

Insurance Development and Regulatory Authority

Onsite Supervision Manual

Scope Memorandum

Scope Memorandum		
Name of the regulated entity	Supervisory Attention Index	Date of Preparation <<DD/MM/YY>>
Type of Examination	Full Scope/ Partial/ Thematic	
Last Date of Examination	<<DD/ MM/ YY>>	
Date of Commencement of Examination	<<DD/ MM/ YY>>	

Summary of the entity's situation			
<i>Specification of the overall financial situation of the entity including major financial indicators (such as CAMELS ratio, ratios and parameters with respect to Risk, Corporate Governance, etc.). Also, peer comparison of these indicators may be provided to give a broader context.</i>			
Scope and Objective			
<i>The scope as agreed during the meeting with the offsite monitoring team</i>			
Summary of Risk Profile			
<i>Brief observations of regulator on the risk profile of the entity based on the offsite report, prior year onsite inspection report, as well as from the pre-inspection assessment. It should broadly cover the following aspects:</i>			
<ul style="list-style-type: none"> <i>Financial Condition and Solvency of the targeted entity</i> <i>Overall risk profile of the entity covering the insurance risk, market risk, liquidity risk, credit risk, reinsurance risk, reserves and technical provisions, etc.</i> <i>Issues of concern</i> 			
Areas	Inherent Risk Rating	Residual Risk Rating	Weighted risk score (on a scale of 4)
Company and Business Profile			
Corporate Governance			
Risk Management			
CAMELS			
Customers and Products			
Compliance			
Examination Focus and Procedures			
<i>Brief description about the focus of the inspection based on the scope determined. In addition, the section will also describe the procedure to be followed including the document requirements.</i>			
Resource Planning			
<i>Brief description of the estimation of the amount of resource needed to conduct the examination, expected duration of assessment, as well as any other resource requirement (capital, material, etc.) essential for completing the inspection.</i>			

Signature of signing authority: _____

Date: _____

Inspection Memo and Request Letter

<<Logo and Letter Head of Supervisor>>

Date: DD/MM/YY

To,
The CEO
<<Name of the entity>>
<<Address>>

Subject: Commencement of on-site inspection of <<Name of the entity>>

Dear Mr./ Mrs. <<Name of the CEO>>,

With respect to the power conferred by section 49 of the Insurance Act 2010 and section 15 of the IDRA Act 2010, IDRA shall conduct a Full/ Partial Onsite Inspection in <<Name of the entity>> from the date <<Date of Inspection>>.

You are requested to provide the required information attached in the appendix of this request letter in either soft or hard copy within <<Deadline for providing the requested data/ information>>.

Please note that during the examination, the inspection team may request explanation, clarification and additional information before, during and after the examination. IDRA appreciates your cooperation. If deemed necessary, additional information may be required by us for the purpose of completing the examination.

The examination will be carried out by a team of <<No. of examiners>> examiners headed by <<Name of the lead examiner>>. To clarify about any required information, do not hesitate to contact <<Name of the person of contact>> through telephone number <<telephone number>> or via e-mail <<email id>>.

We plan to hold the introductory meeting with the upper management of <<Name of the entity>> on the date <<Date of introductory meeting>> at <<proposed time of meeting>> to discuss the company's risk profile and the scope of our examination. The following will be the participants from IDRA:

<<Name of the participants of IDRA>>

Also, during the examination we plan to have additional meetings with upper management in order to keep you informed about the examination. We will set a concluding meeting in order to inform you on our conclusions and findings during the examination.

The examination will be focused on the fields of <<indicative areas of inspection based on the scope>>.

At the conclusion of the examination, we would appreciate your comments regarding the process after completion of the examination.

Sincerely,

<<Name of Authorized Personnel>>
<<Designation of Authorized Personnel>>

Interview template for BoDs and Senior Management

The following template would assist the inspection team in obtaining general knowledge of the insurance company through interview process. The team should not rely exclusively on this template and should tailor their questions based on the knowledge of the company and the interviewee.

Instructions:

Experience and background: In this section, the team should determine the level of expertise, knowledge and experience of the interviewee. When obtaining background information on any board/ committee members, the team should consider whether the member is independent.

Duties and Responsibilities: In this section, the team should obtain information about the roles and responsibilities of the interviewee within the organization, including any potential conflicting duties. When interviewing a board/ committee member, the team should determine if the interviewee demonstrates a proper understanding of how management establishes and monitors achievement of objectives.

Reporting Structure: In this section, the inspection team should try to gain an understanding of the organizational structure and how the interviewee's department is correlated with other departments. The team should also obtain information on the reporting hierarchy of the interviewee (i.e., who the interviewee reports to as well as if there are any employees who reports to the interviewee, what type of information is reported and reviewed, and how often is the information is reported and reviewed)

Ethics: In this section, the inspection team should obtain information on how the policies on ethics are communicated throughout the company. The team should determine if the interviewee is aware of any fraudulent activities or allegations of fraudulent activities impacting the business operations of the company. While interviewing the board/ committee members, the team should determine if they are reviewing and enforcing the code of conduct within the company in a periodic basis.

Risk Areas: In this section, the inspection team should ask the interviewee to explain the inherent risks in his/ her department. Additionally, while interviewing the board and senior management, the team should also try to understand the different types of external or environmental factors affecting the insurance company.

Risk Mitigation Strategies: In this section, the team should ask the interviewee to explain the various risk mitigation strategies implemented by the company for the risks identified. This information should include what type of controls are in place to prevent or detect those risks.

Corporate Strategy: This section is only relevant to board/ committee members and senior management (including C-suite executives). The inspection team should basically determine how the insurer prepares the strategic plans for the future of the company and what the various competitive advantages are/ disadvantages exist within the company.

Other topics: In this section, the inspection team should obtain information on any other topics which may not have been discussed previously. These topics may include information on company's turnover, political or regulatory changes that may affect business and prospective risks.

