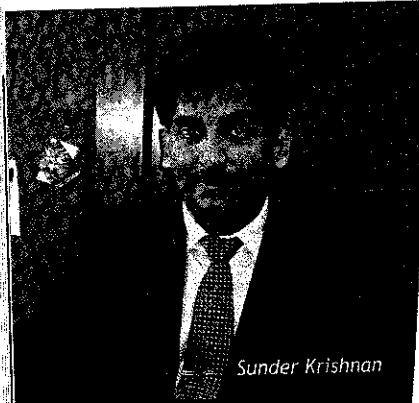


Combating Risk in Insurance Business



Sunder Krishnan

Indian insurance companies should brace themselves for adopting Solvency II, the international framework for insurance business, in order to counter high levels of risks in the business, says S.V. Sunder Krishnan, chief risk officer of Reliance Life Insurance Company, in an interview with executive editor N. Mohan

The Indian insurance sector would have to adopt Solvency II, the latest set of supervisory rules prescribed for the industry globally, and integrated risk management covering operational risks in order to successfully combat inherent risks, says S.V. Sunder Krishnan, chief risk officer, Reliance Life Insurance Company.

While the industry and the regulator have addressed certain risks (like 150% solvency, etc), he feels there have to be efforts alongside by the industry to strengthen the risk framework within organizations. The regulator has strengthened the review mechanism to review practices within insurance organizations so that these organizations evolve risk management practices to keep pace with the growth in the industry.

Reliance Life Insurance, he says, is a pioneer in implementing an effective risk management framework, which is built on the lines of the COSO (Committee of Sponsoring Organizations of the Treadway Commission), which has prescribed the Enterprise Risk Management - Integrated Framework) principles.

He outlines the vision of the company: "Broadly, the vision of our risk management unit is that risk management is a key part of how we all do things to ensure success. The risk management, at a generic framework level, consists of:

- (i) **Governance:** establishment of policies and the definition of the framework to implement these policies
- (ii) **Identification:** stipulation and documentation of risk exposure along process and project lines
- (iii) **Measurement:** qualification and quantification of risk and loss in financial value and quality
- (iv) **Monitoring:** identification, tracking, & control of risk events and resolution thereof
- (v) **Mitigation:** proactive management of risk exposure."

RISK MANAGEMENT PROCESS

Sunder Krishnan says that through a defined risk management process, the company has implemented policies that address fraud reporting and investigation, mis-selling, conflict of interest, personal dealing, code of conduct and whistle blowing. The company has also adopted both qualitative (management assessment, risk reviews, audit and compliance) and quantitative (system reliance, risk register, data analysis and mining) models in determining and mitigating risks.

"Control and monitoring activities are initiated on high risks processes, or entities," he says, "through the regular circulation of key risk indicators and its trend analysis management is kept abreast of top risk issues. Risks are also deliberated at control committee meetings instituted by the risk management unit, where the risk appetite is defined for issues highlighted. The risk management unit has also embarked on use of technology that will assist in the effective monitoring and integration of risk management practices." The company has deployed an automation tool which automates risk management, compliance and audit processes. This has been bought from a specialist risk solution provider MMCS and addresses global best practices. Apart from this solution, the firm has customized the core insurance solution - LIFE Asia application of CSC - to address AML needs, flagging of advisors and transactions.

The company has actually automated key processes across compliance, audit and risk, aiming to achieve integrated assessment of entities across these three aspects, to have a quantitative and qualitative approach to risk management, to facilitate increased productivity and efficiency and to enable monitoring and identifying key risk areas and entities. The risk management module consists of key risk indicators, key incident trackers, control self-assessment, risk review and risk assessment. The compliance module consists compliance risk assessment and compliance review. The internal audit module consists of continuous monitoring, risk assessment and audit processes.

Reliance Life has minimal regional staff and dependence

on outsourcing, there is facilitation and management of risk, audit, compliance, legal (like ombudsman hearing), business continuity process, training and risk sanitization, adequate control over outsourced vendors (across risk, audit, claims, compliance) and ground level inputs and speedier response time to key risk indicators such as Cheque bouncing, AML deviations, free look cancellations and the like.

MAIN RISKS

As far as insurance industry in general is concerned, Sunder Krishnan says there are six main risks: credit / market risk, investment risk, operational risk, insurance risk, legal risk, and reputational risk. Major risk issues that the industry faces, are: mis-selling, inadequate investigation of death / accident claims, non disclosure of health-related information with the connivance of sales, AML deviations, frauds (bogus cheques, signature forgery across proposal forms, false payment instruments) and fraudulent claims.

"To address risk management, we have created a control committee at the apex level to review and monitor all risk analysis and address various risks," says Sunder. The committee initiates decisions on risk mitigations measures to reduce the risks to an acceptable level. Given that insurance industry is at nascent stages, it is an uphill task. However, the regulator has sent in strong signals to curb risks and ensure that reputation of the industry is ensured, he adds.

Some of the measures implemented by the regulator are AML norms, customer grievance redress system, strong product

SOLVENCY II

The European Union has prescribed a set of regulatory requirements, called Solvency II, for insurance firms that operate in the region. The aim has been to create a single market in insurance services throughout the EU and to ensure a required level of consumer protection. Solvency II is based on economic principles for the measurement of assets and liabilities. It is also a risk-based system as risk will be measured on consistent principles and

capital requirements will depend directly on this. It is described as 'Basel II for insurers'. It is basically built on three pillars:

Pillar 1 consists of the quantitative requirements (for example, the amount of capital an insurer should hold).

Pillar 2 sets out requirements for the governance and risk management of insurers, as well as for the effective supervision of insurers.

Pillar 3 focuses on disclosure and transparency requirements.

norms, market conduct review, expense ratios and the like.

Insurance companies usually eliminate or mitigate risks through shifting risk to other parties like reinsurance companies. What are the risks that Reliance Life Insurance has transferred to third parties?

Sunder says risk management involves a cost (including reinsurance). He elaborates: "There is need to look at cost vis-a-vis probability of occurrence and level of impact. We have fidelity insurance and

we also resort to transfer, retain price and avoidance. Outsourcing with supervision ensures delivery standards. Underwriting risk adopts a conjunction of all the above and peer reviews and benchmarking are carried out from a business perspective." Process standards using the ISO framework have been rolled out by the firm and there is a strong stress on quality framework and TAT for various services to customers.

RISK AUDIT

The company gives emphasis to risk audits. The program covers review and supervision for audits conducted for corporate functions, continuous monitoring, conducting limited review of key process and activities at quarterly basis, thematic audits, risk-based branch audits and management request audits. Key areas covered under the risk-based auditing are investments, underwriting, persistency management, commission calculations and payments.

mohan@bankingfrontiers.com

This is Our Life

Rajneesh Kapoor

