and agents and employees. All of these groups have a stake in, and are affected by, the firm's success or failure (Schmid et al. 2006).

Any risk within the organization which threatens its sustainability affects the interests of the stakeholders. A stakeholder approach being concerned about active management of the business environment, relationships and the promotion of shared interests will put in place prudent risk management policies while developing and executing its business strategies (Donaldson &Preston 1995) within its processes, systems and controls. In so doing, the organisation will be advancing the preservation of the stakeholders' interests. The study therefore seeks to advance the theory by interrogating how Operational Risks Management (ORM) strategies adopted by the Jubilee Insurance Company of Kenya works to protect the interests of shareholders.

2.3. Risk Management Process

Risk management has been defined as a process that incorporates a number of activities comprising; Risk Assessment, Risk treatment, Monitoring and review, Communication and consultation and recording (Fraser & Simkins 2010). The principal objective of risk management is the effective planning of resources; need to recover financial balance and operating effectiveness after a fortuitous loss, thus obtaining a short term cost of risk stability and long term risk minimization (Vaughan & Vaughan 2003).

The aim of Risk management is three fold; it must identify the risk, undertake an objective analysis of risk specific to the organisation, and respond to the risk in an appropriate manner

(Merna & Thani 2008). All risks facing an organisation need to be identified using historical data thereby helping stakeholders relate to them and have potential to improve the effectiveness of their control (Hull 2007). Sadgrove (2005) explored the Risk analysis and evaluation processes and concluded that an in-depth risk analysis will provide the decision maker with sufficient understanding of the risk and satisfy themselves on the decisions they make. He further states that risk evaluation involves comparing the residual risks after treatment with the existing controls or against set criteria. Risk Analysis also helps management to decide which risks are worth pursuing, and which should be shunned (Vaughan & Vaughan 2008).

2.3.1 Operational risk Management

Operational risk is still an observed phenomenon which is not entirely understood by academics and practitioners and which is treated as a left over category from the core banking risks (Acharyya 2012). The Basel Committee on Banking Supervision 2001 defines Operational risk as the risk of loss resulting from inadequate or failed processes, people or systems or from external events. Although this definition includes legal risks, it expressly excludes strategic and reputational risks. The Committee further identified seven categories of operational as; internal external Fraud, Client, product and business practices, Business disruptions and system failures, Execution, delivery and process management. The global Association of risk Professional (GARP) has since come up with a simple definition of operational risk management as the qualitative assessment of operational risks.

In the academic side a majority of published research on operational risk are written on the banking sector. Comparatively, a few researches were done on the operational risk in the insurance industry with the relevant studies bear at least two common characteristics. First, they

all focused on the quantification of operational risk and second, they are based on the definition of operational risk as prescribed by Basel II. For example, Cadbury (2010) wrote on developing the capital adequacy models of operational risk for banks.

Until now only few papers such as, Verrall (2007) and Tripp et al (2004) focused specifically on the operational risk of insurance companies and Cummins et al (2006) focused on both banking and insurance in their publications. In line with the Basel II requirements, Scandizzo (2005) provided a systematic method for mapping operational risk in the process of its management including; identification, assessment, monitoring/reporting and control/mitigation. He observed that operational failures are created from risk drivers, such as people, process, technology and external agents, and he linked them to consequent financial losses by using key risk indicators that are the ultimate challenge for operational risk management. He suggested a scorecard with the inputs of both qualitative and quantitative information, which can be utilized as a monitoring tool of operational risk, in order to take appropriate preventive and control measures.

In identifying the causes of operational risks, a number of studies such as; Cummins *et al*., 2006; Dickinson, 2001; Guillen*et al*., (2007)categorize them into internal and external sources. They listed incidents, such as breach of laws and agreements, fraud, professional misconduct in client services and business practices, business disruption and model or system or process failures, as common internal causes of operational risks. They also argue that organizations may hold operational risk due to external causes, such as failure of third parties or vendors either intentionally or unintentionally, in maintaining promises or contracts. Ideally, organizations have a little control over such external causes.

