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INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

ICP 8: Risk Management and Internal Controls

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The Supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit.

General Observations:

1. The risk management and internal control system of an insurer is comprised of its **strategies, policies, processes and controls to identify, assess, monitor, manage and report** risks that it may be exposed to at a legal entity or group level.
2. Risk management and internal control is **part of the fabric of insurer governance.**
3. The systems must include **a risk management function, a compliance function, an actuarial function and an internal audit function.** These are expected to be commensurate with the nature, scale and complexity of their business.

Effective Risk Management – Why it matters

Many financial losses occurred due to lack of proper risk governance, risk management and internal controls.

Examples of weaknesses:

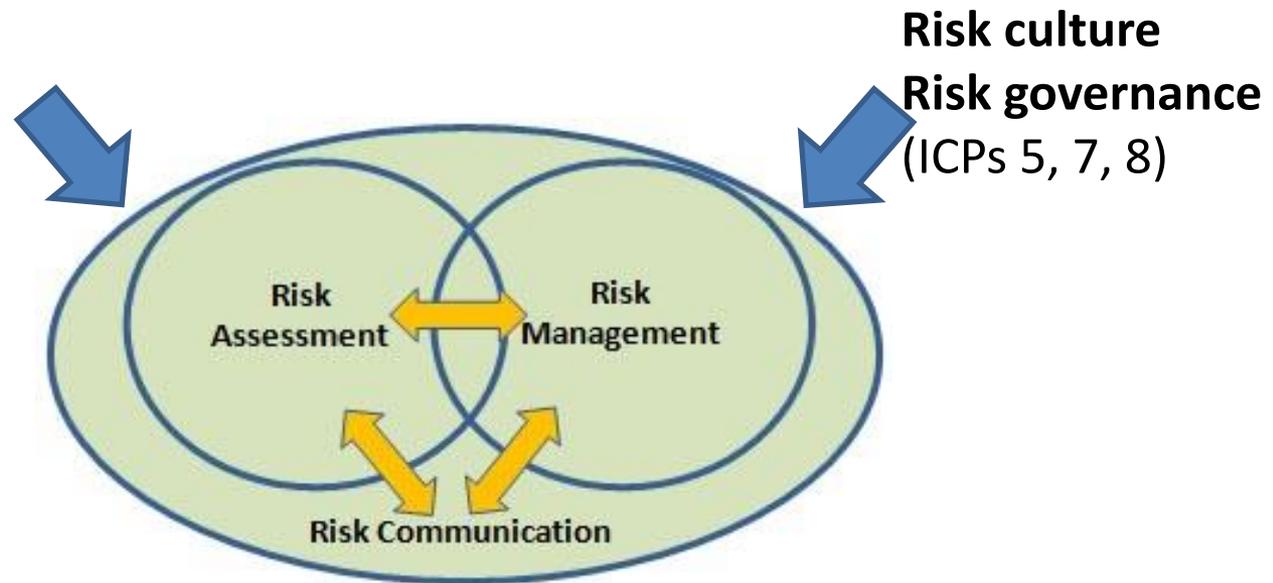
- Lack of adequate management oversight and accountability,
- Failure to develop a strong control culture
- Inadequate recognition and assessment of risks
- Absence or failure of key control structures and activities
- Inadequate communication of information between different levels of management, especially the upward communication of problems
- Inadequate or ineffective audit programs and monitoring activities

Typical structure of the systems of risk management and internal controls

- Strategies – setting out the approach of the insurer for dealing with specific areas of risk and legal and regulatory obligations.
- Policies – defining the procedures and other requirements that members of the Board and employees need to follow.
- Processes – for the implementation of the insurer’s strategies and policies.
- Controls – to ensure that such strategies, policies and processes are in fact in place, are being observed and are attaining their intended objectives.

Strategies

1. Risk strategy
2. Risk appetite
3. Risk tolerance



Policies and Processes

- Clearly defined, documented risk strategy (Board approval);
- Clearly defined and embedded risk appetite;
- Proper allocation of responsibilities;
- Processes for identifying, assessing, monitoring, managing & reporting risks;
- Clear direction and leadership;
- Sound risk culture promoted;
- Strong and independent control functions ->

ICP 8: Controls

Effective systems of risk management and internal controls

Risk
management
function

Compliance
function

Actuarial
function

Internal audit
function

Control functions - authority and independence

- Led by a person of appropriate seniority and expertise.
- The appointment, performance assessment, remuneration, disciplining and dismissal of the head of control with the approval of, or after consultation with, the Board or the relevant Board committee (in case of internal audit function – directly by the Board)
- The authority and responsibilities of each control function set or approved by the Board.
- The head of the function to report periodically to the Board.
- The Board should periodically assess the performance of each control function.

Control functions - resources

- Qualified staff and appropriate IT/management information systems.
- Resources reviewed regularly by the head of the control function together with Senior Management
- Necessary experience, skills and knowledge, applicable professional qualifications.

Outsourcing of material functions or activities

To retain at least the same degree of oversight of, and accountability for, any outsourced material activity or function (such as a control function) as applies to non-outsourced activities or functions.

- Approval by the Board
- Careful choosing of a service provider
- Appropriate policy in place
- Written contract
- The responsibility remains within the insurer (Board and Senior management remain responsible)

Risk management and compliance: some practices to address challenges

- Authority and responsibilities of key players group-wide;
- Group-wide direction and coordination;
- Consideration of both entity and group perspective
- Communication and information

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