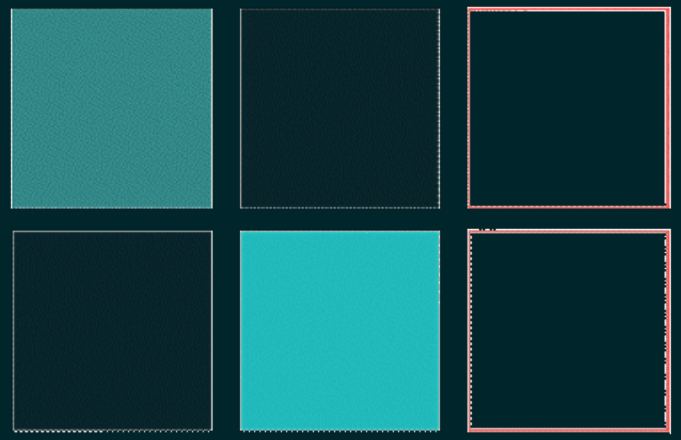
KMRC

ORM in Motion!

WEEK 2



04
Process Taxonomies

OVERVIEW

What is a process taxonomy?

A Process Taxonomy provides a clear and organized framework for understanding, classifying, managing, and communicating processes enterprise-wide. The taxonomy helps us to consistently categorize processes into specific groups, based on their nature, purpose, and alignment to strategy to make it easier for us to manage them.

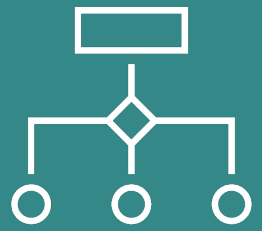
Imagine a library with no shelves or catalogue…

- Each book represents a specific process, or part of a process
- In this library, without a taxonomy, the books might be scattered randomly on shelves, making it challenging to find what we need
- Similarly, in an organization, processes without a taxonomy can be scattered and disorganized making it difficult for employees to understand, locate, or improve processes.
- A process taxonomy acts as a structured classification system, organizing and categorizing various processes based on their functions, objectives, departments, or other relevant criteria, which makes it easier for employees to navigate, understand, and improve processes within the organization, just like a well-organized library makes it easier to find and access books.

WEEK 2

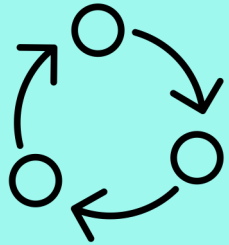
What are the types of Process Taxonomy used in ORM?

The choice of process taxonomy depends on the specific scope, objectives, and priorities. Often, a combination of these taxonomies are used to create a comprehensive and customized classification system for their processes:



Functional Taxonomy

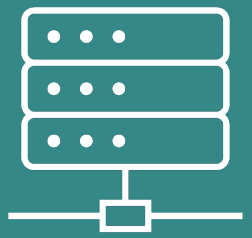
Cross-Functional Taxonomy



Life-Cycle Taxonomy

Capabilities-Based Process Taxonomy

Technology-Based Process Taxonomies

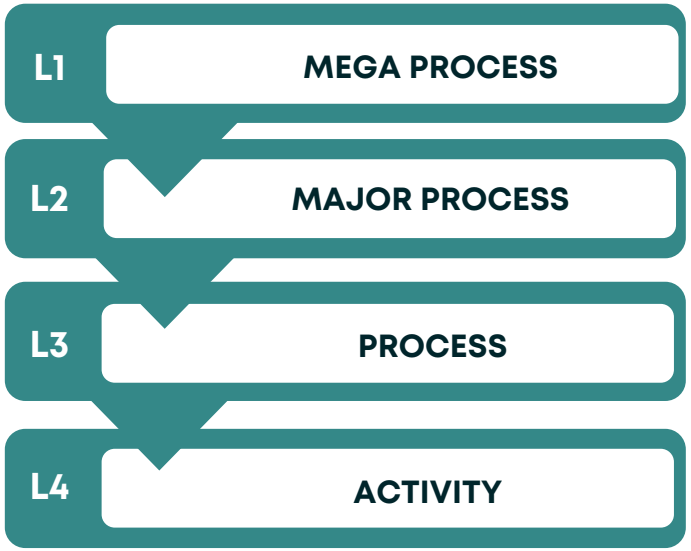


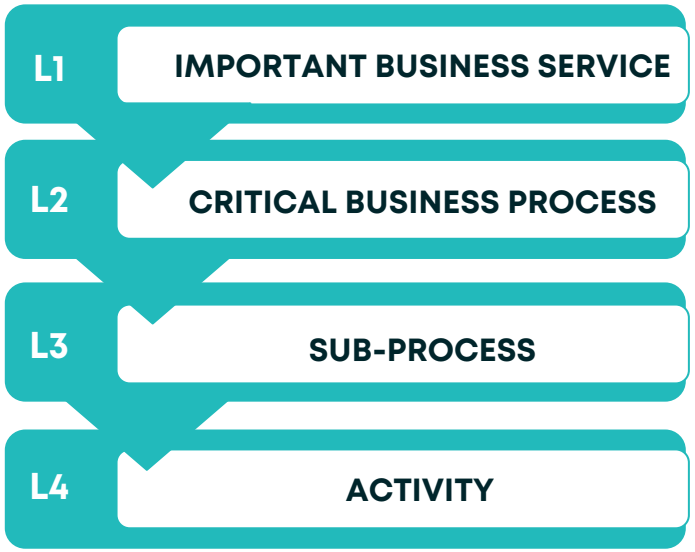
Data-Driven Process Taxonomies

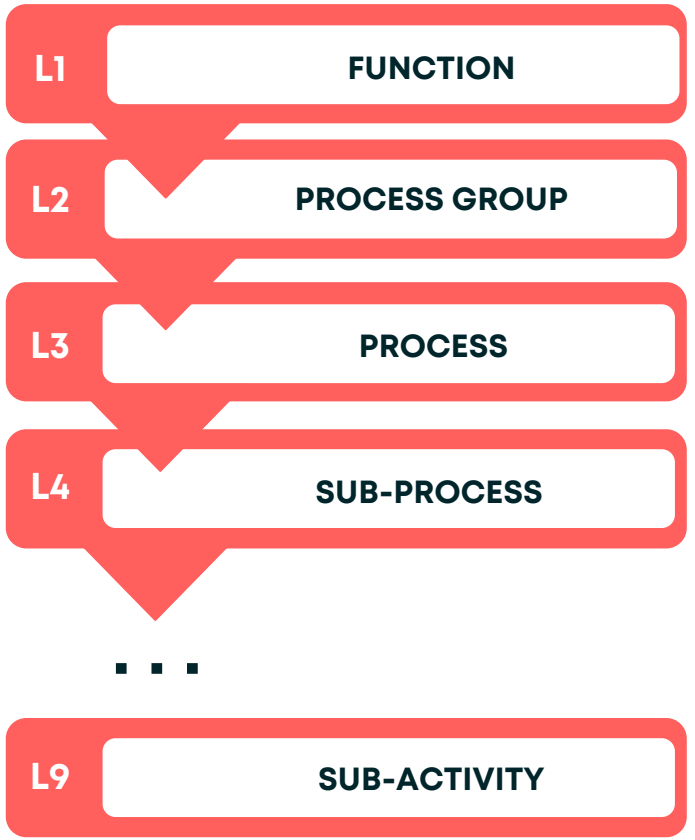
ILLUSTRATIVE EXAMPLES

PROCESS HIERARCHIES

When determining your company's process hierarchy design, it is important to consider operational implications associated with the level of granularity. The following are graphic illustrations of different hierarchies observed in industry:







We must balance the need for metadata against the time and effort required to apply and maintain the hierarchy.

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MEGA PROCESSES

	LIST OF MEGA PROCESSES
1	Solution Design and Development
2	Brand and Marketing
3	Sales and Distribution
4	New Business
5	Underwriting
6	Policy Administration
7	Billing and Collections
8	Claims and Maturities
9	Payout Administration
10	Investment
11	Finance
12	Accounting
13	Treasury
14	Actuarial
15	Human resources
16	Enterprise Services
17	Risk Management
18	Internal Audit
19	Legal / Compliance
20	Information Technology
21	Develop Strategy

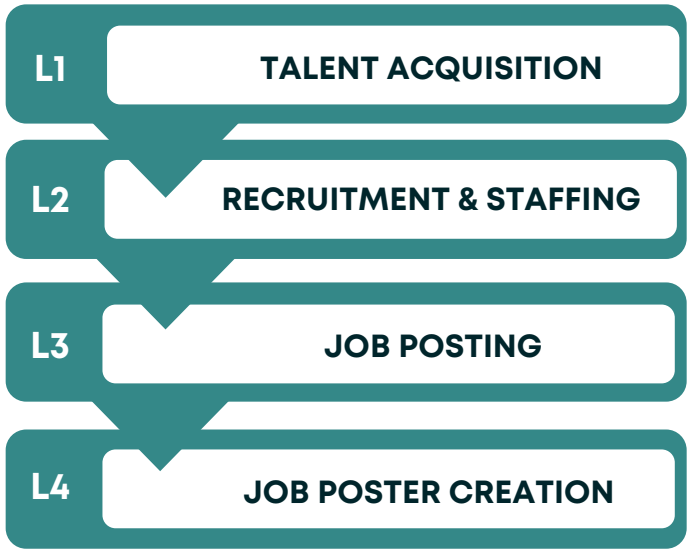
“Mega processes” are groups of processes that apply at the highest level of the organization and tend to cut across multiple functional units, if not enterprise-wide.