Insurance companies are in the business of taking risks. Worldwide these companies write policies that deal with specific risks, and in many cases, even underwrite exotic risks. As a direct corollary, therefore, insurance companies should be good at managing their own risks (Averis 2009). Most insurance companies are very good at assessing insurance risks but are not very good at setting up structures in their own home to manage their own operating and business risks (Gokte 2012).The Basel Committee on Banking Supervision has identified seven categories of operational as; Internal & External Fraud, Client, product and business practices, Business disruptions and system failures, Execution, delivery and process management.

Internal fraud refers to the acts intended to defraud, misappropriate property or circumvent regulations, the law or company policies which involve at least one party internal to the organisation. External fraud refers to the acts by third parties intended to defraud, misappropriate property or circumvent the law. Examples include; forgery and damage from computer hacking. Fraud can be committed by various stakeholders ranging from customers, suppliers, to organization's own blue collar workers, clerical workers and managers (Sadgrove 2005). Report by Ernst & Young (2013)on global fraud survey indicated that some of the preconditions that allow fraud to be committed are the existence of an opportunity to steal and lack of control. The report recommends that the solution to fraud risk lies in the need to raise standards to march the rising intensity of fraud risk as well as seeking for better rather than more information.

Client, product and business practices arise from unintentional or negligent failure to meet professional obligations to specific clients or from the nature or design of a product. Examples include; misuse of confidential customer information, money laundering and the sale of unauthorized products (News track Corporate News; Issue1, 2013-2014). Business disruptions

and system failures can emanate from the disruption of business or system failures. Examples could include; hardware and soft ware failures, telecommunication problems and utilities outage. Execution, delivery and process management risks include; failed transaction processing or process management, and relations with trade counter-parties and vendors. Insurance companies must assess their exposure to each type of these risks in all its lines of business right from customer acquisition to claim settlement (Hull 2007).

In Kenya, the legal regulations are at present in initial stages of development and have partially still not been specified in detail with regard to concrete requirements. For many insurance companies within Kenya and beyond the resulting leeway with reference to the development of Operational Risk Management (ORM) leads to the need for intensive and detailed contemplation and discussion around the subject, Operational risks (Deloitte 2007).

The Kenya's financial services sector and more particularly the insurance Industry today has to contend with emerging threats and competition, rapid shift in the business environment and a more increasing regulatory vigilance. With the customers being conscious persistent demand for lower premiums, it is unlikely that the Insurance Companies generate reasonable profits from just the normal underwriting functions (Gichuhi 2010). The insurance companies are literally walking a tight rope. Due to this difficulty, the insurance companies must therefore adopt prudent management practices and minimize as much as possible the risks that may lead to losses or reduce the profit margins due to operational inefficiencies.

2.3.2. Operational Risks Management Strategy

Strategy has been defined as the match an organization makes between its internal resources and skills and the opportunities and risks created by its external environment (Clarkson 2009).

Operational risks typical to the insurance Industry as include; Fraud & defalcation, Sales practices, people & skills Attrition, external disruption, inadequate employee training, computer security, processing errors, non-compliance, contractual risks, and changes in laws/regulations (Gokte 2012). The science of risk management encompasses policy formulation, risk identification, record keeping and reporting, assessing the value of versus the cost of risk management and most importantly, cooperation with other departments within the organisation (Greene & Serbien 1983).

As a general rule, the risk management function is not supposed to directly manage risk; that responsibility lies with business line managers, senior managers and C level executives. The role of the risk function is to facilitate effective risk management (Society of Actuaries 2009). Therefore, the primary goal of the ORM function is to embed a risk culture that harmonizes the goals of key decision makers and external stakeholders and provide the framework, infrastructure, tools and methodology to allow key decision makers to manage operational risk as part of their overall portfolio of risks, in conformity with cost-benefit analysis, within the risk tolerance standards of the stakeholders. Whereas risk tolerance is determined by the Board of Directors, the Operational risk manager's functions are to ensure that there is transparency in the decision analysis process, such that independent observers can verify that key decision makers are in fact optimizing risk-reward, risk-control and risk-transfer in conformity with the risk tolerance standards of the stakeholders, i.e.; mitigate principal-agent risk.

Mango et al (2007) suggest a raft of strategies in managing operational risks among them including; identification and control, Monitoring behaviors, maintain a checklist of key risk indicators, and Operational Risk Modeling. Executives too, need to outline the operational risks inherent to the organization and clearly communicate them to their respective teams (Gokte

2012). Tchernobai (2006) prescribed establishing clear objectives, roles and responsibility, aligning resources to deliver excellent performance and developing capabilities to handle unexpected or uncontrollable factors while Sadgrove(2005) stressed the need for business continuity plans.

