Canadian Institute of Actuaries / Institut canadien des actuaires

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The Canadian Institute of Actuaries (CIA) is the national organization of the actuarial profession. The CIA establishes the Rules of Professional Conduct, guiding principles, and monitoring and discipline processes for qualified actuaries. All members must adhere to the profession's Standards of Practice. The CIA follows its Guiding Principles, including Principle 1, which holds the duty of the profession to the public above the needs of the profession and its members. The CIA also assists the Actuarial Standards Board in developing standards of practice applicable to actuaries working in Canada.

We are pleased to offer the following comments regarding OSFI's draft guideline E-21 on Operational Risk Management.

We would first note that this guideline is more prescriptive than we have seen in the majority of other guidance related to risk management. Our preference is to see guidance that is more principle-based.

Much of the guidance provided here is generic to enterprise risk management (ERM) as a whole, and perhaps should be included in a broader guideline that addresses ERM. Focusing on operational risk alone could be counterproductive, since operational risks can interact with other risks, and amplify the impact of adverse outcomes. Our preference would be for a framework that lays out integrated processes for the identification and management of all risks, a subset of which would include explicit monitoring and reporting of operational risks. OSFI guidance on ERM could be much more compact and effective if it was not compartmentalized.

We also note that the guideline has more limited requirements for smaller, less complex Federally Regulated Financial Institutions (FRFIs). However, we are still concerned that smaller companies will be challenged to implement this guideline without creating additional bureaucracy and/or incurring additional cost. We suggest that existing evidence of risk culture at these smaller firms should be considered when requirements are developed.

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The establishment of risk appetite limits for operational risks will be very difficult for insurers. We suggest that one of the tools to do this should be qualitative assessment, leveraging expert judgement.

With regards to specific sections of the guideline, please note:

- In paragraph 2, there is a definition provided for operational risk. We found this definition difficult to grasp, and suggest that more specificity here would be useful. We understand that there may not be a desire to define all possible risks in this category, but a clearer definition of the risks will lead to a clearer definition of the control processes required to manage them.
- Also in paragraph 2, there is a reference to reputational risks. Note that, even though an organization's reputation can be harmed by various factors, reputation itself is not a source of risk. The guidance should distinguish between sources of risk, and aspects of an organization that are affected by risks.
- Paragraph 11 seems to suggest that the management of operational risk can be separate from the management of other risks. We would suggest that operational risk management needs to be the responsibility of all process owners and managers, and, consequently, integrated into the business functions. We do not envision it as a separate function.
- A number of the tools listed in paragraph 23—such as scenario analysis and stress testing—are already used by actuaries. We assume that the use of these in an operational risk management framework will be consistent with current actuarial practice.

The Canadian Institute of Actuaries hopes its comments provided herein will be of value.

Sincerely,

Robert H. Stapleford
CIA President