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Book Review: *Mastering Operational Risk*

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WHEN I PICKED UP MY COPY of *Mastering Operational Risk* I had a mixed feeling. First, it looks imposing (344 pages) and second, it's part of a series of financial "how-to" books. As soon as I started reading though, it was obviously worth my time. Although it's long, each section feels concise and I wouldn't want less detail.



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Mastering Operational Risk is a high level review covering the theory, culture, and practice or the risk management process. Although the sample reports are based on the banking industry, the material is relevant

in other industries. The authors keep a practical feel by spending significant time on some of the nuts and bolts of risk management, particularly around effective reporting technique. The target audience is someone looking to understand the big picture of their company's operational risk framework or who is moving into a risk management role.

The authors begin by describing a risk management framework that also sets the structure of the book. The framework includes: Governance, Indicators, Assessments, Events, Modeling, and Reporting. Each part of the framework is sequentially presented in relation to this framework. Continually tying the different parts of operational risk management process back to the framework is a useful way of putting context to each section and reminding the reader of the overarching purpose. For me, this was the most interesting and relevant part of the book.

The second part of this book deals with specific risks (people, reputation, continuity) and specific risk management tools (insurance, audit.) Throughout this section, the emphasis is on proactive operational risk management rather than describing a management framework. The section header "The outsourcing project – getting it right at the start" is representative of this part. The boundary between careful business practice and risk management is blurry at times, but this seems consistent with the idea that effective operational risk management includes a risk culture.

A weakness of this book is the use of acronyms and terms that are not defined until later sections. Early on, for example, the authors mention the "three lines of defense" philosophy which isn't described until the last few chapters. Also, the two parts of the book don't feel cohesive. The first part is relevant to the corporate world and provides significant detail. The second part is broader and more general.

The authors did give me some things to consider; quite a few of the suggestions were different from my own experience. In the proposed framework risk ownership, monitoring duties, and management is pushed down to the business level. Risk Management takes an assurance, support, and coordination role rather than being directly involved in daily monitoring. I partially chose this book because it was published post 2008 and was based on a banking model. I expected a more centralized structure than what was proposed.

A significant strength of *Mastering Operational Risk* is how risk culture is treated. In addition to being directly addressed, risk culture is continuously referenced as a key part of the risk management process. The value of upper and middle management buy-in is frequently stressed as is pairing risk management with the proper message. Risk management awareness and education are also well covered themes.

In all, *Mastering Operational Risk* does a good job of being both a conceptual and hands on introduction to operational risk. This book takes a "big picture" approach, mostly describing a structure and management philosophy for each step of operational risk management. At the same time, entire sections are devoted topics like to effective report generation and practical scenario analysis. I liked having the "big picture" issues along side day to day challenges to maintain my perspective. ■