Customized questionnaires for select C-suite executives

Annex A: Sample interview questions for the CEO

Experience and Background

How has your professional experience and background prepared you to serve as CEO for this company?

Duties and Responsibilities

- Briefly describe your duties and responsibilities
- How does management establish objectives and how is the achievement of those objectives monitored?
- What role do you play in hiring of the senior management and determining executive compensation? How is your compensation determined?
- How do you support the operations and administration of the board?
- Briefly describe your oversight responsibilities regarding the company's actuarial function.

Reporting Structure

- Describe the reporting structure of the company, including to whom your report to, as well as those reporting to you.
- Explain the function and reporting structure of your senior management team. How often are you in contact with them?
- Describe your interaction with the board of directors.

Ethics

- Does the company have a code of conduct/ ethics in place? Is it enforced? Approved?
- Explain management's commitment to ethics and explain how management conveys that commitment to the employees. How does management obtain an understanding of the "tone" throughout the organization?
- When establishing ethics, does the company evaluate what the peers have implemented? If yes, how does the company compare?
- Do you have any knowledge or suspicion of fraud within the company?

Risk Areas

- How are risks faced by the company identified and monitored? What are the key prospective risks the company faces? How are these risks communicated to the senior management and throughout the company?
- Describe any stress testing performed by the company.

Risk Mitigation Strategies

- What is the formal procedure for reporting on risk management to senior management and board?
- Explain your commitment to the internal control structure.
- What is your company's plan for operating in crisis/ disaster- business continuity?
- From a strategic perspective, how are risks addressed across all business units and entities?

Corporate Strategy

- Where is the company headed strategically? What type of plan is in place to implement this strategy? Has it been approved? How is it being monitored?
- What are your plans for retaining and growing business?

- Explain what types of tools and/ or reports you utilize to make key business decisions.
- Explain any strengths or weaknesses of the company, as well as opportunities or threats, the company is facing and how the company is responding to each.
- What key measures do you assess to evaluate the company's performance and competitive position?
- If you are part of a holding company, then
 - How does the holding company contribute to the company's strategy?
 - How might the holding company be impacted by the company's strategy?
- How often do you discuss corporate strategy with the board?

Other Topics

- Explain any significant turnover in senior management and/ or on the board/ committee.
- What type of succession planning does the company have in place?
- How does the company monitor and assess financing needs, as well as access to capital?
- How does the company monitor, assess and respond to information security risks (including those related to cybersecurity threats)?

Annex B: Sample interview questions for the CFO

Experience and Background:

How has your professional experience and background prepared you to serve as CFO for this company?

Duties and Responsibilities:

- Kindly describe your duties and responsibilities in brief, including the preparation and information flow of financial reports.
- How does management establish objectives and how is the achievement of those objectives monitored?
- How is your performance evaluated? Is it based on the performance of the company?
- Describe your involvement in regulatory compliance.

Reporting Structure

- Describe the reporting structure of the company, including to whom you report, as well as those reporting to you.
- Describe your interaction with the board of directors, as well as internal/ external auditors.
- How is financial information disclosed to the board/ shareholders/ creditors/ others?

Ethics

- Does the company have a code of conduct/ ethics in place? Is it enforced? Approved?
- Explain management's commitment to ethics and explain how management conveys that commitment to the employees. How does management obtain an understanding of the "tone" throughout the organization?
- When establishing ethics, does the company evaluate what peers have implemented? If yes, how does the company compare?
- Do you have any knowledge or suspicion of fraud within the company?
- Have you ever had to take a position on an accounting/ reporting issue or make an adjustment to the financial statements that you were uncomfortable with or did not fully understand?

Risk Areas

- How are key risks faced by the company identified and monitored? What are the key emerging risks being faced by the company? How are these risks communicated to the senior management and to the employees?

Internal Controls

- How often do you discuss with the audit committee/ board of directors on the effectiveness of the internal controls?
- Briefly describe the key aspects of the financial reporting process including validation of financial information, review and approval, and distribution.
- Describe some of the key management estimates (e.g., loss reserves) included within the company's financial reports and describe how they are performed, reviewed and approved.
- Describe the budgeting and planning process.
- Briefly describe the month/ year end close process, including manual journal entries and approvals.
- What is the process for adopting/ implementing accounting guidance?

Corporate Strategy

- Where is the company headed strategically? What type of plan is in place to implement this strategy? Has it been approved? How is it being monitored?

- What are your plans for retaining and growing business?
- Explain what types of tools and/ or reports you utilize to make key business decisions.
- How do you identify and manage changes in business conditions?
- Explain any strengths or weaknesses of the company, as well as opportunities or threats, the company is facing and how the company is responding to each.
- What key measures do you assess to evaluate the company's performance and competitive position?
- If you are part of a holding company, then
 - How does the holding company contribute to the company's strategy?
 - How might the holding company be impacted by the company's strategy?
- How often do you discuss the corporate strategy with the board?

Other Topics

- Explain any significant turnover in your department.
- How are related party transactions approved and recorded? How are they disclosed to the shareholders?
- Is the accounting department adequately staffed?
- How does the company monitor and assess financing needs, as well as access to capital?

Explain the company's involvement in transactions that include derivative risks.

Annex C: Sample interview questions for the Internal Auditor

Experience and Background

How has your professional experience and background prepared you to serve as the Internal Auditor of the company?

Duties and Responsibilities

- Briefly describe your duties and responsibilities.
- How is your performance evaluated? Is it based on the performance of the company?
- How much of your department's time is allocated in reviewing the business processes and compliance?
- Do you perform any management or accounting functions?
- How are audit findings communicated to the company and the board/ audit committee?
- Please describe any special projects/ key initiatives.

Reporting Structure

- Describe the reporting structure of the company including to whom do you report to as well as who reports to you.
- Describe your interaction with the BoD, external auditors, and/ or senior management.
- How do you monitor/ follow up on audit findings? Are findings classified as to significance?

