

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

Connecting the Dots | CP2 Governance and Risk Management Series | Part 5

Part 5 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 2.17 'Accountability' of the BMA's consultation paper, Proposed Enhancements to the Regulatory Regime for Commercial Insurers.

Section 2.17 – Accountability

While the **Approved Actuary** is responsible for providing **independent assurance** to the BMA that the technical provisions have been assessed to be reasonable it should be noted that this is the **responsibility of the board and cannot be delegated**.

The BMA notes that the following individuals are deemed accountable for the accuracy of the BEL (best estimate liability):

- Chief Actuary
- Chief Investment Officer
- Chief Financial Officer
- Chief Executive Officer
- Other Senior Management Positions

Key Control

The BMA requires the **Chief Risk Officer** to provide independent oversight and challenge over how the insurer applies the SBA model, as well as an attestation directly to them regarding the adequacy of said oversight.

Internal Audit's Roles and Responsibilities

Key Control

The BMA expects the **Chief Internal Auditor (CIA)** to **review the SBA model** as part of the


CIA's regular program of assessing the effectiveness of the wider model risk management program (Section 2.15).


The **objective of internal audits assessment** is to:

- **Assist** management, the board of directors and other stakeholders in **performing their duties**
- Confirm that the activities by both the **first line** and **second line** functions provide adequate assurance that the requirements of the new regulations are met

Key Control

The BMA envisages that the CIA and the internal audit function will play a key role in assessing the associated model risk management Framework (**Section 2.15**).

 **Alert:** The BMA does not require the CIA to provide an annual attestation, instead the BMA will monitor the internal audit activities relating to the SBA model risk management through its regular **on-site and off-site supervisory review process**.

 **Alert:** The BMA can request (**at any time**) that the **approved actuary** or **any of the company's officers** provide them with evidence that they are satisfied that they have **fulfilled their fiduciary duty** (ensuring the BEL and technical provisions are calculated responsibly and transparently, in keeping with the objectives of protecting the policyholder interests)

Deloitte Insights: Top of Mind Considerations for Key Stakeholders

The Board of Directors

- Upskilling themselves to understand the SBA methodology and changes to CP2
- Obtain sufficient information in order to take accountability for the SBA assumptions methodologies and key inputs used by the company

- There will be an operation impact of increase/changes in regulations which will bring a **need for new staff/outsourcing or acquiring new skills**
- Increased **focus on internal controls and governance structures**
- Responsibility over the **liquidity risk management framework** and approving the liquidity risk **appetite**
- **Approving the initial SBA** model and any major subsequent **changes**



The Approved Actuary

- **More detailed** Approved Actuarial **Opinion requirements** of the BMA
- New requirement to provide an independent assessment of the suitability and application of the **liquidity and transaction costs** in SBA
- Additional responsibility to check and confirm any **Section 6D** approval/exceptions applied for by the company
- Increased requirements to perform "**audit-like**" procedures on EBS technical provisions with focus around SBA mechanics
- Provide **independent assurance** to the BMA on technical provisions
- Should review the **model review log annually**



Finance Function

- Impact of change in regulatory solvency position (covenants, group risk appetite limits and risk profile)
- Increased responsibility to **manage a liquidity plan** for insurance business



Chief Investment Officer

- New requirement to **attest** to
 - **Reinvestment** and **disinvestment** strategy
 - **Default** and **downgrade** assumptions
- Impact on investment strategy due to changes in affiliated investments, ring-fencing requirements, modelling requirements
- Additional area of focus to manage **short term liquidity needs** and manage **potential lapse risk** for certain products



Actuarial Function

- Increased requirements to perform SBA analysis and reporting to the BMA annually
- **Attest** to on the **prudence** and **appropriateness** of the default assumptions
- New calculations of BSCR components
- **Field testing** requirements (at inopportune times)
- Increase in **stress testing** scenario demands across the business
- Potential revamping of actuarial models to satisfy BMA requirements on modelling specifications on SBA
- More rigorous **model change management** process needs to be established



Internal Audit

- Increased **oversight of new policies** (Liquidity Risk, Model Risk) to ensure suitability and compliance
- More **rigorous documentation requirements** – model, data, controls
- **Review the SBA model**
- **CIA** to include CP2 considerations as part of developing their internal audit plans.
- Formulate their own **independent opinion** over the **SBA governance process**



Chief Risk Officer

- **Attestation** of the adequacy of the model risk management practices and regulatory compliance
- **Attestation** regarding the adequacy and independence **of their challenge** and oversight on how the SBA was applied

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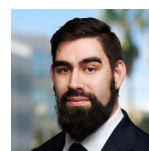


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