Government Notice No. ..... of 2016

Insurance Act 2005

Rules made by the Financial Services Commission under section 130 of the Insurance Act and section 93 of the Financial Services Act

1. Citation

These rules may be cited as the Insurance (Risk Management) Rules 2016.

2. Interpretation

In these rules –

“Act” means the Insurance Act;

"affiliated corporation" means a corporation which –

(a) in relation to another body corporate, stands as a parent or subsidiary corporation of that body corporate;

(b) is a parent or subsidiary of a corporation referred to in paragraph (a); or

(c) in relation to another body corporate, is a member of the same group of corporations by virtue of common ownership or control;

“Board” means the Board of directors of an insurer;

“corporate event” means-

(a) merger, acquisition, joint venture, change in control and significant shareholdings or any similar events; or

(b) any unplanned event affecting business plan of an insurer;

“MIS” means the management information system required to be maintained under Rule 13;

“ORSA” means the own risk and solvency assessment required to be carried out under Rule 7;

“risk appetite” means the degree of risk an insurer is prepared to accept in pursuing its objectives and business plan, having regard to the interests of shareholders and policyholders;

“RAS” means the risk appetite statement required to be made under Rule 9;

"risk management framework" or "RMF" means the totality of the strategies, systems, policies, processes, controls and human resources for identifying, assessing, monitoring, managing and reporting on all material risks, both internal and external, to which the insurer is exposed;

"risk officer" means the officer appointed by an insurer under rule 12;

"RMS" means the risk management strategy required to be implemented pursuant to Rule 10;

"risk tolerance" means the limits that the insurer sets for the maximum level of individual risk beyond which the insurer is under an obligation to take action to maintain or restore its capital targets.

3. Application of Rules

These rules shall apply to all insurers who are licensed or ought to be licensed under the Act.

4. Risk Management Framework

(1) An insurer shall at all times maintain a RMF to enable it to effectively develop and implement strategies, policies, procedures and controls to manage the material risks described in the Schedule.

(2) The RMF of an insurer shall be approved by its Board and shall include- -

(a) a RAS;

(b) a risk management strategy;

(c) a three year business plan and financial forecast;

(d) an ORSA Framework;

(e) a liquidity policy;

(f) a designated risk management function; and

(g) defined responsibilities and roles and reporting lines within the insurer for the management of material risks.

(3) An insurer shall assess the materiality of the risks described in the Schedule in accordance with its nature, scale and complexity.

(4) An insurer shall submit its RMF to the Commission not later than 3 months after the expiry of each balance sheet date and with reference to that year.

(5) An insurer shall notify the Commission of any corporate event occurring during the year which require a reassessment of the RMF within 10 days of such event.

(6) The reassessment referred to in paragraph (5) shall be completed by the insurer within 3 months of the date of corporate event.

(7) An insurer shall submit its updated RMF to the Commission within 30 days from the date of any update or any modification made.

(8) No action shall lie against the Commission or any member of the Commission for any damage or loss suffered as a result of any RMF filed with the Commission.

5. Responsibility for the Risk Management Framework

(1) The Board is ultimately responsible for –

(a) the establishment and approval of a RMF;

(b) overseeing the implementation and subsequent monitoring of the RMF;

(c) determining the risk culture of the insurer;

(d) providing leadership and guidance to management to create the conditions conducive to achieving the desired risk culture;

(e) ensuring that persons responsible for risk management have appropriate skills, knowledge, independence and authority; and

(f) defining the roles and responsibilities of management in relation to risk management.

(2) Where it deems it necessary, the Board may set up a sub-committee with responsibility for risk management pursuant to section 38 of the Act.

(3) The management of the insurer shall be responsible for-

(a) the day to day management, decision making, identification, assessment, mitigation and monitoring of risks, including the maintenance of risk registers; and

(b) the allocation of roles and accountabilities regarding risk management.

(4) The Board shall ensure that the risk officer reviews and reports on compliance with these Rules at least once per year.