Ethics

- Does the company have a code of conduct/ ethics in place? Is it enforced? Approved?
- Explain your commitment to ethics and explain how you convey that commitment to your employees.
- How does the company compare to others in terms of its position on ethics?
- Do you have any knowledge or suspicion of fraud within the company?

Risk Areas

- How are key risks faced by the company identified and monitored? What are the key prospective risks the company faces? How are these risks communicated to the senior management and BoD?
- What key risks do you monitor in your position?
- How do you determine which audits to perform and the appropriate scope for those audits?

Internal Controls

- How does the internal audit department address the potential for override of internal controls?
- Do you discuss with the audit committee or BoD on the effectiveness of internal controls? If yes, how often?
- Describe any internal control issues discussed during the most recent audits.
- Do you review the company's application of accounting guidance?

Corporate Strategy

- Explain any strengths or weaknesses of the company, as well as opportunities or threats, the company is facing and how the company is responding to each.
- What key measures do you assess to evaluate the company's performance and competitive position?
- How often do you discuss the corporate strategy with the board?
- If you are part of a holding company, then

- How does the holding company contribute to the company's strategy?
- How might the holding company be impacted by the company's strategy?

Other Topics

- Explain any significant turnover in your department.
- How do you ensure the internal audit department is adequately staffed?
- How are internal audit members hired?
- Are any internal audit functions outsourced?
- Is the company involved in transactions that include derivative risks?

Checklist for risk assessment

Credit Risks

Investments

- Do the Insurance Law and regulations authorize all company investments? Explain.
- Does company have a board approved investment policy? Explain and attach.
- Does company have the requisite expertise to assess the investment products in the portfolio?
- Are there investments to cover technical provisions physically available in Bangladesh?
- Are investments reported at reasonable and supportable values? If no, explain.
- Did the company make each loan to a person, or another entity made in compliance with the regulations? Is each loan being repaid as required? If any payments have been missed, what action has been taken? Is the company at financial risk due to the nature and/or number of these loans?
- During the assessment of credit risk of securities, does the company also investigate substantial other risks, instead of only formal criteria such as ratings?

Trade receivables

- Have any concerns been expressed by the auditor? Explain.
- Obtain and review aged listing of accounts receivable. Attached?
- Has the company provided for bad debts? If yes, are the provisions significant? Explain.
- Does the company have a process to avoid excessive concentration of receivables from any one entity or group of entities? Explain.

Cash and Bank accounts

- Do all deposits for policyholder protection conform to legal requirements? Explain.
- Has the company pledged any assets? If yes, did IDRA approve? Explain.
- Are there any overdrafts? If so, describe circumstances.
- Are there appropriate controls in place governing accounting for cash in the company? If no, describe.

Related Party Transactions

- What are company policies for loans and advances to related parties? Attach.
- Has company entered into any transaction with related parties? Are the transactions material in amount? Is there support that the transfer price was market value? Explain.
- Provide a corporate organization chart showing all significant interests existing between the company, its shareholders and other parties. Explain if not attached.
- Provide a list of all company investments in related companies: upstream, downstream, and/or laterally. Explain if not attached.
- Provide a list of all transactions, other than investments, if the company with related parties. Explain if not attached.
- Provide a list and analysis, verifying that all terms including settlements are being complied with, of all related party transaction contracts. Explain if not attached.
- Are there overdue amounts from related parties? If yes, explain why they are overdue.

Policy and Governance

- Is the BoD fully aware of the major effects that disregarding credit risk management has on achieving its strategic goals? Does it emphasize credit risk management? Does the senior management fully understand the importance of techniques such as identification, assessment, monitoring and control of credit risk locations, credit risk types and characteristics?
- Have the BoD established a policy on credit risk management and inform the whole organization about this? If so,
 - Does the policy clearly outline the management related roles and responsibilities?
 - Does the policy encourage the insurer to establish a separate division for credit risk management?
 - Does the policy appropriately outline the process of identification, assessment, monitoring and control of credit risks?
- Does the BoD revise the policy development process in a timely manner by reviewing its effectiveness, based on reports and findings of various investigations on the status of credit risk management?
- Based on the credit risk management policy, does the senior management provide for actions to have the division/ department handling such risk exercise a check and balance system, in order to conduct credit risk management appropriately?
- Does the company have a system which quickly reports to the relevant authority, if system weak points or problems are found which affect comprehensive risk management?
- In case the BoD has specified matters to be directly reported to the statutory auditor, has it specified such matters appropriately, and does it provide a system to have the manager directly report such matters?
- Does the senior management provide a reliable credit risk management IT system which suits the size and characteristics of operations and its risk profile?
- Does the management ensure the provisioning of training and education systems to enhance the ability of employees to conduct credit risk management in an effective manner?
- Does the management provide a system to ensure that matters specified by the BoD are reported in a regular and timely manner or on an as needed basis? In particular, does the management provide a system to ensure that matters that would seriously affect corporate management are quickly reported to the BoD?
- Does the BoD appropriately specify matters that require reporting and those that require approval, and does it have the manager responsible for managing the risk report the status to the board in a regular and timely manner? In particular, does it ensure that the manager reports to the board without delay about matters that would seriously affect corporate management?
- Does the management conduct monitoring on an ongoing basis with respect to the status of the execution of operations at the division/ department responsible for credit risk management? Does the management review the effectiveness of the credit risk management system in a regular and timely manner or on an as needed basis, and as necessary revise the credit risk management policy?

Market Risks

Market risk arises from changes in market rates or prices. Exposure to this risk can result from market making, dealing, and position taking activities in markets such as interest rate, foreign exchange, equity, commodity and real estate.

Common activities include:

- Investments
- Derivative instruments
- Asset valuation
- Real estate
- Secured loans

Interest rate risk and foreign exchange risk are described further below:

Interest Rate Risk

Interest rate risk arises from movements in interest rates. Exposure to this risk primarily results from timing differences in the re-pricing of assets and liabilities, both on and off-balance sheet, as they either mature (fixed rate instruments) or are contractually re-priced floating rate instruments).

