

Integrity at work

Basel II

Operational Risk Management



JARDINE LLOYD THOMPSON ASIA



Beyond Regulatory Compliance

Increasingly, institutions are recognising that the Basel II Accord provides a unique opportunity to modernise and upgrade their overall risk practices and risk infrastructure, specifically for credit and operational risk. The New Accord means more than just regulatory compliance; it is an opportunity to achieve distinct competitive advantage in a tight global market.



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Basel II: A New Challenge

The Basel Committee on Banking Supervision is moving closer to its goal of aligning banking risks and their management with capital requirements. The standards are aimed at tightening internal control systems throughout organisations to ensure that effective risk management systems and processes are in place.

With certain exceptions, risk management remains underdeveloped in Asia, even after the 1997 Asian financial crisis, putting Asian financial institutions at a disadvantage relative to US and European institutions.

Basel II compliance poses significant management challenges with strategic business implications for Asian financial institutions. Indeed, even those institutions that are not required to comply with Basel II under local regulations will have to use it as a risk management benchmark to stay competitive in the global financial market place.

Operational Risk Management & Insurance

Operational risk has long been a challenge for banks worldwide. The Basel II Accord incorporates a capital charge for operational risk and also recognises the risk mitigation impact of insurance - insurance can be used to reduce the capital charge for operational risk by up to 20 percent.

Still, regulators are concerned over a number of issues relating to the use of insurance to gain capital relief. These include counterparty risk, scope of coverage, exclusions, claim & settlement time, unavailability of covers, and limits of liability. Organisations need to adopt a partnership approach with an expert insurance broker, such as Jardine Lloyd Thompson (JLT) Asia. This will help to ensure that as underwriting Operational Risk assessment methodologies evolve, they do so alongside the client's own Operational Risk management strategies. This way, organisations can have a better understanding of the extent and nature of the risks to be transferred and be in a better position to put in place the appropriate programmes.

The JLT Asia Approach

The complexity of the New Accord and its interlinkage with other significant local regulations, make the compliance process of Basel II a highly complex project requiring a systematic and disciplined approach. JLT Asia has designed a unique approach to the Basel II Operational Risk challenge (see figure on next page).

Our Financial Solutions team is focused on helping clients understand and control risks that may otherwise prevent them from achieving their business objectives. By applying a structured and logical approach to Basel II, we are able to help clients optimise the benefits of the opportunities that this revolutionary international banking regulation presents. The benefits to clients are multi-fold: greater sustainability of their businesses, stronger competitive advantages, income stability, and shareholder value creation.





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About Jardine Lloyd Thompson Asia

Jardine Lloyd Thompson (JLT) Asia, a wholly owned subsidiary of the Jardine Lloyd Thompson Group plc, is a market leader in risk solutions, insurance & reinsurance broking, risk management and corporate consultancy services. Employing over 600 industry professionals across 12 Asian locations, JLT Asia's technical abilities and knowledge span a wide range of specialist areas:

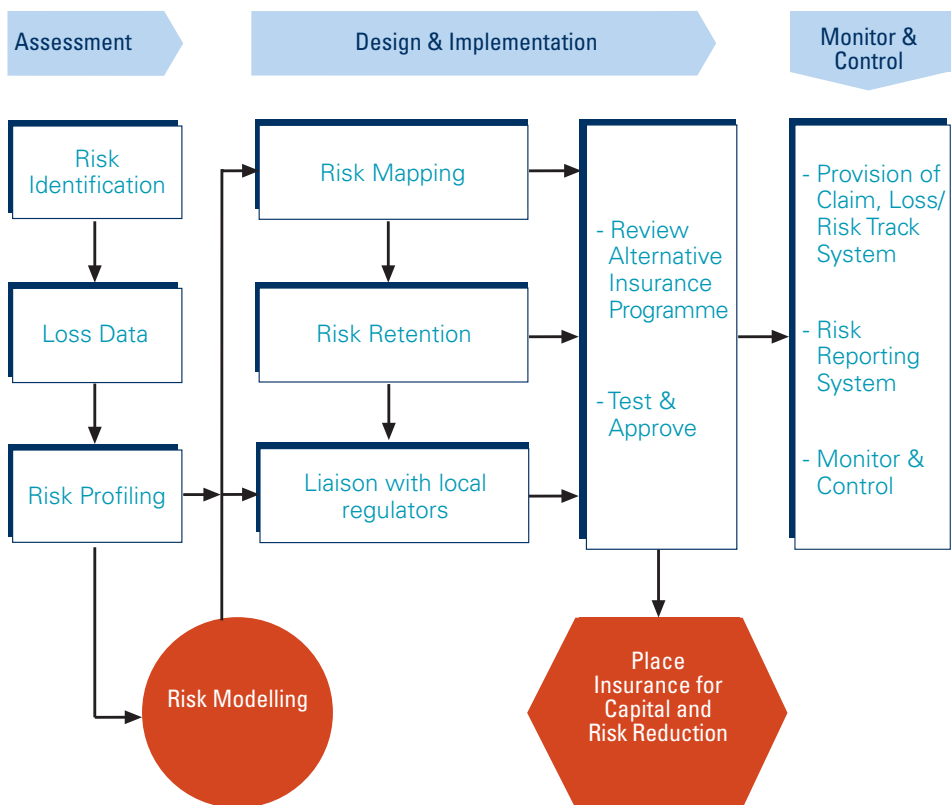
- Affinity Solutions
- Capital Risks
- Captives
- Claims Consultancy
- Construction
- Energy & Industry Risks
- Employee Benefits
- Professional & Executive Risks (ProEx)
- Major Corporate Risks
- Marine (Cargo and Hull P&I)
- Reinsurance
- Risk Management
- Wealth Management

Our team of insurance specialists are renowned for their innovative approach to developing integrated insurance, reinsurance and alternative risk transfer solutions. Where client needs dictate, our thinking goes beyond the traditional boundaries of insurance.

Integrity is a hallmark of the JLT organisation. We believe that our quality and compliance regimes are among the most thorough in the industry. You can obtain more information about JLT Asia at: www.jltasia.com



The JLT Asia Approach - Basel II Operational Risk



Worldwide and Regional Experience

Our London colleagues, who have been at the forefront in understanding the effects of Basel II on operational risk and in developing insurance programmes to mitigate risks, maintain close contacts with regulatory authorities, both in the UK and in the USA, for the benefit of our clients.

Our Asian team works closely with our global Financial Solutions team, enabling us to integrate and mobilise expertise for large clients, while ensuring that they receive high quality service. We have several major financial institution clients in Asia, Europe and other parts of the world - we will be happy to discuss with you in greater detail about these accounts.



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