Yaseen (2004) concluded that operational risks emanate from each level of the various business units and its management is all about instilling proper risk behaviors. Thus changes in culture and governance needs to be institutionalized. John Thirwell (2004) discussed operational risk culture as the outcome of a successful implementation of a framework where everybody in the organization is aware about operational risk, and manages it. He suggests that Operational Risk management tools should be part of the life of the business lines. Therefore, operational risk should be part of any business decision in providing a basis for risk assessment, including changes in strategy, new products and classes, re-engineering. Companies without a risk management strategy are more likely to suffer the costs of problems and crises (Sadgrove 2005).As the company becomes aware of the need to manage corporate and Operational risks, it should starts to invest money in prevention.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter explored the research design used towards achieving the objectives of the study, data collection and data analysis techniques.

3.2 Research Design

The research design for this study was Case study. The method was preferred because of its ability to employ an in-depth analysis and gain rich understanding of the context of research (Morris & Wood 1991) beside option of exploring and challenging existing theory and provide new research questions (Thornhill et al 2007). It therefore enabled the researcher evaluate the aspect of operational risks management at the Jubilee Insurance Company of Kenya Limited.

3.3. Data collection

Primary and qualitative data was collected from six senior staff within the general division who head the operational units of Business development, Motor Underwriting, Property underwriting, Legal Claims, Property claims and Credit control. These employees were responsible for the implementation of the company's risk management policies and were therefore better placed to provide information on risk management by the company.

The study also adopted an interview guide developed from the research questions of the study which was administered during a one- on one interview. This technique being an inexpensive

technique guaranteed the responses are as close as possible to the interview questions and hence generated more accurate results (Kuter 2001).

3.4 Data Analysis

The data obtained from the interview guide was analyzed using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of study. It involves observation and detailed description of objects, items or things that comprise the objects of study.

This approach was more appropriate for the study because it allowed for deep, sensible, and detailed accounts in changing conditions of the study. It was therefore suitable for this research which was conducted within the environment where implementation initiatives take place.

CHAPTER FOUR:

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The objective of the study was to determine the operational risk management practices at the Jubilee Insurance Company of Kenya Limited (JICKL). That objective was achieved by collecting primary data by way of administering an interview guide to six respondents who are employees of Jubilee Insurance Company. They were selected from the middle level management employees who head the different operational units of Business development, Underwriting, claims and credit control.

The respondents highlighted the operational risks which exist within the Jubilee Insurance, the measurers put in place to minimize their effects and the challenges faced ion the management of those risks. In the following section, the researcher discusses these findings in detail.

4.2 Data analysis

The data was checked for completeness and relevance to the study objectives and analysed using the content analysis method.

4.3 Findings of the study

The researcher sought to establish whether Jubilee Insurance has in place mechanisms that assist in identifying operational risks. All the respondents confirmed existence of a risk management policy which is the custody of the risk and compliance manager. They explained that the functions of the risk and compliance department are; to spearhead risk identification, formulate,

communicate and monitor the implementation of risk management polices throughout the organisation. Those policies, the respondents confirmed are developed following an extensive consultation with various line managers throughout the organisation. Those policies are thereafter communicated to the staff in organized fora where selected representatives from various departments are addressed on the risk management policies.

The respondents also confirmed that besides the risk management policy, there also exists a risks manual that outlines the actual risks, operational and strategic which have been identified within Jubilee Insurance. The researcher was told that the risk manual also enumerates potential risks that the organisation is likely to encounter in the ever increasingly volatile environment. The researcher learned that the task of identifying risks to be included in the risk manual is a collective responsibility of the managers heading various business units under the leadership of the risk and compliance manager.

The respondents explained that the manual is a confidential company document that is in the custody of the Risk & Compliance Manager but whose contents are shared with the heads of various business units. The respondents confirmed that the manual is continuously improved to reflect the volatile business environment. Such volatilities come with potential risks which the tool can only accommodate by being constantly updated at regular intervals or as soon as a major threat is identified.