Foreign Exchange Risk

Foreign exchange risk arises from movements in foreign exchange rates. Exposure to this risk mainly occurs during a period in which the institution has an open position, both on and off-balance sheet, and/or in spot and forward markets.

Examiner assessment guidance:

- Does the company hold any assets for which fair market value is not readily determinable?
- Is the value of these assets established by independent review?
- How frequently is the value reviewed?
- What is the purpose of holding these assets?
- Does the company have policies to limit the amount and concentration of such assets?
- Are unrealized gains/losses on these assets monitored and measured regularly, e.g., quarterly?
- Does the company have a policy/procedure to write down the value of assets when book value exceeds market value?
- Does the company hold assets or liabilities in foreign currencies? If so, are they reasonably matched?
- How is foreign exchange risk monitored and measured?
- What has been the composition and level of primary asset classes that are susceptible to change in value due to changes in:
 - Stock markets
 - Interest rates
 - Currency exchange rates
 - Inflation
 - Industry sectors

- Global/ national/ regional economic conditions

Policy and Governance

- Is the BoD aware of the major effects that disregarding market risk management has on achieving strategic goals? Does it emphasize market risk management?
- Does the BoD consider market risks, and create strategic goals for the division handling such risks which are consistent with the entire company's strategic goals and risk management policy?
- While defining the strategic goals, does the BoD consider the following factors:
 - What degree of market risks to take, and what level of earnings to target, is it clear whether the goal is to hold market risks to a minimum, or to target higher earnings by actively underwriting and managing a certain level of market risks, etc.?
 - Do the department responsible for managing market risks not excessively prioritize gaining earnings, and disregard market risk management? In particular, does it not set targets which disregard long term market risks and prioritize gaining short term earnings, nor set performance assessments based on such targets?
 - Does it consider its liability characteristics and legally determined restrictions on investment amounts of assets, and is it aware that appropriate portfolio construction itself is risk control? Does it have a clear basic approach to portfolios?
- Have the BoD established a well-defined market risk policy? If so, are the following matters written clearly?
 - Roles and responsibilities of BoD and senior management regarding market risk management
 - Policy on organizational framework
 - Policy on setting limits for market risks
 - Policy on identification, assessment, monitoring and control of market risks.
- Does the BoD revise the policy development process in a timely manner by reviewing its effectiveness, based on reports and findings of various investigations on the status of market risk management either in a regular and timely manner or on a needs basis?
- Based on the risk policy, does the BoD or senior management investigate the content of each division's operations, then consider positioning in each division in the business, equity, profitability, risk management ability, personnel abilities, insurance benefit payment ability, etc. and set appropriate limits (risk limit, position, asset investment limit, etc.) to suit each type and risk category of operations and products handled?
- In case the BoD has specified matters to be directly reported to the statutory auditor, has it specified such matters appropriately, and does it provide a system to have the manager directly report such matters?
- Does the BoD appropriately specify matters that require reporting and those that require approval, and does it have the manager responsible for managing the risk report the status to the board in a regular and timely manner? In particular, does it ensure that the manager reports to the board without delay about matters that would seriously affect corporate management?
- Through the manager responsible for managing market risks, does the BoD provide a system to ensure effectiveness of market risk management, such as by providing a system to inform the divisions involving market risks to be managed (e.g., asset investment division, insurance underwriting division, etc) about the internal rules and operational procedures which must be observed, and to ensure that such divisions observe them?
- Does the internal audit plan clearly specify the following matters?
 - Status of development of market risk management system

- Status of compliance with the market risk management policy/ risk management policy
 - Appropriateness of market risk management IT system
 - Appropriateness of market risk management processes, commensurate with the size and characteristics of operations as well as the risk profile
 - Validity of market risk measurement and analysis methods
 - Correctness and completeness of data used in market risk measurement and analysis.
 - Appropriateness of management, considering limitations and weak points of market risk assessment and analysis methods (techniques, assumptions, etc.)
 - Appropriateness of stress test scenarios, etc.
 - Status of improvement of matters pointed out in an internal audit or in the last inspection.
- Does the BoD revise the development process of internal rules and organizational frameworks in a timely manner by reviewing their effectiveness based on reports and findings on the status of market risk management in a regular and timely manner or on an as needed basis?
 - Does the BoD appropriately determine whether there are any weaknesses or problems in the market risk management system and appropriately examine their causes by precisely analyzing the status of market risk management and assessing the effectiveness of market risk management, based on all information available regarding the status of market risk management (e.g., internal and external audit reports, findings from various investigations, reports from various divisions, etc.)?
 - Does the BoD revise the analysis and assessment process in a timely manner by reviewing their effectiveness based on reports and findings on the status of market risk management in a regular and timely manner?
 - Does the BoD provide a system to implement improvements in the areas of problems and weaknesses in the system through the analysis, assessment and examination in a timely manner?
 - Does the BoD or senior management provide a system to follow up on the efforts for improvement in a timely and appropriate manner?
 - Does the BoD or senior management revise the improvement process in a timely manner, by reviewing its effectiveness based on findings on the status of market risk management, in a regular and timely manner?
 - Do the market risk management policy exhaustively cover the arrangements necessary for insurance market management, and specify the arrangements appropriately in a manner befitting the sizes and natures of the business and its risk profile?
 - Based on the market risk management policy, does the management provide actions for the relevant authorities to exercise a check and balance system, in order to conduct market risk management appropriately?
 - Does the company have appropriate systems which quickly reports the problems that are found which affect comprehensive risk management system in the company?
 - Does the management understand the limitations and weak points of the market risk measurement and analysis methods (techniques, assumptions, etc.)

Operational Risk

Operational risk arises from problems in the performance of business functions or processes. Exposure to this risk can result from deficiencies or breakdowns in internal controls or processes, technology failures, human errors or dishonesty and natural catastrophes.

