

# Compliance & Risk management

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Stakeholder Protection

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Convergence of Company Law and  
Insurance Law  
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# Facts about Insurance sector for the financial year 2012-13

- Assets under management (as at 31 March 2013): Rs.18,67,886 Crores\*
- Total premium collected by Insurance companies: Rs.3,50,175 Crores\*
- Total Death claims settled under individual policies: Rs.9,370.22 Crores\*; Net incurred claims for Non-life insurers: Rs.39,623.61 Crores\*

\* Figures as per IRDA Annual Report 2012-13

# Mission of Insurance Regulatory and Development Authority

- Protection of interests of Policyholders and securing their fair treatment **(Protection)**
- Speedy and orderly growth of the insurance industry for the benefit of common man and to provide long term funds for accelerating economic growth **(Growth)**
- Promoting, monitoring and enforcing high standards of integrity, financial soundness **(Integrity)**
- Speedy settlement of genuine claims and preventing insurance frauds and putting in place effective grievance redressal machinery **(Justice)**
- Promoting fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable information system to enforce high standards of financial soundness among market players **(Market conduct)**
- Taking action where standards are inadequate or ineffectively enforced **(Enforcement)**
- Optimum amount of self regulation in day to day working consistent with the requirements of prudential regulation **(Self regulation)**

# Protection of interests of Policyholders and securing their fair treatment

- Approval to insurance products under “file and use” guidelines before launch
- Codes on issuance of Advertisements by insurers
- Right of “freelook” cancellations by Policyholders
- Prescription of TAT for various customer servicing activities
- Printing of forms in vernacular languages
- Protection of interests of persons insured under Group insurance policies
- “With Profits Committee” to review methodology for distribution of Policyholders bonus
- Guaranteed Surrender values and Discontinuance Fund under Unit linked insurance policies
- Guidelines for handling Orphan insurance policies
- Insurance Ombudsmen

# Speedy and orderly growth of the insurance industry for the benefit of common man and to provide long term funds for accelerating economic growth

## Front-end

(authorised to sell)

- Individual Agents
- Corporate Agents
- Insurance Brokers
- Telemarketing (Authorised Verifiers)
- Web Aggregators (through Distance marketing)
- Direct Marketing (Authorised employees of insurer)
- Micro Insurance Agents & Common Service Centres
- **Insurance Repositories for holding insurance policies in electronic form**
- **Minimum mandatory investments in infrastructure related sectors**

## Back-end (Data base sharing & Lead generation)

- Referral Company
- Telemarketing (Lead Generators)
- Web Aggregators (Lead Generators)

**Promoting fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable information system to enforce high standards of financial soundness among market players**

- Code of conduct for various market intermediaries such as Brokers, TPAs and Web Aggregators
- Periodic onsite inspection of intermediaries and regulatory action for non-compliances
- Submission of periodic return by intermediaries and their review
- Prescription of net worth requirements for stability of insurance intermediaries

# Promoting, monitoring and enforcing high standards of integrity, financial soundness

- Removal of Conflicts of interest
- Prior approval of IRDA – due diligence for CEO & Appointed Actuary appointments
- Due diligence on Promoters and Investors -prior approval to transfer of shares exceeding 1% in any insurance company or post-transfer holding exceeding 2.5%/5%
- Issue of licence to insurers and renewal every year subject to satisfactory track record
- Compulsory dilution of Indian promoter equity to 26% after 10 years & guidelines for Public issues by Insurance companies
- Maintenance of Solvency margin of not less than 1.50 at all times
- Limits to expenses of management of insurers and commission to agents and intermediaries

## Promoting, monitoring and enforcing high standards of integrity, financial soundness (contd..)

- Prescription of standards for preparation of Financial statements and audit
- Guidelines for appointment of Statutory auditors and their rotation
- Concurrent Audit of investments
- Reinsurance regulations



Speedy settlement of genuine claims and preventing insurance frauds and putting in place effective grievance redressal machinery

- TAT for settlement of claims
- Review of claims decisions made by insurers during on-site inspections
- Grievance Redressal guidelines
- Offsite and Onsite review of decisions taken by Insurers on specific customer complaints
- Fraud monitoring framework
- Anti-money laundering guidelines

# Taking action where standards are inadequate or ineffectively enforced

- Onsite and offsite inspection of regulated entities and taking appropriate regulatory actions
- Refusal, suspension or cancellation of licences
- Issue of directions to Insurance companies
- Power to remove managerial persons to secure policyholders' interests
- Power to order amalgamation of insurance companies

Optimum amount of self regulation in day to day working consistent with the requirement of prudential regulation

- Constitution of Life insurance and General councils as Representative body of insurers
- Corporate Governance guidelines prescribing the governance framework through various Board level Committees
- Appointment of Key managerial personnel which includes Chief Compliance Officer and Chief Risk Officer
- Company Secretary named as Compliance Officer for Corporate Governance guidelines

# Compliance governance – Internal codes

- Code of conduct and ethics
- Conflicts of interest policy
- Gifts and entertainment policy
- Anti-bribery policy
- Whistleblower policy
- Personal trading policy

# Compliance – three lines of defence

- First line of defence – persons responsible for implementing the compliance
- Second line of defence – Independent compliance function responsible for overseeing compliances
- Third line of defence – Internal audit function responsible for giving independent assurance to management

# Compliance governance framework

- Assimilation of applicable laws and regulations
- Understanding, interpreting (with the assistance of lawyers, if need be), benchmarking the applicable laws and regulations
- Dissemination of requirements, including walkthrough and deep dive of new regulations with the concerned stakeholders
- Facilitating threading, sequencing & defining the changes to existing processes by the concerned stakeholders
- Signing of a communications note with all the concerned stakeholders confirming understanding of the regulations
- Followup reviews to ensure compliance is up and running smoothly as per expectations
- Compliance Certification process by stakeholders to promote compliance accountability
- Voluntary reporting of Events & Breaches to Compliance by stakeholders
- Assistance during inspections by Regulators
- Compliance Risk management

# Risk management in insurance

- Key categories of risks:
  - Operational Risks (System related, process related – Inappropriate Sales practices, System/manual errors etc.)
  - Actuarial Risks (Mortality, Morbidity, Lapse assumption, Expense assumption and Solvency risks)
  - Financial Risks (Asset Liability management, Market Risks)
  - Strategic Risks (Breakeven delays, lack of transformational deals etc.)
  - Reputation Risks (Brand, customer complaints, higher claim repudiations)
- Risk management oversight – Management level and Board level Committees
- Chief Risk Officer oversight on ongoing basis
- Documentation of Risks, ratings, action plans, reviews
- Risk appetite framework

THANK YOU