Other than the company's risk manual, the respondents explained that every line manager is obliged to prescribe risk identification mechanisms for those threats that fall within their operational units. This was confirmed by the respondents who identified checklists which are circulated by line managers' to staff under their supervision. These checklists assist the staff to

identify those risks emanating from the work environment; business processes customers and fellow staff. Checklist, the researcher learnt is a simple tool that easily helps the relatively in-experienced staff and junior employees who do not have a deeper understanding of the operational risks identification techniques.

4.4. Discussion

The researcher sought to establish the operational risks that exist at the Jubilee Insurance Company of Kenya. As a summary, the respondents collectively identified the following risks; Fraud and employee infidelity, people and skills attrition, loss of data and physical safety of the records, processing errors and product mis-selling.

4.4.1 Fraud and employee infidelity

The researcher sought to establish if the risk of fraud and defalcation had been identified at Jubilee Insurance Company. From the respondents, the researcher learnt that Jubilee Insurance Company is aware of the risk and has put in place mechanisms that assist in its identification and management. The researcher leant that the Company has been awarded by Think business committee for three years running for its initiatives for fraud detection and prevention. The respondents without much assistance identified fraud and employee infidelity as a major risk existing at the Jubilee Insurance Company. They affirmed that the identified incidences of fraud have been committed by staff, intermediaries, service providers and customers in an organized manner.

Fraud identified by the respondents range from those committed by employees, who may deliberately turn a blind eye to fraudulent activities around them or collude with service

providers and customers to exaggerate claims expenses. Some employees, the respondents said have been found to alter documents, change names of or create fictitious policy holders with the intention of presenting bogus claims.

Fraud by agents was also confirmed by the respondents who reported that some intermediaries alter or falsify documents to for the purposes of presenting fraudulent claims. The respondents also explained that some intermediaries introduce ‘businesses’ to the garages and other service providers for a commission in total contempt of the company’s policies. This habit, the respondents contend promotes unethical practices and leads to exaggerated claims which have the potential of collapsing the company.

The most notorious form of fraud the respondents said is initiated by the customers. This they concur can be curbed by the employees who with proper training and equipping remain focused and honest in their work. The researcher was informed that Jubilee insurance has instituted stringent monitoring and control measures meant to regulate the activities of customers, employees, suppliers and intermediaries. The respondents confirmed that monitoring is a collective responsibility of employees but in a cascaded measure. As such, the respondents clarified that customers, suppliers, and agents report to employees who vet their activities. The junior employees are in turn placed under close supervision of senior employees and managers who report any incidences of fraud to senior staff escalated to the highest level which is the board’s audit committee. These measures, the respondent’s advice have led to immediate notification of fraudulent practices among employees, customers, intermediaries, and suppliers.

The respondents further reported that the company has put in place clear job descriptions and distinctive roles for every employee thereby diminishing the chances of loss due to duplicity of

work. This strategy is complemented by systems defined authority limits that have been established under strict supervision and monitoring. Besides, several functions have been automated with system based maker and checker rule. Essentially, the initiator of a transaction is not able to progress it to the last stage of its conclusion. This initiative, the respondents acknowledged has diminished fraud perpetuated by lone individuals in the absence of monitoring and supervision.

Ironically, all the respondents were alive to the fact that systems are prone to human manipulation and are subject to failure. To minimize the risk of theft from such failures, the respondents said Jubilee insurance Company of Kenya (JICK) conducts regular audits conducted by both internal and external auditors. The exercise looks at a sample of transactions to verify adherence to the laid down procedures. Those employees, agents and customers who are found to have engaged in fraudulent activities are disciplined in various ways including; suspension or dismissal of employees, termination of the suppliers' contracts, withholding intermediaries' commission and cancelling customer's policies in cases where fraud is detected.

The researcher established that although Jubilee Insurance has put in place various measures to identify incidences of fraud, the risk of fraud has not faded but is instead evolving with new strategies being reported. The respondents confirmed the company's fairly elaborate monitoring and auditing mechanisms procedures but the same still appear inadequate since they have not completely cleared the risk of fraud and employee theft.

4.4.2 People and Skills attrition

All the respondents were aware that insurance industry being a service industry, it requires a high level of employee skills for effective delivery of services that can give the players a competitive

edge. The researcher learnt that people offering services within the insurance industry comprise of; company's own employees, intermediaries and service providers and to some extent suppliers.

