

**U.S. RESPONSE TO  
ICP 8 – RISK MGMT & INTERNAL  
CONTROLS  
*2016 ASSAL CONFERENCE***

**Ted Nickel**

**NAIC President-Elect**

**Commissioner, Wisconsin Office of the Insurance Commissioner**

# I. ICP 8 – RISK MGMT & CONTROLS

Board is ultimately responsible for ensuring that effective systems of risk management and internal controls are in place to address the key risks the insurer faces

- Internal Controls
- Risk Management
- Compliance function
- Actuarial function
- Internal audit function
- Outsourcing

# II. U.S. REQUIREMENTS

## Internal Controls

- Sarbanes-Oxley Act (Federal Law)
  - Applicable to all publicly held insurers
  - Requires system of effective internal controls over financial reporting
    - Attestation by third-party accountant
- Model Audit Rule (NAIC #205)
  - Applicable to all insurers exceeding annual premium threshold of \$500 million
  - Requires system of effective internal controls over financial reporting
    - Management assertion, subject to review by supervisors

# II. U.S. REQUIREMENTS

## Risk Management

- Risk Management and Own Risk and Solvency Assessment Model Act (NAIC #505)
  - Imposes 3 core requirements on insurers
    - Maintain a risk management framework
    - Complete an Own Risk and Solvency Assessment
    - File an ORSA Summary Report with the insurance commissioner on an annual basis
  - Exempts insurers <\$500 million in annual premium, or groups<\$1 billion annual premium

# II. U.S. REQUIREMENTS

## Compliance Function

- No explicit requirement for a formal compliance function
  - Compliance mandated under various acts and regulations, with penalties and fines associated with failure to comply
- The new Corporate Governance Annual Disclosure (CGAD) Model Act (#305) requires annual disclosure of Board/Sr. Mgmt. oversight of compliance activities

# II. U.S. REQUIREMENTS

## Actuarial Function

- Appointed actuary required to issue an opinion on the appropriateness of reserves annually
  - See Model #745 for P&C and #820/822 for Life & Health
- CGAD also requires disclosure of Board/Sr. Mgmt. oversight of actuarial function

# II. U.S. REQUIREMENTS

## Internal Audit Function

- Model Audit Rule (#205) requires insurers exceeding a premium threshold to maintain an effective internal audit function
  - Function must be independent from management and report to Audit Committee
  - Required to provide assurance regarding the insurer's governance, risk management and internal controls

# II. U.S. REQUIREMENTS

## Outsourcing

- Various requirements in place to address outsourcing of critical functions to third parties including:
  - Holding Company Models (#440/450)
  - Managing General Agents Act (#225)
  - Third Party Administrators Act (#1090)
  - Investment Advisors (Investment Advisers Act of 1940)
  - Investment Custodial Models (#295 & 298)



# III. U.S. REVIEW PRACTICES

## Financial Analysis and Reporting

- Annual review of Management's Report of Internal Controls Over Financial Reporting and audited financial statements
- Annual review and assessment of ORSA Summary Report
- Analysis of compliance with various regulatory requirements such as investment restrictions, dividend limitations, etc.
- Review of actuarial opinion and supporting reports
- Review of CGAD filings

# III. U.S. REVIEW PRACTICES

## Financial Examination

- On-site, full-scope examination of all insurer's required at least once every five years
  - Includes detailed review and assessment of internal controls and risk management practices
  - Controls, risk management practices and internal audit work assessed to determine if reliance can be placed on work to reduce examiner testing
  - Exams are required to utilize a credentialed actuary to review/test reserves and assess actuarial function
  - Outsourced activities are reviewed/tested and held to the same expectations as if they were performed internally

# CONCLUSION

- U.S. supervisors meet ICP 8 standards by placing a number of standards and requirements on insurers
- Newly developed ORSA and CGAD requirements improve standards and information available in these areas
- All functions are thoroughly reviewed and assessed through both off-site and on-site monitoring functions

# QUESTIONS