This is an illustrative example only.

ILLUSTRATIVE EXAMPLES

FUNCTIONAL & CROSS FUNCTIONAL PROCESS TAXONOMIES

Functional process taxonomies organize processes based on functional areas within an organization. Cross-functional process taxonomies focus on processes that cut across multiple functional areas. For example:



Depending on the nature and complexity of the functional area, you may decide to have a few or a higher number of levels in your taxonomy.

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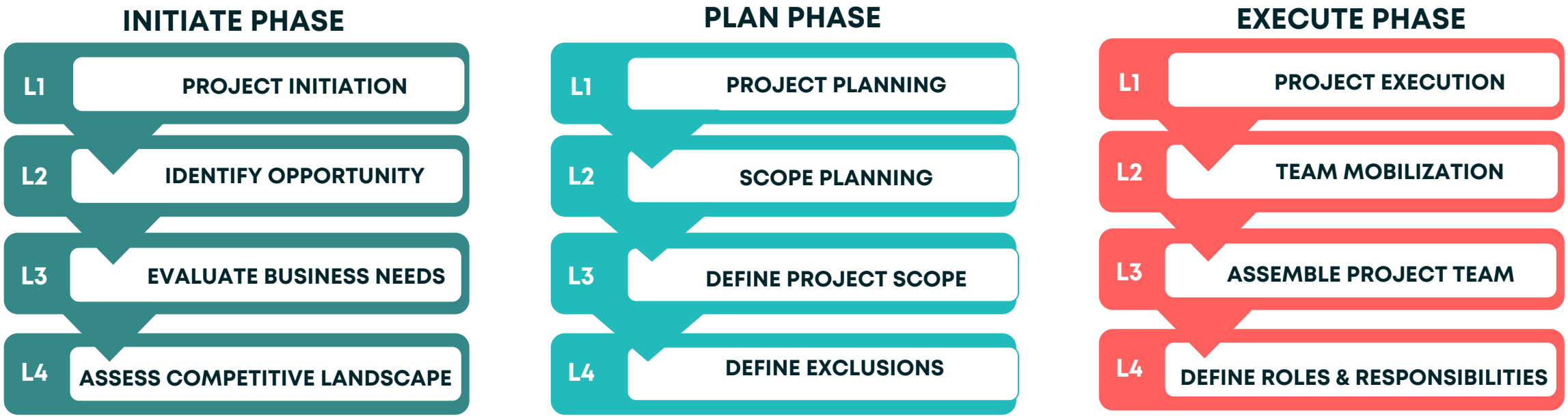
LIFE-CYCLE PROCESS TAXONOMIES

Life-cycle-based process taxonomies organize processes based on their position in a product or service's or capability's life-cycle. For example:

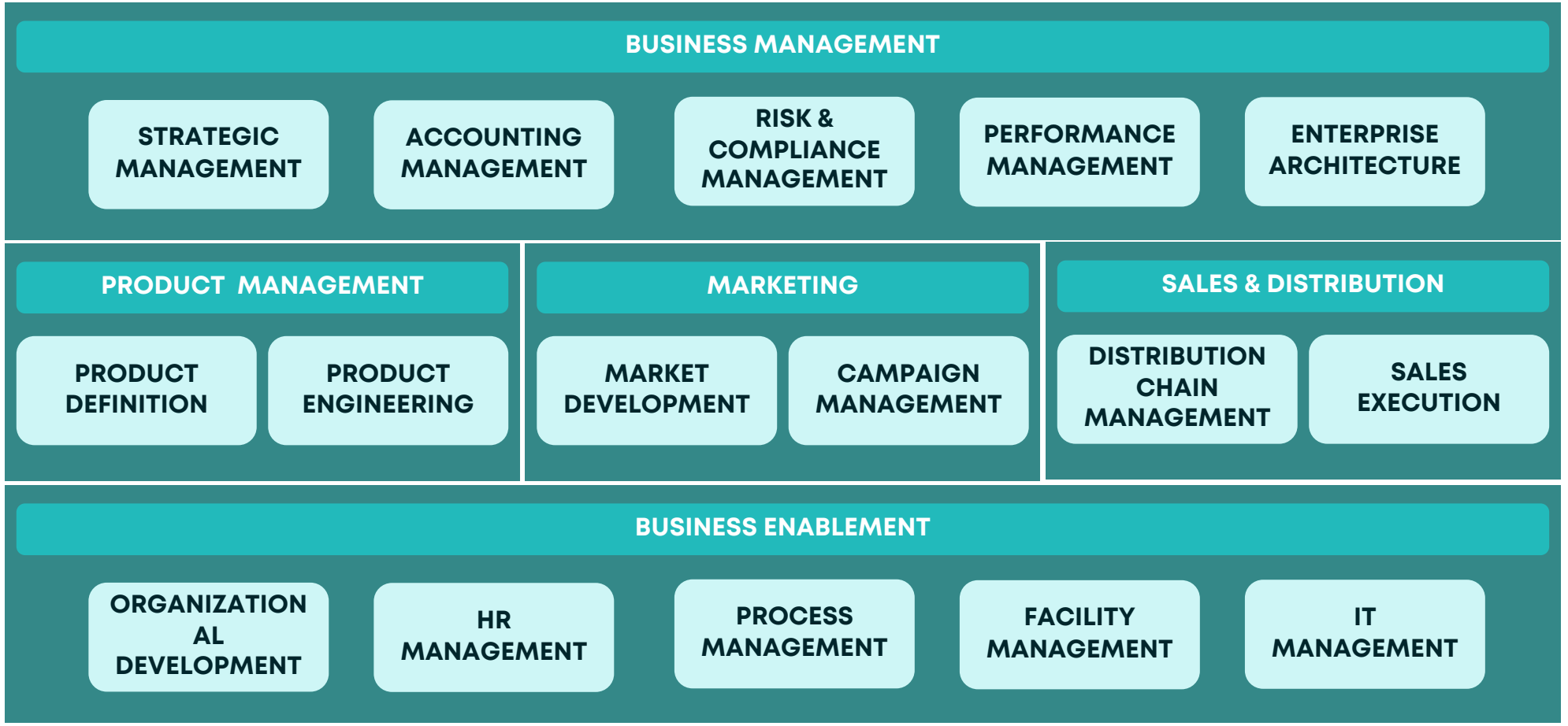


This type of taxonomy enables identification of critical points across life-cycle phases (i.e., where risks are likely to manifest), which allows for proactive prioritization of risk response strategies at key stages of the life-cycle.

ILLUSTRATIVE EXAMPLES

CAPABILITIES-BASED PROCESS TAXONOMIES

Capabilities-based process taxonomies organize and classify processes based on the capabilities that they enable. For example:



Capability maps organize processes by core capability.

What processes are required to enable the capability?

ILLUSTRATIVE EXAMPLES

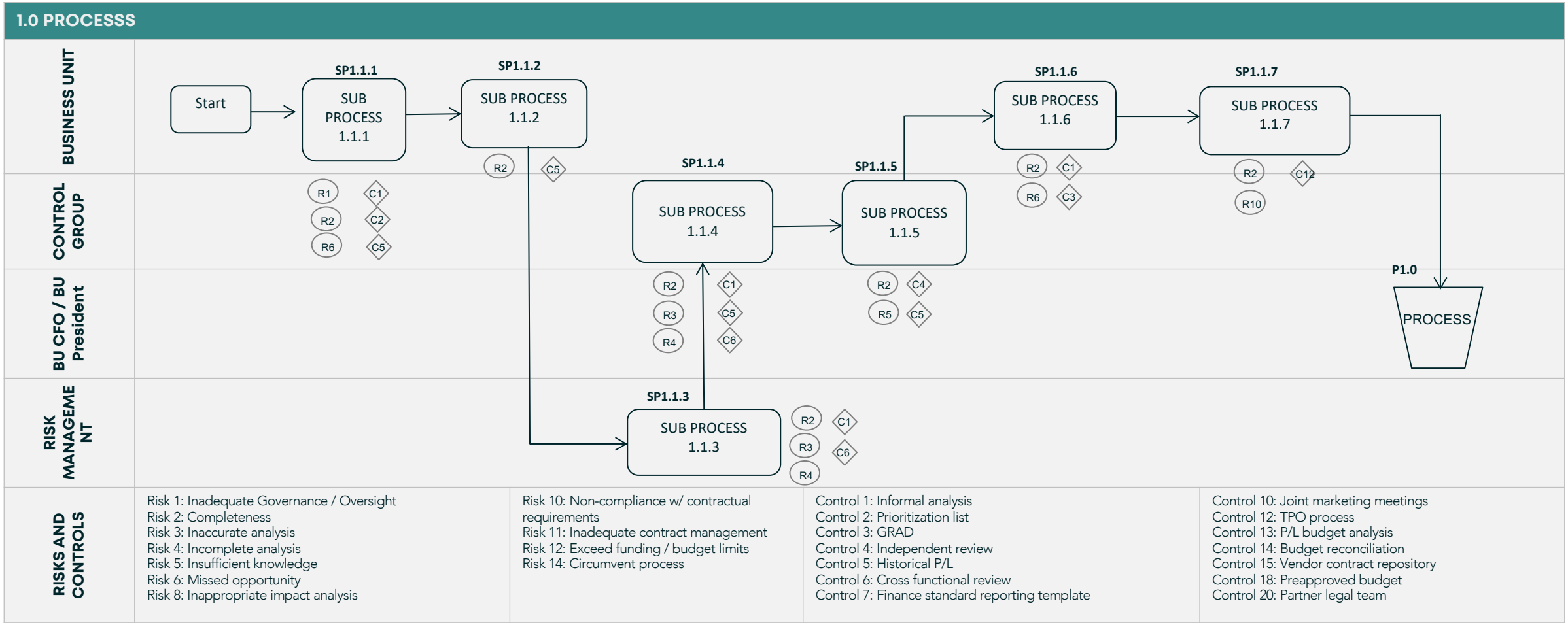
Use the process taxonomy to map processes to risks and controls

