

The Fundamentals of Designing an Integrated Model of Financial Risk and Operational Risk within an Enterprise Risk Management Framework: Findings of an Empirical Study

Dr. Madhusudan Acharyya¹

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Abstract

¹ Lecturer for Risk Management at the Business School of Bournemouth University, UK. He can be contacted at macharyya@bournemouth.ac.uk.

The objective of this article is to identify and explore the fundamental issues necessary to design an integrated model of financial risk (hereinafter referred as “FR”) and operational risk (hereinafter referred as “OR”) within the framework of enterprise risk management (hereinafter referred as “ERM”) for the insurance² industry. The objective was achieved by conducting an exploratory study on four major European insurers in connection with their ERM practice. The result suggests that quantification of OR is itself complex and the aim to integrate OR with FR for diversification purpose is theoretically problematic given their nature in the insurance business. However, a balance between the quantitative and qualitative approaches towards the management of OR could best serve the purpose.

² Insurance includes reinsurance.