Common activities include:

- Management oversight
- Financial statement presentation
- Disaster recovery
- Information Systems
- Claim assessments and projections
- Claim processing procedures
- Reserve methods and assumptions
- Loss adjustment expenses
- Customer service

Examiner assessment guidance:

- Do the directors have the requisite knowledge of the business to provide effective oversight of senior management?
- Does the board receive sufficient and appropriate information about company operations on a timely basis?
- Is there conflict of interest policies for directors, officers, management and all other employees?
- Does the company have appropriate internal controls, approved by the directors and overseen by senior management?
- Are operational managers fully informed and do they understand the internal controls?
- Are there processes in place by which operational managers enforce adherence to internal controls?
- Are there regular periodic audits of the operation and effectiveness of internal controls?
- Does the company have policies for setting, reviewing and updating provisions?
- Are maximum time frames specified for review of initial provisions and ongoing periodic review of individual claim files?
- Are all costs of claim settlement, i.e., indemnity, professional fees and internal costs, included in provisions?
- Is IBNR included and calculated in a reasonable manner?
- Does the company monitor its provisions to equity ratio to determine its margin of error in estimating provisions?
- Is there regular periodic reporting of large losses to a committee of senior management or the board?
- Are there regular periodic claim file reviews?
- Does a qualified actuary review the company's provisions?

Policy and Governance

- Is the BoD fully aware of the major effects that disregarding management of operational risks has on achieving strategic goals? Do the directors understand fully the importance of techniques such as identification, assessment, monitoring and control of operational risks?
- Does the BoD consider IT system innovation, and include IT system strategy policy which handles IT systems as part of management strategy, in its strategic goals in accordance with the entire insurance company's management policy? For e.g., are the following matters clearly written in its IT system strategy policy?
 - Priority of IT system development
 - Computerization plan
 - IT system investment plan
- Have the BoD established policies listed below for management of operational risks?
 - Administrative risk management
 - IT system risk management
- Is the administrative risk management policy appropriate? For e.g., does it clearly write the following matters?
 - Regarding administrative risk management, the roles and responsibilities of director in charge and BoD.
 - Policy on or organization framework for department handling administrative risk management.
- Is the IT risk management policy appropriate? For e.g., does it clearly write the following matters?
 - Regarding IT risk management, the roles and responsibilities of director in charge and BoD.
 - Policy on or organization framework for department handling IT risk management.
 - Policy on identification, assessment, monitoring and control of IT system risk.
- Does the BoD revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings on the status of management of operational risk in a regular and timely manner or on as needed basis?
- Have the board or the management determine whether there are any weaknesses or problems in the management system of operational risk and appropriately examine their causes by precisely analyzing the status of those risks? Have the board or management assessed the effectiveness of operational risk management system based on all information available?
- Does the board or management revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of operational risk management in a regular and timely manner?
- Are there systems in place to implement improvements in the areas of the problems and weaknesses in the operational risks as identified through the assessment in a timely and appropriate manner?
- Is there a system to follow up on the efforts for improvement in a timely and appropriate manner, by reviewing the progress status in a regular and timely manner?
- Have the management defined the arrangements on risk control and mitigation, based on the full understanding of the scope, types and nature of risks and the administrative risk management technique?

Administrative risk management

- Have the BoD or senior management specified arrangements concerning administrative risk management (rules) and disseminate them throughout the organization in line with the risk management policy? Have the BoD provided their approval on these rules?

- Have the BoD or senior management ensured that the department/ division responsible for managing administrative risk management is staffed with employees having the required knowledge and experience to execute the relevant operations? Have the management assigned such staff the authority necessary for implementing operations?
- Are there necessary check and balance system for the department/ division handling administrative risks against operational divisions?
- Are there systems to ensure the effectiveness of administrative risk management (e.g., system to inform operational divisions and business locations about internal rules and operational procedures that must be observed)?
- Does the department/ division handling administrative risk management report the current status in a regular and timely manner to the BoD? Are there systems in place to ensure that the department reports to the board without delay any matters that would seriously affect corporate management or significantly undermine customer interests?
- In case where the board has specified matters to be directly reported to the statutory auditor, has it specified such matters appropriately and do they provide a system to have the relevant department directly report such matters to the auditor?
- Does the internal audit plan clearly specify the following matters?
 - Status of development of administrative risk management system
 - Status of compliance with the administrative risk management policy/ risk management policy
 - Appropriateness of administrative risk management processes commensurate with the scales and natures of business, and its risk profile
 - Status of improvement of matters pointed out in an internal audit or on the occasion of the last inspection.
- Does the BoD or management revise the development process of internal rules and organizational frameworks in a timely manner, by reviewing its effectiveness based on reports and findings on the status of administrative risk management in a regular and timely manner?
- Have the management developed administrative risk management rules exhaustively covering the arrangements necessary for risk management and specify the arrangements appropriately in line with the scales and natures of insurance company's business and risk profile? Are the rules appropriate and specify the following:
 - Roles and responsibilities of the staff involved in managing administrative risk management.
 - Identification of risks to be subjected to the administrative risk management.
 - Methods of the administrative risk assessment.
 - Methods of risk monitoring.
 - Reporting to the BoD
- Are there systems in place to ensure that staff rotations are conducted appropriately to prevent a certain employee from engaging in the same business at the same department for a long period of time from the viewpoint of preventing inappropriate incidents? In case where an employee must engage in the same business at the same department for a long period of time for an unavoidable reason, are there other arrangements to ensure the prevention of inappropriate incidents?
- With respect to contractual employees, are there arrangements in place to oversee their management with due consideration for the following points:
 - Is the scope of business that can be undertaken by the contractual staff clearly defined?

- Is there a system to ensure that personnel and labor management is conducted in light of the nature of contract worker such as a lack of personnel information concerning them compared with regular employees and the fact that a check and balance system functions against such workers on a daily basis?
- Does the management review the effectiveness of the department handling administrative risk management in a regular and timely manner? Does it also revise the rules and relevant organizational frameworks or present the board with proposals for improvement?

