



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM



ICP 8 Risk Management - Lessons for the pension sector

IOPS-IAIS PCG JOINT SEMINAR ON CROSS-SECTORAL ISSUES

11th May 2012, Skopje



General principle

- The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of
 - risk management and
 - internal controls
- including effective functions for
 - risk management
 - compliance
 - actuarial matters and
 - internal audit.
- Board responsibility
- Function = person, unit or department

} Control
functions



Elements of risk management system

- risk management strategy
- objectives, key principles and proper allocation of responsibilities for dealing with risk across the organisational units
- a clearly defined risk appetite approved by the Board
- written policies with definitions and categorisation of risks
- processes and tools for identifying, assessing, monitoring, managing, and reporting on risks
- regular reviews of the risk management system and its components
- an effective risk management function



Elements of internal controls system

- controls over the insurer's books, records, accounts, reporting and other key business processes and policies
- appropriate segregation of duties (separate execution from control)
- policies for cross control (double or multiple signatures)
- centralised written inventory of key processes, policies and controls in place
- training
- processes for regular checks that the IC system works as intended incl. periodic testing and assessments



Control Functions (General)

- fit and proper
- authority and responsibilities of a control function to be set or approved by Board
- resources
- possibility to combine or outsource a control function



Risk Management Function

- direct reporting line to the Board
- evaluate the internal and external risk environment
- identify the risks
- gain and maintain an aggregated view of the risk profile of the insurer
- assess, aggregate, monitor and help manage identified risks
- conduct regular stress testing and scenario analyses
- conduct regular assessments of the RM function and RM system and implement improvements



Compliance Function

- ensure the existence of appropriate policies, processes and controls in respect of key areas of legal and ethical obligations
- identify, assess, report on and address key legal and regulatory obligations
- address compliance shortcomings and violations
- hold regular trainings
- facilitate the confidential reporting by employees
- conduct regular assessments of the compliance function and implement improvements



Actuarial Function

Evaluation of and advice on

- actuarial and financial risks,
- investment policies and the valuation of assets,
- Solvency position,
- distribution of policy dividends or other benefits,
- underwriting policies,
- reinsurance arrangements,
- product development and design,
- the sufficiency and quality of data used in the calculation of technical provisions
- risk modelling and use of internal models.



Internal Audit Function

- reports directly to the Board
- establishing, implementing and maintaining a risk-based audit plan,
- reviewing and evaluating the adequacy and effectiveness of the insurer's policies and processes, documentation and controls
- reviewing levels of compliance by with established policies, processes and controls,
- monitoring and evaluating governance processes and control functions,
- conducting regular assessments of the internal audit function and audit systems and incorporating needed improvements



Proportionality

The systems and functions should be adequate for the nature, scale, and complexity of the insurer's business and risks and should be adapted as the insurer's business and internal and external circumstances change.



Lessons for pensions

- Focus on investment, biometric and operational risks
- RM to consider also intangible risk factors such as environmental, political and regulatory changes,
- alignment to different risk sharing mechanisms btw. pension company, members and employers
- In DC RM to take into account members' risk preferences
- RM to cover also risks stemming from outsourced activities and overall risk generated through outsourcing



Lessons for pensions

- RM specificities in case of life cycling
 - Allocation of members into appropriate funds
 - Efficient change in asset mix in accordance with membership profiles
- Communication to members
- Additional information to make members aware of the costs of the transition between asset classes



Thank you for your attention

Peter Pénzeš
Regulation and Financial Analyses Department
National Bank of Slovakia

tel: +421 2 5787 3374

E-mail: peter.penzes@nbs.sk