All the respondents acknowledged that the level of skills possessed by a majority of the client facing staff at JICK is low and that a large number of the employees do not understand the company's own products and those offered by the competition. Besides product knowledge, the respondents agreed that staff's level of commitment to professional development is low and that those who undertake to pursue professional development become very attractive to the competition as soon as they qualify.

The respondents reported that Jubilee Insurance has initiated training programmes to fill the professional and experience gaps among its employees. However, the researcher was told that no strategies have been put in place to retain those who have qualified and who have consequently become very attractive to the competition. Instead, the company punishes those who desire to leave after qualifying by recovering training costs from them. The respondents confirmed this as a counterproductive policy which has done very little to convince the employees against joining the competition.

The respondents further reported that long serving staff have a culture of "how we have always done things here" and are resistant to new ideas that would revolutionize service delivery. They reported that the company has a workforce with diverse value systems with varying interest that pose a challenge to the management to adequately respond to and attain peak performance.

Jubilee Insurance has a multi - cultural workforce comprising of the young, old who come from different ethnic and racial backgrounds. However, the respondents reported that there is a

problem of mislaid succession planning which exists within the company whereby the company loses its key staff to natural attrition but without immediate replacement. Those employees who leave the company either by retirement, resignation or expulsion are not always replaced immediately or worse still are never replaced at all. In this manner, respondents confirmed that the company loses knowledge but with no immediate replacement due to poor succession planning. All the respondents answered in the negative about existence of any strategy on succession planning. They gave examples of employees who have been recalled from retirement to assist with the daily running of the company. This they explained arises when proper training is not done to the young staff on technical skills of insurance business.

4.4.3 Loss of data and physical safety of records

All the respondents agreed that the company maintains a huge amount of information about its customers, employees and competition. This information, the respondents said is kept in physical files and discs in custody of IT department. All the respondents expressed concerns about the safety of such storage mechanisms which they said are prone to damage by fire, theft or manipulation. Although no incident of fire has been reported in the company over the last ten years, the respondents did not defray the risk since the physical files are kept in the open with no fire proof covering that would offer protection in an event of fire. In such event of fire, the respondents expressed fear that it would disrupt normal operations to the disadvantage and to the loss of customers besides the loss of vital data.

The respondents further reported that the loss of unsaved data due to utility disruptions is minimal since there exists a mechanism whereby the data is automatically saved and with a reliable back-up system. However, all the respondents recorded that the company is exposed to

the risk of legal suits in cases of loss or manipulation of personal data especially about its customers.

4.4.4 Processing errors

All the respondents confirmed that the insurance business involves detailed and voluminous documents outlining the terms of the contract. This therefore calls for homogeneity of various policy documents but which need to be tailored to capture unique needs and details of every customer. The respondents further reported that the insurance business is characterized by urgency and is conducted in an environment of extreme pressure. Due to the urgency and time constraints, the respondents observed that a lot of errors have been experienced in the drafting of the contracts whereby client details or precise contract terms are not correctly captured in the system or policy documents. This aspect the respondents confirmed has lead to increased cost due to rework and scrutiny and have the potential of damaging the company's reputation especially where such errors have attract legal suits.

Another source of processing errors is the company's IT system. The respondents confirmed that JICK operates numerous IT systems which do not interface well to offer seamless service. They explained that the system used by the General department does not interface automatically with that used by the Finance department. Consequently, interfacing has to be done manually each day. During such exercises, the respondents reported that errors occur, and that the data becomes exposed to the risk of loss or manipulation by the handlers. The respondents advised that adequate training helps to reduce such errors especially due to the operation of experience curve.

The respondents reported that Jubilee Insurance has put in place employee training programmes which empower the staff toward improving their capacity and reducing errors at work. They

confirmed the training programme is designed to orient new employees on the operating system each time they newly employed. The respondents also reported that the company occasionally offers training sessions to the existing staff each time there is a change or modification in any of its operating systems. Further, the researcher learnt that the system based maker checker rule also enhances the supervision and cross checking of each other's work. This act, the respondents confirmed has helped in scrutiny of each employee's work and correction of errors that could have been committed before the information reaches the customer.