IT risk management

- Has the BoD developed internal rules that clearly specify the arrangements concerning IT system risk management and disseminated them throughout the organization in accordance with the IT system risk management policy?
- Have the BoD or management ensured that the department or division handling IT system risk is adequately staffed with resources having appropriate skills and knowledge to execute the relevant operations? Have the management assigned such staff the authority necessary for implementing operations?
- Are there sufficient check and balance system for the division or department handling IT system risk management against operational divisions?
- Are there systems to ensure the effectiveness of IT risk management (e.g., system to inform operational divisions and business locations about internal rules and operational procedures that must be observed)?
- Does the department/ division handling IT risk management report the current status in a regular and timely manner to the BoD? Are there systems in place to ensure that the department reports to the board without delay any matters that would seriously affect corporate management or significantly undermine customer interests?
- In case where the board has specified matters to be directly reported to the statutory auditor, has it specified such matters appropriately and do they provide a system to have the relevant department directly report such matters to the auditor?
- Does the internal audit plan clearly specify the following matters?
 - Status of development of IT risk management system
 - Status of compliance with the IT risk management policy/ risk management policy
 - Appropriateness of the IT system risk management processes commensurate with the scales and natures of the business and risk profile
 - Status of improvement of matters pointed out in an internal audit or on the occasion of the last inspection.
- Does the BoD or management revise the development process of internal rules and organizational frameworks in a timely manner, by reviewing its effectiveness based on reports and findings on the status of IT risk management in a regular and timely manner?
- Have the management identified the risk, decided the methods of assessment and monitoring and developed the IT system risk management rules which define the arrangements on risk control, based on a full understanding of the scope, types and nature of risks and the technique of managing IT system risk?
- Do the IT system risk management rules exhaustively cover the arrangements necessary for IT system risk management and specify arrangements appropriately in line with the scale and nature of the insurer's business and its risk profile? Do the rules specify the following:
 - Arrangements on the roles, responsibilities and organizational framework of the IT system risk management division
 - Arrangements on the identification of risks to be subject to the IT system risk management.

- Arrangements on the method of assessing IT system risks
- Arrangements on the method of monitoring IT system risks.
- Arrangements on system to report to the BoD.
- Have the management employed appropriate staff for overseeing management of day-to-day activities to ensure that security is maintained in line with the prescribed policies, standards and procedures? Has the person been given the necessary authority for implementing management business?
- Have the management appointed a data manager responsible for securing the confidentiality, completeness and usability of data and assigned the data manager the authority necessary for implementing management operations?
- Is there any network manager responsible for overseeing the status of network operation and controlling and monitoring access? Has the network manager given the authority necessary for implementing management operations?
- Does the management review the effectiveness of the IT risk management system in a regular and timely manner, and as necessary, revise the rules and relevant organization framework or present the board with proposals for improvement?
- How frequently does the department responsible for IT risk management conduct monitoring with regard to status of the IT system risk in the insurance company?
- Does the department responsible for managing IT system risks report information which enables the board to take decisions on countermeasures for important IT system risks?
- Does the management regularly review whether the IT system risk management method is suited to the scales and natures of the insurer's business, and its risk profile, and revise the method?

Liquidity risk

Liquidity risk arises from an institution's inability to purchase or otherwise obtain the necessary funds, either by increasing liabilities or converting assets, to meet its on- and off-balance sheet obligations as they come due, without incurring unacceptable losses.

Common activities include:

- Assessment of impaired securities (bonds, stocks, etc.)
- Derivative instruments
- Investments in joint ventures, partnerships, and limited liability companies
- Investments in real estate

Examiner assessment guidance:

- Does the company have a liquidity policy?
- Does the company monitor its liquidity position on a periodic basis?
- What are the sources of liquidity for the company?
- Does the company make cash flow forecasts and matching schedules that are appropriate for the type of business written?
- Do forecasts consider the possible non collectability of reinsurance?
- Are liquidity needs, e.g., claim payments and payroll, analyzed regularly?
- Can the company demonstrate that it has sufficient liquidity to meet its maximum plausible liquidity requirements?
- Does the company have significant exposures to illiquid investments such as real estate? Could they affect its liquidity needs?
- Does the investment policy set maximum limits for illiquid investments?
- Are the company's liquidity needs considered as part of the investment policy?
- Does the company have a plan of action to deal with potential liquidity problems?

Policy and Governance

- Is the BoD fully aware of the major effects that disregarding management of liquidity risks has on achieving strategic goals? Do the directors understand fully the importance of techniques such as identification, assessment, monitoring and control of liquidity risks?
- Have the BoD established policies for management of liquidity risks?
- Is the liquidity risk management policy appropriate? For e.g., does it clearly write the following matters?
 - Regarding liquidity risk management, the roles and responsibilities of director in charge and BoD.
 - Policy on or organization framework for department handling liquidity risk management.
 - Policy on establishing limits on liquidity risk
 - Policy on allocation of roles and responsibilities of Cash Flow Management Division/ department
 - Policy on liquidity crisis management
- Does the BoD revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings on the status of management of operational risk in a regular and timely manner or on as needed basis?

