
Intermediary Seminar

5 May 2009



Mike Poulding
Deputy Director of Insurance



Current Affairs

- International – IAIS Market Conduct Subcommittee
- IMF visit
- Reciprocal Health Agreement with UK
- Windscreen Insurance Discs
- Annual return submission dates
- Draft Licensees (Conduct of Business) Rules, 2009 (re POI Law) out for consultation – see website



Business Risks and Internal Controls



David Richings
Assistant Director of Insurance



Agenda

- Third year of 3 year programme – internal controls
- Identifying risks
- Controlling risks

Identifying and Controlling Risk

- Identify the potential risks to the business
- Implement controls proportionate to the risk
- Document risks and controls
- Poor controls will affect profit
- Failure to deal with one risk will often increase the risk from other sources

Identifying and Controlling Risk

- Board involvement in risk assessment
- Compliance monitoring system
- Weak or non-existent controls can have and have had serious consequences
 - St James Global Limited and Arrow Insurance Brokers
 - See November 2008 slides on website for details
- Internal controls will be reviewed at on-site visits during 2010





Daniel Le Page
Senior Analyst



Internal Controls Trading

What is trading risk?

- Internal – part of operational risk
- Risk arising from day to day operations / trading accounts
 - Poor advice to clients which can arise from poor training and poor supervision
 - Lack of awareness and control of expenses
 - Setting of high fees / commission



Internal Controls Trading

Effect on your company?

- Poor advice to clients can lead to complaints and legal action
- Additional time spent in addressing complaints
- Loss of clients
- Effect on profit

Internal Controls Trading

Internal Controls?

- Peer review and oversight
 - Risk based approach
 - Evidence of reviews
- Staff training and supervision
 - Link to peer review and oversight
- Regular monitoring and review
 - Expenditure
 - Pricing
 - Providers



Internal Controls Business

What is business risk?

- Risk arising from external influence
- Politics
 - Change in tax rates / legislation
- Economy
 - Interest rates / currency fluctuations
- Competitors
 - Special offers / internet



Internal Controls Business

Effect on your company?

- Lack of funds to invest
- Poor advice
- Complaints, legal action, time spent in addressing complaints
- Loss of clients
- Effect on profit



Internal Controls Business

Internal Controls?

- Regular monitoring and review
 - Changes in legislation
 - Market and economy
 - Competitors

Internal Controls Systems and Operations

What is the risk?

- Risk arising from weak or poor systems, procedures and records

Internal Controls Systems and Operations

Effect on your company?

- Duplication of work and time wasted
- Loss of clients' records
- Poor advice
- Complaints, legal action
- Loss of clients
- Effect on profit



Internal Controls Systems and Operations

Internal Controls?

- Procedures tailored to your company and reviewed regularly
- Compliance oversight of staff and records
- Management information system and reports



Internal Controls IT

What is the risk?

- Risk arising from computer breakdown
 - Virus
 - Overload / lack of memory
 - Breakdown of communication system

Internal Controls IT

Effect on your company?

- Down time
- Unable to respond to client queries
- Complaints
- Lack of management information

Internal Controls IT

Internal Controls?

- Ensure appropriate systems in place
 - Fit for purpose
 - Backup system
- Security
 - Password protection
 - Access levels

Tracy Bideau
Senior Analyst



Internal Controls Investment

What is investment risk?

- Risk arising on your company's investment
- Effect of changing interest rates
 - Variability of returns
- Currency fluctuations
- Investment in shares or property

Internal Controls Investment

Effect on your company?

- Falling values and returns
- Effect on profit
- Effect on liquidity and solvency

Internal Controls Investment

Internal Controls?

- Investment strategy
 - Diversification
- Policy to review and monitor your company's investments regularly to ensure in line with requirements

Internal Controls Liquidity

What is liquidity risk?

- Insufficient liquid assets to meet liabilities when they fall due
 - Assets unable to be sold in a timely manner or at an uneconomic price
- Schedule 4 – Minimum Criteria for Licensing
- Approved Asset Regulations



Internal Controls Liquidity

Effect on your company?

- Unable to purchase assets or make an investment
- Unable to pay debts
 - Legal action
 - Loss of credit rating
- Effect on profit
- Potential breach of Schedule 4



Internal Controls Liquidity

Internal Controls?

- Regular review of management accounts
 - Liquidity – cushion of liquid assets
 - Cashflow
 - Solvency – Approved Asset Regulations

Internal Controls Credit

What is credit risk?