4.4.5 Product Mis-selling

This aspect, the respondents confirmed occurs when the intermediaries and to some extent, the staff wrongly advices to the customers about the products, causing them to make wrong decisions. The respondents largely agreed that this problem has been aggravated by poor product knowledge among staff, sales agents and customers alike. Mis-selling poses numerous challenges to the company including; customer dissatisfaction and fines by the regulatory authority or even legal suits against the company. All the respondents closely linked the problem to low product knowledge, stiff competition, low product differentiation and to some extent, deliberate efforts by the agents to meet their targets by adopting high pressure sales strategy.

4.5 Risk Management Practices

The researcher leant that a number of operational risks within the Jubilee Insurance have been adequately identified, assessed and some management practices put in place to minimize their effects to the company's operations. The risks that accurately identified by the respondents include; Fraud and employee infidelity, people and skills attrition, loss of data and physical safety of the records, processing errors and product mis-selling which have been exhaustively

discussed above. Other operational risks already identified are; Workplace injury and business interruption due to utility outages which the respondents identified its management practices as outlined below;

4.5.1 Workplace Injury Risks

All the respondents confirmed that the employee work injury risks having been properly assessed and the company has put in place measures such as carpeted floors to reduce injuries from slip and fall incidents. Besides clear safety rules, the company has provided fire extinguishers at strategic locations and stationed well trained fire Marshalls at every department to curb accidental injuries and property damage from fire incidents. The respondents also confirmed that first aid boxes are readily available at every department to which support relief services in cases of employee injuries at the workplace.

The researcher was informed by the respondents that the company has also adopted soft approaches to workplace injury risks by employing proper house-keeping, keeping passageways and fire exits clear and encouraging employees to operate neat workstations. The above measures, the respondents confirmed have considerably reduced the risks of workplace injuries which have been recorded over the last five years during which majority of the respondents have been at the Jubilee Insurance Company.

4.5.2 Risks of Utility Outages.

The respondents confirmed that this risk has been adequately assessed and remedial measures adopted to minimize its effects on the organization's production. Although the respondents confirmed the frequency of power outage is minimal, the company has in place standby generators which turn on automatically whenever power from the main grid runs out. The

respondents also reported that Jubilee Insurance has in place business continuity programmes which include; installed unlimited power supplies (UPS) and automatic data back –up systems that help regularize the power supply and guarantees data safety in case of abrupt power outages.

The researcher also learnt that the company doesn't use much water in its operations. However, the company has large water tanks that supply keep water enough to last for at one week after disconnection from the main supply lines.

4.6 Challenges faced in the management of the operational risks

The researcher sought to establish some of the challenges that the company faces in the management of the above identified operational risks. The researcher established that each and every risk presents its own challenges to the company in its management. The findings were identified as listed in the following sections.

4.6.1 The evolving nature of fraud.

The respondents reported that the risk of fraud is constantly evolving with the miscreants, constantly adopting new strategies making their management very difficult. Some respondents explained that for a long time, the management trusted the company employees and did not believe they could be involved in fraudulent activities. This trust was broken and the reality downed on the management when it was albeit too late and the losses already incurred. The respondents were also in agreement that the pace at which the company is developing its fraud management policies has failed to match the rate at which the miscreants are adopting new strategies.

4.6.2 Loss of employees to competition

The respondents were clear that the training programmes to raise the capacities of its employees. However, when those employees have developed and mastered the systems, products and business processes, they become attractive to competition that are willing to compensate them adequately in line with their newly acquired skills. The respondents confirmed that the company quickly loses its skilled staff to competition at a faster rate compared to the time it takes to train them. This , the respondents reported has caused a huge knowledge gap within the company ranks with the older and long serving employees being more knowledgeable that the young staff.

4.6.3 Lengthy procedure in the acquisition of new software

The respondents reported that it takes extremely long to acquire important tools of trade including workstation, computers and even software. Some respondents reported that at times, some newly recruited staff can go without workstations and computers for as long as one month. The delay causes disruptions in service delivery, inconvenience to customers, and losses of man hours.

CHAPTER FIVE:

SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.1 Introduction.

The study findings have been presented as discussed in chapter four. Consequently, this chapter is a summary of key findings based on the objectives of the study and draws conclusions thereof. It covers the recommendations suggested to the company,, the limitations of this research and finally making suggestions for further research.