- Have the BoD or senior management specified arrangements concerning liquidity risk management (rules) and disseminate them throughout the organization in line with the risk management policy? Have the BoD provided their approval on these rules?
- For appropriate liquidity risk management process, does the BoD or management, set and revise limits, such as limit amounts for investment of assets with no market or very low liquidity, depending on the details of asset investments, as needed? Does it also set and revise limits for maintaining a certain balance of liquid assets?
- Have the BoD or management ensured that the department or division handling liquidity risk is adequately staffed with resources having appropriate skills and knowledge to execute the relevant operations? Have the management assigned such staff the authority necessary for implementing operations?
- Are there sufficient check and balance system for the division or department handling liquidity risk management against operational divisions?
- Are there systems to ensure effectiveness of liquidity risk management, such as by informing the operational divisions involving liquidity risks to be managed (e.g., underwriting division, investment division, etc.) about the internal rules and operational procedures which must be observed, and to ensure that such divisions observe them?
- Have the BoD specified matters that require reporting and those that require approval, and does it require the division managing liquidity risk to report to the board in a regular and timely manner? Are there systems in place to ensure that the relevant department reports to the board without delay a matter that would seriously affect corporate management or significantly undermine customer interests?
- In case where the board has specified matters to be directly reported to the statutory auditor, has it specified such matters appropriately and do they provide a system to have the relevant department directly report such matters to the auditor?
- Does the internal audit plan clearly specify the following matters?
 - Status of development of liquidity risk management system
 - Status of compliance with the liquidity risk management policy/ risk management policy
 - Appropriateness of liquidity risk management system
 - Appropriateness of the liquidity system risk management processes commensurate with the scales and natures of the business and risk profile
 - Validity of liquidity risk analysis and assessment methods, assumptions, etc.
 - Effectiveness of liquidity risk management.
 - Status of improvement of matters pointed out in an internal audit or in the last inspection.
- Does the BoD or management revise the development process of internal rules and organizational frameworks in a timely manner, by reviewing its effectiveness based on reports and findings on the status of IT risk management in a regular and timely manner?
- Have the management decided the methods to assess, identify and monitor risks, and developed liquidity risk management rules that clearly define the arrangements on risk control, based on a full understanding of the locations, types and nature of the liquidity risks and management techniques?
- Do the liquidity risk management rules exhaustively cover the arrangements necessary for liquidity risk management and specify arrangements appropriately in line with the scale and nature of the insurer's business and its risk profile? Do the rules specify the following:
 - Arrangements on the roles, responsibilities and organizational framework of the division responsible for managing liquidity risks
 - Identification of factors which affect liquidity risks, and reporting standards when causes arise.

- Liquidity risk analysis and assessment methods
 - Liquidity risk monitoring methods.
 - Setting of liquidity risk limits
 - Comprehensive management of assets and liabilities
 - Cash flow tightness classification and judgement criteria (for e.g., normal time, concern time, crisis time, huge disaster time)
 - Countermeasures in entire insurance company when liquidity crisis occurs.
 - System for reporting to BoD
- Have the management created a contingency plan which clearly establish a definition of liquidity crisis, communication and reporting framework during liquidity crises, response methods, approval authority, line of command, etc.?
 - Are there check and balance system in order to conduct liquidity risk management appropriately?
 - Are there systems in place to conduct monitoring on an ongoing basis with regard to the status of execution of operations related to liquidity risk management? Does the management review the effectiveness of such a system in a regular and timely manner?
 - Does the department responsible for managing liquidity risk identify internally generated causes and externally generated causes which affect liquidity risks? Does it identify causes which affect liquidity risks, for e.g., large fund movements, worse business results situation, large market drop, etc.?
 - When introducing new products, new IT systems or starting business or subsidiary, does the management evaluate the effect of liquidity risks in advance?
 - While managing the cash flow risk, does the management fully consider that depending on the financial conditions of the reinsurers, there are risks that it will not receive ceded reinsurance payouts?
 - Does the department managing liquidity risk appropriately analyze and assess liquidity risks in a way that suits the size and characteristics of operations, and their risk profile? For e.g., does it assess the situation of liquidity risks by obtaining information on the following situations?
 - Characteristics of each country's currency handled domestically and overseas.
 - Market liquidity situation of each financial instrument (market size, transaction volume, etc.)
 - Cash flow situation overall and by each currency
 - Actual and planned insurance premium revenues and insurance payout expenditures.
 - Composition and balance of held assets, by currency, instrument and period.
 - Balance of liquid assets
 - Market fundraising conditions and fundraising possibilities.
 - Balance of contracted credit reception lines and credit provision lines.
 - Does the department handling liquidity risk consider the situation of equity and comprehensive management of assets and liabilities, then use multiple scenarios which consider both internally generated causes and externally generated causes, to analyze and assess liquidity risks?
 - Does the management collect and analyze information on the internal environment such as that of insurer's risk profile, and on the external environment such as the economy and markets, etc.?
 - Does the division responsible for managing liquidity risk collect and analyze information on the internal environment such as reports on insurer's risk profile and on external environment such as the economy and markets, etc. based on liquidity risk management policy and liquidity risk management rules?
 - When the management sets limits for liquidity risk exposure, does it appropriately monitor the status of compliance and use of these limits?

- Are there systems to provide information necessary for the board to make appropriate assessments and decisions with respect to the status of liquidity risks in a regular and timely manner? Does the system enable the management to report on the following matters?
 - Factors which have large effects on liquidity
 - Situation of external environment, such as economy and markets.
 - Status of cash flow tightness
 - Level and trend of liquidity risks
 - Status of compliance with and use of limits
- If the management sets limits for liquidity risk exposure and when those limits are exceeded, are there systems to quickly report it to the board to provide information which enables them to develop countermeasures?
- Does the department responsible for managing liquidity risks verify the validity of identification of internally generated and externally generated factors which affect liquidity risks, and revise them, periodically or as needed?
- Does the management verify whether the liquidity risk analysis and assessment methods suit the size and characteristics of operations as well as its risk profile and external environment, periodically or as needed? Does it then revise them?
- Does the management use multiple stress scenarios to assess the degree of effects, and analyze and assess internally generated factors and externally generated factors which affect liquidity risks, to verify whether the limits it sets as needed and its setting methods and limit levels suit the size and characteristics of operations, its risk profile, financial conditions and fundraising ability, periodically or as needed?
- Does the management use multiple stress scenarios from the following viewpoints to assess the degree of effects, and check the effectiveness of countermeasures?
 - Are cash flow tightness classifications appropriate, considering specific tightness status and countermeasures for cash flow tightness?
- To enable timely and appropriate countermeasures, are cash flow tightness classification decision standards as specific and easily recognized as possible?

Strategic risks

Strategic risk arises from an institution's inability to implement appropriate business plans, strategies, decision-making, resource allocation and its inability to adapt to changes in its business environment.