The following is an illustrative example of a template used to manually perform process mapping:

				Mega Process	Solution Design and Development					
				Major Process	Product Strategy	Design and Build	Pricing	Reinsurance Strategy	Contract Filing	Solutio Man
Ref #	Level 1 Risk	Level 2 Risk	Description							
	Internal Fraud	Unauthorized Activity	Risk of an employee intentionally engaging in activities which violate company rules, policies, or procedures to conceal concerns related to errors or poor judgment or to accommodate a client.							
	Internal Fraud	Internal Theft and Fraud	Risk of an employee or group of employee(s) acting with intent to deceive for the purpose of unfair, undeserved or unlawful gain for himself/herself or others.							
	Insurance and Underwriting Risk	Mortality Improvement	Risk that annuitants will live longer than that assumed in pricing.		X					
	Insurance and Underwriting Risk	Client Behavior	Risk that client behavior deviates from expected behavior. Includes unanticipated rates of policy lapses, terminations, surrenders and status changes.							
	Insurance and Underwriting Risk	Product Development and Design	Risk of failed product design, development flaws, or implementation flaws.		X	X	X	X	X	
	Insurance and Underwriting Risk	Product Pricing	Risk of incorrect or uncompetitive pricing.		X		X			
	Insurance and Underwriting Risk	Reinsurance	Risk that re-insurers fail to fulfill their contractual obligations.					X		
			Risk of loss from imperfect correlation in the adjustment of							

ILLUSTRATIVE EXAMPLES

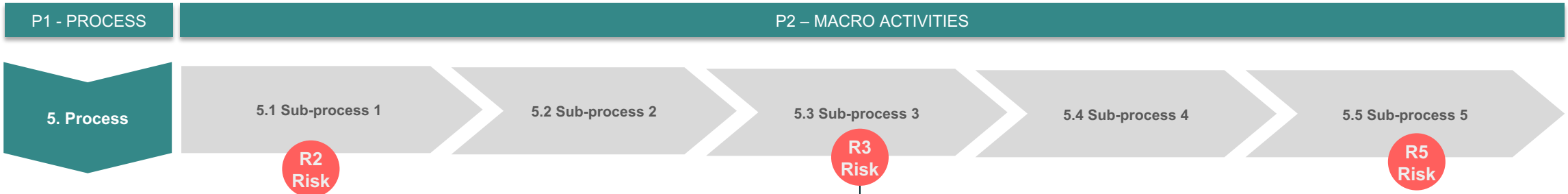
PRC MAPPING IN ACTION



ILLUTRATIVE EXAMPLES

PRC mapping enables an integrated approach to operational risk management

The mapping enables visibility into relevant risk information generated by other programs:



INTEGRATED MANAGEMENT THROUGH THE LINK OF P2/R3

FINANCE		THIRD-PARTY	INTERNAL ORE		COMPLIANCE	LEGAL	INTERNAL AUDIT
SOX	CONTROL TESTING	ISSUES	EVENTS	LOSSES	RCIS	RESERVE AMOUNT	ISSUES
N/A	1 exception	R_A_3b	3	$ 500.000	RCI_CB181 RCI_CB06	Action 1 Action 2	00350 – Medium 2011/00344 – High
✓	✓	On going	✓	✓	✓	On going	Partially resolved