(5) The Board shall ensure that the auditor, appointed under section 40 of the Act, reviews and reports to the Board on compliance with these Rules at least once a year.

(6) The Board shall ensure that the actuary, appointed under section 40 of the Act, reviews and reports to the Board, on the effectiveness of the RMF at least once per year.

(7) The reviews of the RMF referred to in paragraphs (5) and (6) shall assess as the case may be whether the RMF–

(a) is implemented and effective;

(b) is still appropriate for the insurer, taking into account its current business plan;

(c) is consistent with the insurer's risk appetite;

(d) is supported by adequate resources; and

(e) accurately documents key elements of the insurer's strategy for managing risk.

(8) Pursuant to section 43(1)(a) of the Act, the reports referred to in paragraph (5) and (6) shall be provided to the Commission not later than 3 months after the expiry of the insurer's balance sheet date.

(9) The Board shall review and update its RMF, including its risk appetite statement and risk management strategy, annually.

6. Enterprise Risk Management for Groups

(1) An insurer that is part of a group shall consider, in its RMF, risks arising from affiliated corporations.

(2) Group risks shall be identified, assessed and incorporated in the RMF, risk appetite statement and risk management strategy.

(3) Where an insurer is operating as a branch of a foreign company, these Rules shall apply only to the risk management of the branch.

(4) The insurer shall assess and record any linkage and difference between its RMF and the group RMF.

(5) An insurer forming part of a group may adopt the group RMF and control mechanisms, provided that the group RMF complies with these rules.

7. Own Risk and Solvency Assessment

An insurer shall carry out an ORSA on a quarterly basis to assess the adequacy of its risk management and its current and prospective solvency position.

8. Liquidity policy

(1) An insurer shall develop and at all times maintain a liquidity policy approved by its Board to manage its material liquidity risks including results from stress testing.

(2) An insurer forming part of a group shall describe in its liquidity policy how its liquidity is quarantined from any group risk.

9. Risk Appetite Statement

(1) The Board shall determine the risk appetite for each material risk set out in the RMF and for the insurer as a whole.

(2) The risk appetite including the qualitative and quantitative levels of each risk identified shall be described in a RAS.

(3) The Board shall review the RAS annually and shall ensure that the insurer's business plan and strategies are consistent with the RAS.

(4) The RAS shall, for each material risk, document the processes for –

(a) setting the risk tolerance levels;

(b) monitoring compliance;

(c) taking action where risk tolerance levels are breached; and

(d) the annual review under paragraph (3).

(5) Any new business initiatives during the course of a year shall be assessed by the insurer to ensure consistency with the risk tolerance levels of the insurer.

10. Risk Management Strategy

(1) The insurer shall implement an RMS which shall describe the insurer's strategy for managing risk and the implementation of key parts of the RMF.

(2) The RMS shall include a description of –

(a) how the RMF is developed and embedded in the business plan;

(b) each material risk identified and how it is to be managed including any policies and procedures;

(c) the risk management function including roles and responsibilities;

(d) how awareness of the RMF is communicated throughout the organisation;

(e) how an appropriate risk culture is to be achieved; and

(f) the insurer's risk appetite.

11. Business Plan

(1) An insurer shall maintain a three-year rolling business plan incorporating financial forecasts which sets out the insurer's strategic objectives and how these are to be achieved.

(2) The business plan shall be reviewed and updated at least annually.

(3) The business plan shall identify the material risks associated with the strategic objectives and shall state how those risks are to be managed.

(4) The business plan shall be subjected to stress testing made in accordance with the insurer's RMF, RAS and RMS.

(5) The business plan shall include the whole of the insurer's operations and any material group strategies which may impact on the insurer.

12. Risk Management Function

(1) An insurer shall have a risk management function which –

(a) shall be independent from management;

(b) shall be responsible for assisting the Board, Board sub-committees and management in developing and maintaining the RMF;

(c) shall be commensurate with the nature, scale and complexity of the insurer;

(d) is resourced with staff who have clearly defined roles and responsibilities and who possess appropriate experience and qualifications to exercise those responsibilities;

(e) has access to all aspects of the insurer that have the potential to generate material risk, including information technology systems and systems development resources; and

(f) is required to notify the Board of any significant breach of, or material deviation from, the risk management framework.

