# 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

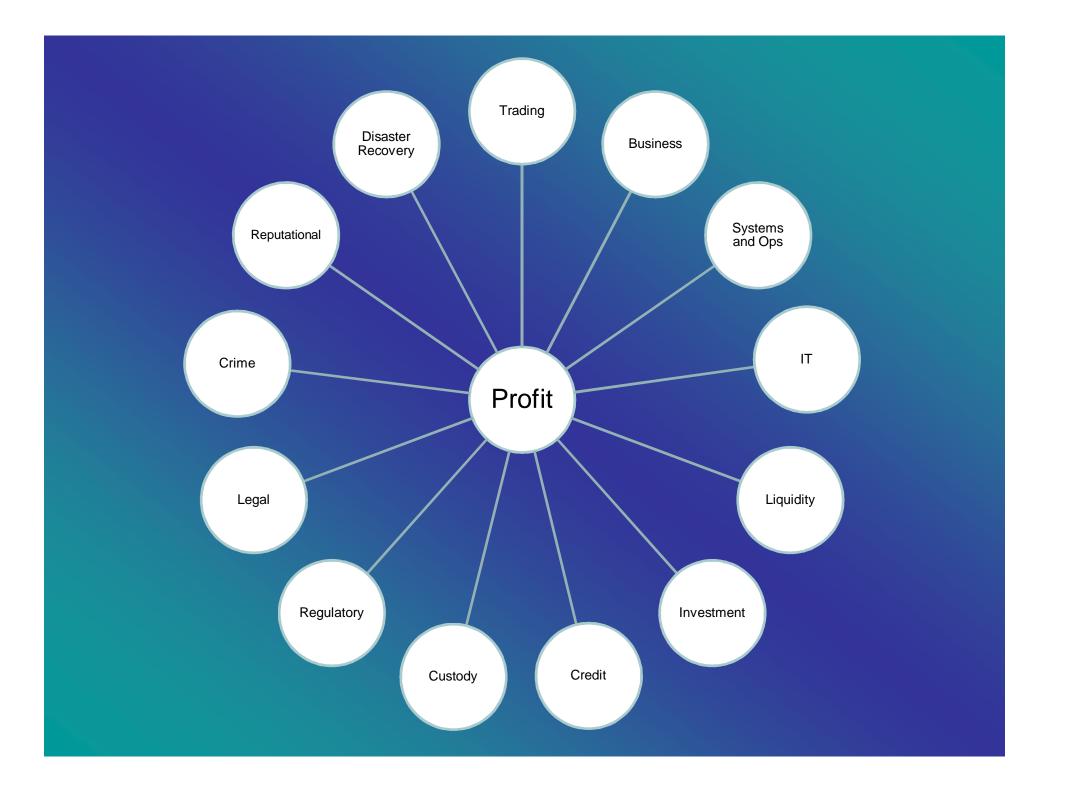
- Identify the potential risks to the business
- Implement controls proportionate to the risk
- Document risks and controls
- Poor controls will affect profit
- Failure to deal with one risk will often increase the risk from other sources



### 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





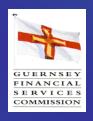
### Daniel Le Page Senior Analyst



### 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

- 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

- 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

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



### Internal Controls Business

- 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

- 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

- 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

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



### Internal Controls IT

- 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



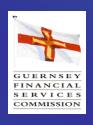
### Internal Controls Investment

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



### Internal Controls Investment

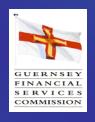
- Investment strategy
  - Diversification
- Policy to review and monitor your company's investments regularly to ensure in line with requirements



# 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

- 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

- 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

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



### Internal Controls Credit

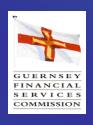
- Credit control procedures
- Due diligence on who intend to extend credit to
- Strategy over credit exposure to limited number of counterparties
- Review and monitor regularly



### 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

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

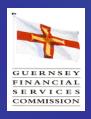


# Internal Controls Custody

- 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
  - IMIIL and attachments
  - AML legislation
  - Banking and Investment legislation
  - Data Protection Law



# Internal Controls Regulatory

- 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

- 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



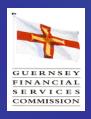
# Internal Controls Legal

- 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

- 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

- 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

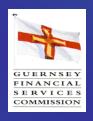
- Secure premises, data and assets
- Procedures to prevent fraud and money laundering
- Secure recruitment procedures
- Authority levels
- Everyone needs a holiday



### 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

- 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

- 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

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



### Internal Controls Reputational

- All of the above
- Nominated spokesperson / Press Policy
- Cultivate good relationships with Press, Trade Associations
- Supervision / peer review
- Spelll 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?