- Risk of not getting paid by debtors
- Creditors altering terms

Internal Controls Credit

Effect on your company?

- Liquidity and solvency issues
 - Inability of paying your own creditors
- Effect on credit rating
- Effect on profit

Internal Controls Credit

Internal Controls?

- Credit control procedures
- Due diligence on who intend to extend credit to
- Strategy over credit exposure to limited number of counterparties
- Review and monitor regularly

Internal Controls Custody

What is custody risk?

- Risk arising from loss of assets
 - Fixed assets
 - Investments
 - Company's cash assets (cash in hand and at bank)
 - Clients' cash assets



Internal Controls Custody

Effect on your company?

- Loss of assets, including company and client monies
- Complaints
- Effect on profit



Internal Controls Custody

Internal Controls?

- Segregation of duties
- Procedures for own bank account
 - 2 signatures on bank account and reconciliations
- Procedures for client monies (refer to Client Monies Regulations on the website)
 - Separate bank account
 - Terms of Business Agreement
 - Reconciliations



David Quick
Senior Analyst



Internal Controls Regulatory

What is regulatory risk?

- Risk arising from a breach of regulatory requirements
 - IMIL and attachments
 - AML legislation
 - Banking and Investment legislation
 - Data Protection Law



Internal Controls Regulatory

Effect on your company?

- Regulatory action
- In some cases, breach of IMIIL or AML legislation is a criminal offence
 - Fine
 - Imprisonment
- Lost senior management time
- Lost profit opportunity



Internal Controls Regulatory

Internal Controls?

- Appoint and instruct
 - Compliance Officer
 - MLRO
 - Data Protection Officer
- Devise, impose and monitor compliant procedures and systems
- Robust record keeping
- Regular monitoring Commission website
- Staff training and CPD



Internal Controls Legal

What is legal risk?

- Risk of legal action arising from:
 - Badly worded contracts with providers and suppliers
 - Breaches of contract
- Risk of being unable to pursue action against providers suppliers and clients



Internal Controls Legal

Effect on your company?

- Not able to defend action against you
- Not able to recover money due to badly worded contracts
- Damages awarded against you
- Lost management time
- Effect on profit



Internal Controls Legal

Internal Controls?

- Review and compare contracts thoroughly
 - Take legal advice where necessary
- Hold contracts in the same place
- Contracts may include:
 - Professional indemnity and property insurance
 - Terms of business with clients
 - Software licensing



Internal Controls Crime

What is crime risk?

- Risk of being a perpetrator of a crime
- Risk of being a victim of a crime
 - Fraud
 - Money laundering
 - Theft
 - Criminal damage and arson



Internal Controls Crime

Effect on your company?

- Breach of IMIIL / AML legislation may be a criminal offence
 - Fine
 - Imprisonment
- Disruption of service
- Loss of property including cash, other funds, other assets
- Increased insurance premiums



Internal Controls Crime

Internal Controls?

- Secure premises, data and assets
- Procedures to prevent fraud and money laundering
- Secure recruitment procedures
- Authority levels
- Everyone needs a holiday



Internal Controls Disaster Recovery

What is the risk?

- Risk of disruption arising from an emergency
- May be property or personnel
 - Fire
 - Flood
 - Supply chain
 - Influenza pandemic

Internal Controls Disaster Recovery

Effect on your company?

- More than 80% of companies who experience a 'disaster' are no longer in business 12 months later
- Unable to respond to clients' queries
- Loss of client data
- Complaints
- Loss of clients
- Loss of profit



Internal Controls Disaster Recovery

Internal Controls?

- Allocate responsibility for Plan
- Make the Plan
- Test the Plan
- Review / revise the Plan
- Adequate insurance – includes supply chain

Internal Controls Reputational

What is reputational risk?

- Risk of losing your company's reputation in the market or with clients, regulators, bankers and suppliers
- Risk arising from all of the risks in the previous slides



Internal Controls Reputational

Effect on your company?

- Complaints
- Loss of clients
- Loss of profit
- Expensive or no credit

Internal Controls Reputational

Internal Controls?

- All of the above
- Nominated spokesperson / Press Policy
- Cultivate good relationships with Press, Trade Associations
- Supervision / peer review
- Spell check - first impressions count
- Treating customers fairly



On a topical note:

- Annual Returns for year ended 31 December 2008
- AML Business Risk Assessment – reviewed and considered by the Board at least annually



Questions?