Common activities include:

- Management oversight
- Company consideration of risks
- Inaccurate benchmarking
- Financial projections and economic forecasts

Examiner assessment guidance:

- Does the company engage in strategic planning? If so, are those plans clearly documented?
- Are all strategic plans reviewed and approved by the board of directors?
- Does the company create tactical/business plans defining the steps required to achieve the strategic plan?
- Do those steps appear to be achievable in the circumstances?
- Has the company identified obstacles to the achievement of its strategic goals?

ইহা চূড়ান্ত নহে। বীমা উন্নয়ন ও নিয়ন্ত্রণ কর্তৃপক্ষ যেকোনো সময় পরিবর্তন, পরিবর্ধন ও পরিমার্জন করার ক্ষমতা সংরক্ষণ করে।

- Has the company tested the effect of its failing to achieve all or part of its strategic goals? Has the company made any contingency plans to cover that possibility?

Insurance Risk

Product Design and Pricing Risk

Product design and pricing risk arises from the exposure to financial loss from transacting insurance and/or annuity business where costs and liabilities assumed in respect of a product line exceed the expectation in pricing the product line.

Underwriting and Liability Risk

Underwriting and liability risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, the reduction, retention and transfer of risk, and the management of contractual and non-contractual product options.

Common activities include:

- Policy for premium considerations
- Selection of risks to be insured
- Marketing and sales mark-up
- Underwriting performance of agents, brokers and sales personnel

Examiner assessment guidance:

- Does the company have policies covering underwriting risk?
- Are the policies set out in manuals/handbooks and clearly disseminated to appropriate staff?
- Do those policies address new product development and entry into and exit from product lines? Types of business to be avoided? Premium rate development – actuarial involvement? Policy and retention limits? Risk selection? Exposure concentration? Selection and use of reinsurance? Authorization levels and limits?
- Are there procedures to verify compliance with underwriting policies?
- Does the company regularly monitor experience by class/type of business?
- Are underwriting files reviewed?

IT Risks

(a) Development and dissemination of internal rules

Has the board of director or any relevant authority have developed internal rules which clearly specify the arrangements concerning IT system risk management and disseminated them as per the IT system risk management policy? Has the BoD or any relevant authority have approved the internal IT system risk management rules after determining if they comply with the IT system risk management policy?

(b) Establishment of system of IT system risk management division

- Have the BoDs or any other relevant authority established a separate IT division responsible to undertake appropriate roles in line with the IT risk management policy?
- Is the aforementioned IT division properly staffed? Do the staff have the necessary knowledge and experience to execute the relevant operations and do they have sufficient authority for doing so?
- Are there any check and balance system of the IT division against operational divisions?

(c) Development of IT risk management system in operational divisions, business locations, etc.

Does the company have a system to ensure effectiveness of IT system risk management and inform the operational

divisions and business locations about the internal rules and operational procedures that should be observed?

(d) System for reporting and approval of Board of Directors

Does the BoD or any other relevant authority appropriately specify matters that require reporting and those that require approval, and have the manager of the IT division report the current status to the BoD on a need basis? In particular, does it ensure that the manager reports to the BoD without delay on any matters which would seriously impact the corporate management or significantly undermine consumer interest?

(e) System for reporting corporate auditor

In case where the BoD has specified matters to be directly reported to the auditor, has it specified such matters appropriately and do the company have a system for the manager to directly report such issues (related to IT) to the auditor?

(f) Development of internal audit guidelines and audit plan

Does the internal audit division appropriately identify matters to be audited with respect to IT system risk management, develop guidelines that specify the matters subject to internal audit and the audit procedures and an internal audit plan? For e.g., does the internal audit guidelines clarify the following matters?

- i. Status of development of IT risk management system
- ii. Status of observance of IT system risk management policy, IT system risk management rules, etc.?
- iii. Appropriateness of IT system risk management processes commensurate with the scales and natures of the business and risk profile
- iv. Status of improvement of matters pointed out in an internal audit or in the occasion of the last inspection

(g) Revision of the development process of internal rules and organizational framework

Does the BoD or any other relevant authority revise the development process of internal rules and organizational frameworks in a timely manner by reviewing its effectiveness based on reports and findings on the status of IT system risk management in a regular and timely manner or on a need basis?

Assessment of reinsurance arrangements

During the onsite examination, it is important to evaluate the reinsurance arrangements of the inspected legal entity. During this process, the inspection team should review all reinsurance documentation (placement slips, cover notes, reinsurance arrangements, etc.) for significant reinsurance contracts for their completeness, accuracy and timeliness and to verify that acceptable forms of collateral have been secured by the company in timely manner for all amounts recoverable from unauthorized reinsurers.

- (a) Both the underwriting risk and the timing risk should be present in order to warrant reinsurance accounting treatment. The other elements of risk, including credit risk or yield risk are inherent in all reinsurance arrangements, and result in a reduction in a reduction of investment income to the reinsurer as an effect of the accelerated loss payments.
 - Underwriting risk: Possibility that losses and expenses recoverable by the cadent from the reinsurer will exceed the consideration received by the reinsurer, thus resulting in underwriting loss to the reinsurer.
 - Timing risk: Such risk exists when anticipated loss payment patterns are not considered during the development of recoverable losses under the reinsurance agreement, and result in reduction in investment income to the reinsurer as an effect of the accelerated loss payment.
- (b) The inspection team should look closely at the reinsurance agreements to determine how much credit should be allowed. The amount of credit allowed ideally should be directly related to the amount of loss recoverable (i.e., for a finite amount of risk transferred to the reinsurer, no more than an equivalent finite amount of statement credit should be allowed.
- (c) The inspection team should determine if the reinsurance arrangement have the effect of deferring the reinsurer's obligations to reimburse covered losses as it will violate the timing risk requirement. Such provisions often include floating retentions, last dollar paid arrangements, multiple year retentions, etc. In this regard, the inspection team should also determine if any separate agreement or understanding exist between the insurer and the reinsurer which would serve to reduce, offset, or eliminate the reinsurer's obligations