5.2 Summary of Findings

The study revealed that Jubilee Insurance Company is exposed to so many operations risks. However, the respondents were not aware of majority and therefore mentioned just a few. This study therefore revealed that respondents although are at middle management level, do not fully understand the scope of operational risks. More of their responses were geared to the aspect of Insurance risks rather than Operational risks management. The researcher therefore had to guide the respondents through the line of operational risks management to achieve the desired objectives.

With appropriate guidance, the study revealed that the management of Jubilee Insurance is aware of the operational risks that exist within its business units. These risks are similar to those found at every other financial institution and more specifically, an insurance company. They include; the risk of fraud and employee infidelity, people and skills attrition, loss of data and physical safety of the records, processing errors and product mis-selling.

Jubilee Insurance Company has identified and put in place mechanisms to manage just a handful of operational risks which are general to all financial services institutions. This is the case despite that fact that the company has put in place an elaborate and very inclusive risk identification, assessment and treatment mechanisms. The study revealed that the only major operational risks that the company has managed to identify, adequately control and eliminate are the risks of workplace injuries and service interruptions due to fluctuations in utilities supply. Others such as fraud, employee's attrition, processing errors still remain a challenge for the company to manage.

Although the company has employed so much control strategies to limit fraud, the risk's evolving nature has dwarfed the company's efforts. The company's control strategies have not been able to cope with the ever changing tricks of fraudsters. The research revealed that only identified fraud can be documented and strategies adopted to avoid its occurrence. Those that are not identified are never documented and have no strategy in anticipation to avoid them.

The researcher further established that Jubilee Insurance Company limited holds a huge volume of data on its customers in the form of policy and claims records. However, this information is stored on manual files making them difficult to retrieve in the times of need or upon inquiry by the customers or intermediaries. This the researcher established, leads to wastage of so much time and process disruptions. The effects of this, the researcher established are exhaustion on the part of the staff, fatigue and dropped customer calls which further cause client dissatisfaction.

The study revealed that Jubilee Insurance has put in place, policies, manuals and checklists to help them identify, assess and effectively monitor operational risks.

The company's risk and compliance department adopts a participatory approach to formulate the various polices on risk identification, and treatment. This approach is very crucial in ensuring

that the entire organisation own the various strategies, mechanisms, adopted to manage the operational risks that exist within the organisation.

Participation by the staff also helps the organization to identify as many risks as possible and their management strategies that would have otherwise escaped the knowledge of a lone risk manager. This strategy has helped Jubilee Insurance widen its scope of operational risk management at all levels of its business beginning from the business acquisition, processing, retention and renewal.

5.3 Conclusion.

The study revealed that Jubilee Insurance Company if faced with operational risks just like any other financial institution. However, the whole array of the documented operational risks have not been identified, assessed and hence are not managed by the company. The study however revealed that Jubilee Insurance has put in place adequate measures to identify and manage the risks of workplace injury and that of process interruption due to utility fluctuations.

The study further revealed that Jubilee Insurance Company needs to do more to pre-empt, measure and put in place preventive measures that would deter fraud. The company therefore needs to adopt more upto-date methods of identify various forms of fraud and adopt creative methods of dealing with the challenge.

5.4 Recommendations.

Upon completion of the study, the researcher recommends that Jubilee Insurance Company adopts more current methods of combating fraud whereby all the employees are involved in the identification and management of the risk. Alongside this measure, the researcher also

recommends proper training for the employees and adoption of retention strategies such as better remuneration and friendlier work environment. The strategy would reduce the risk of loss of experienced employees to the competition.

The researcher further recommends that Jubilee Insurance adopts an electronic data management system to administer customer records. This measure, the researcher recons would make it easier for both the employees and management to correlate customer information and identify patterns of fraud. The move would also help to reduce customer complaints due to dropped calls and delayed service by the staff.

5.5 Limitations of the study

This study was a case study and therefore it concentrated on one organisation being Jubilee Insurance Company of Kenya Limited. This therefore limited the findings to one company and not all aspects of risk management were captured.

5.6 Suggestions for further readings.

Therefore in connection with further research, the researcher recommends that a similar study be undertaken for the entire insurance industry for benchmarking purposes.

The researcher would also recommend that a study be undertaken to investigate the comparison between operational risks among various financial institutions like the Banks, Insurance, pension and mortgage companies.