(2) The insurer shall appoint a person suitably qualified and experienced to act as risk officer.

(3) No appointment of a risk officer shall take effect without the prior approval of the Commission.

(4) The risk officer shall be responsible for the risk management function and shall have a direct reporting line to the Risk Committee or the Board.

(5) The risk officer shall be independent from business lines, other revenue-generating responsibilities and the finance function, but may be the Statutory Actuary or Head of Internal Audit.

(6) Where the role of the risk officer is combined with any other management function, the insurer shall ensure that there are no conflicts of interest or, where these exist, that they are appropriately documented and managed.

13. Management Information Systems

(1) An insurer shall, at all times, maintain an adequate MIS to measure, assess and report on all material risks.

(2) The MIS shall provide the Board with timely and accurate information on the insurer’s risk profile.

(3) The MIS shall include a data collection analysis and reporting system which facilitates aggregation of exposures, risk measurement, reporting and stress testing.

14. Outsourcing

(1) When delegating or outsourcing any function, an insurer shall ensure that the delegate is fit and proper and is able to meet the requirements of these Rules.

(2) The insurer shall not be discharged from its responsibilities upon any delegation or outsourcing arrangement and shall ensure compliance with all requirements of the relevant Acts.

(3) Notwithstanding any delegation or outsourcing arrangement, all books and records of the service or transaction delegated or outsourced shall be made available for inspection by the Commission.

(4) An insurer shall identify, assess, manage, mitigate and report on risks associated with outsourcing to ensure that it can meet its financial and service obligations.

(5) Where the insurer outsources any function it shall ensure that the RMF applies to all outsourced functions.

(6) Where an insurer outsources any function, it shall reassess its risk profile and determine whether more specific controls, monitoring and reporting are required.

(7) The insurer may outsource the risk management function where appropriate to its nature, scale and complexity and shall notify the Commission of the outsourcing.

15. Register

The insurer shall establish and maintain at all times risk registers, compliance and breach reports appropriate to its nature, scale and complexity.

16. Commencement

These rules shall come into operation on 01 July 2017.

Made by the Financial Services Commission on ……………………….. 2016.

SCHEDULE
(Rule 4)

Risk	Description
Business Continuity	The risk which arises from business disruption of an insurer and impairment of its ability to function properly and the assessment of backup plans that are in place, including but not limited to issues such as premises, data, systems, telephony or staffing.
Capital	The risk which arises from capital to support business plans, assessing solvency, the output of stress testing and future capital assessment.
Credit	The risk which arises from counterparties including reinsurers, investments and intermediaries holding premiums and the assessment of the financial strength of the counterparty and includes default, concentration risks and liquidity risks.
Group	The risk which arises from membership of a financial services group, including risk for an insurance group in respect of the widest group of which it is part and includes the risk that an insurer may be adversely affected by an occurrence (financial or non-financial) in another group entity.
Insurance	The risk which arises from the core insurance business and would include such matters as underwriting, claims management, pricing, reinsurance and product design.
Investment	The risk which arises from asset and liability matching, valuation, concentration liquidity and the application of any provision relating to investments as set out in the relevant Acts.
Liquidity	The risk which arises from having insufficient liquid assets, including investments, to meet the obligations to policyholders such as paying claims, suppliers, intermediaries and operating expenses including staff remuneration.
Operational	The risk which arises from all aspects of running the business, including systems, processes, reporting, human resources, customer service, IT, data security and fraud management.
Outsourcing	The risk which arises from outsourcing any function and which is inherent to that function and the controls, including the reporting mechanisms in place to monitor the outsourced function.
Reinsurance	The risk which arises from net retentions, catastrophe exposures, and exposures above the level of reinsurance protection, horizontal exposures as well as counterparty risk, credit risk and concentration risk.
Other material risk	Any other material risk arising out of the conduct of insurance business.