

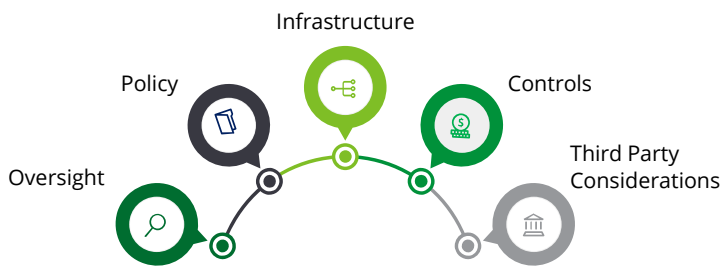
# BMA Consultation Paper: Proposed Enhancements to the Regulatory Regime for Commercial Insurers (CP2)

Connecting the Dots | CP2 Governance and Risk Management Series | Part 3

Part 3 of Deloitte’s Connecting the Dots | CP2 Governance and Risk Management Series will summarize the key updates to the regulatory regime as outlined in Section 2.14 ‘Governance and Internal Control Requirements’ of the BMA’s consultation paper, Proposed Enhancements to the Regulatory Regime for Commercial Insurers.

## Section 2.14 – Governance and Internal Control Requirements

When it comes to governance and internal control requirements, the BMA has structured its expectations into **5 categories**:



### Oversight

The BMA breaks down the oversight aspect of governance and internal control into the responsibilities of the board and suitable committees:



**The board** should:

- Approve the **initial use** of the SBA
- Approve any **major changes** to the SBA thereafter
- Ensure **ongoing appropriateness** of the design and operations of the SBA model (and that the SBA model continues to be appropriate for the insurer)



**Alert:** Major changes should be defined in advance within the SBA model change policy or, if not defined, a second line opinion should be sought at the time that the changes occurs to decide whether or not the change requires board or board committee approval.

In addition to the board there should be a **committee(s)** who is responsible for effectively challenging:

- New and ongoing model use
- Model and assumption change approval
- Use and reporting of model output
- Model validation reports

## Policy

The BMA has prescribed that insurer’s should have at a **minimum 3 policies** to guide the model risk management activities:

Policy 1	Policy 2	Policy 3
Model Risk Management Policy (See also Section 2.15)	Model Change Policy	Data Quality Policy

The Model Change Policy and Data Quality Policy can be standalone policies, or they can be included under the Model Risk Management Policy.

These policies should at a minimum cover:		
Data storage	Data quality	Model development
Model testing	Model use	Model change
Model validation	Model documentation	Model outsourcing
Model reporting	Model governance	Processes and procedures (*)

(\*) Other documents such as standards, processes and procedures could be considered, if appropriate and proportionate to support the implementation of the policies.



**Alert:** The SBA model change policy should distinguish between **major and minor** model changes, as well as include any change that was triggered by the expansion of the scope of the SBA model.

In terms of the broader governance and internal control requirements, the roles of the control function should be clearly defined concerning the results and risks of the SBA model.

These roles include:

- Model development
- Model use
- Ongoing maintenance
- Model monitoring
- Model review
- Model validation
- Model reporting



## Key Control

The insurer should establish a mechanism in the model governance framework to **identify and prevent any conflict of interest**. The mechanism should include clear guidance on:

- Reporting lines
- Allocation of responsibility
- Escalation paths within the insurer and to the BMA as necessary



**Alert: Where conflict of interest cannot be avoided** (e.g., due to proportionality concerns such as the size of the insurer), the insurer will need to consider the conflict and apply the requirement in a suitable and fair way.

## Infrastructure

It is the insurers responsibility to ensure that any **systems, infrastructure, and resources (including people)** in place are adequate to execute on the requirements set out in the consultation paper.

## Controls



## Key Control

The insurer should ensure that the company has put in place adequate and effective controls dealing with the SBA model's **operation and maintenance**.

## Third Party Considerations

Insurers are allowed to use third-party actuarial and investment software as part of the SBA model (including SBA feeder models)



**Alert:** Although permitted, **outsourcing** running, maintaining, and managing the SBA model and its feeder models are **not encouraged**.

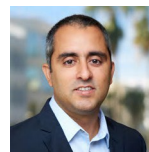


Nevertheless, which form of outsourcing is used, it is the **insurer's responsibility to have demonstratable oversight** and clear accountability for all outsourced activities, as if they were performed internally, subject to the insurer's own standards on governance and internal control



**Alert: Outsourcing should be discussed with the BMA** before implementation, and where already implemented, will be subject to the BMA's onsite review process. Also note that the **updated Insurance Code of Conduct** has been effective from **September 2023**, and includes numerous outsourcing requirements in addition to what has been highlighted here.

## Contact us

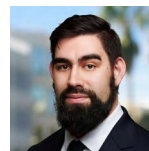


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