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Interview Guide.

1) How long have you been working in the Insurance Industry?
2) How long have you been employed with Jubilee Insurance Company of Kenya Ltd?
3) From your experience, what are some of the Operational risks are inherent in your department?
4) How frequently does your organisation experience utility (Power, Water and Supplies) outage?
5) How does outages the affect operations within your department.
6) What measures have your organisation put in place to reduce/minimize the effects of such downtimes.
7) What measures have your organisation put in place to prevent workplace injuries within your department?
8) How does your staff respond to incidences of workplace injuries within your department?
9) What measures have your organisation put in place to identify incidents of fraud perpetuated by employees/suppliers/agents/customers?
10) How do you treat the employe
11) es/suppliers/agents/customers found to be engaging in fraudulent activities?
12) What measures have your organisation put in place to reduce incidences of mis-selling of your products by your sales agents/intermediaries?
13) How do you respond customer complaints following incidences of mis-selling?
14) What employee training programmes do your organisation have for newly employed staff on;
    i. Business processes,
    ii. Products and operating systems.
    iii. Money laundering
15) How often does your organisation review its authorization and referral policies?
16) How often do you review your checklist of risks inherent to your department?
17) What communication strategies do you employ in enlighten the employees on risks inherent to your department?

Table 1: Loss event type classification.

Event-Type category (Level 1)	*Definition*	*Category(level 2)*	*Activity Examples (Level 3)*
Internal fraud	*Loss 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*	*Transactions not reported (intentional)* *Trans-type authorized (w/monetary loss)* *Mismarking of position (Intentional)*
		Theft and fraud	*Fraud/credit fraud/worthless deposits* *Theft, extortion/embezzlement/robbery* *Misappropriations of assets,* *Malicious destruction of assets* *Forgery* *Check kitting* *Smuggling* *Account take over/impersonation/etc* *Tax non compliance/evasion(wilful)* *Bribes/kickbacks* *Insider trading (not on firms account)*
External fraud	*Losses due to acts of type intended to defraud, misappropriate property or circumvent the law by a third party.*	*Theft and fraud*	*Theft/Robbery,* *Forgery* *Check kitting*
		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 payments of personal injury claims, or from diversity / discrimination events.*	*Employee relations*	*Compensation, benefit, terminations issues* *Organisedlabour activity.*
		Safe environment	*General liability (slip and fall etc)* *Employee Health and safety rules events* *Workers compensation*
		Diversity and discrimination	*All discrimination types*
Clients, Products and 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/guidelines violations* *Suitability/ disclosure issues, (KYC etc)* *Retail consumer disclosure violations* *Breach of privacy* *Aggressive sales* *Account churning* *Misuse of confidential information* *Lender liability.*

Event-Type category (Level 1)	*Definition*	*Category(level 2)*	*Activity Examples (Level 3)*
		Improper Business or Market Practices	*Antitrust* *Improper trade/Market practices* *Market manipulation* *Insider trading (on firm's account)* *Unlicensed activity* *Money Laundering*
		Product flaws	*Product defects (Unauthorisedetc)* *Model errors*
		Selection, Sponsorship and Exposure	*Failure to investigate client per guidelines* *Exceeding client exposure li* *Mits*
		Advisory services	*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*	*Disaster and other events*	*Natural disaster losses* *Human losses from external sources (terrorism, vandalism)*
Business disruptions and systems failures	*Losses arising from disruption of business or systems failures*	*Systems*	*Hardware* *Software* *Telecommunications* *Utility outage/disruptions*
Execution, Delivery & Process Management.	*Losses from failed transaction processing or processes 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 tasks performance* *Delivery failure* *Collateral management failure* *Reference data maintenance*
		Monitoring and Reporting	*Failed mandatory reporting obligation* *Inaccurate external report(loss incurred)*
		Customer intake and Documentation	*Client permissions/ disclaimers missing* *Legal documents missing/ incomplete*
		Customer / Client Account Management	*Unapproved access given to accounts* *Incorrect client records (loss incurred)* *Negligent loss or damage of clients assets*
		Trade Counterparties	*Non- client counterparty misperfomance* *Misc. non client counterparty.*
		Vendors and Suppliers	*Outsourcing* *Vendor disputes*

Source: Basel II Report.