TURKS & CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Guideline for Risk Management and Internal Controls for Insurance Companies and Intermediaries

1. INTRODUCTION

This Guideline applies specifically to domestic insurers[1] and insurance intermediaries, licensed to transact insurance business in the Turks and Caicos Islands ("TCI"). It is issued by the Financial Services Commission ("the Commission") pursuant to Section 43 of the Financial Services Commission Ordinance ('FSCO") to provide guidance which will lead to an improved financial services industry where all stakeholders will benefit from improved Risk Management and Internal Controls.

2. RISK MANAGEMENT FRAMEWORK

The Board of Directors ("the Board") is ultimately responsible for ensuring that the Company has in place effective systems and functions to address the key risks it faces, the legal and regulatory obligations with which the insurer must comply and that Senior Management implement and monitor these systems effectively. The Board should approve the risk management framework to be

[1] Domestic Insurer: An insurer, licensed under section 4 (1) (a) of the Insurance Ordinance, whose principal objective is to insure risks in relation to:

(a) a person who, at the time of effecting the contract, is ordinarily resident in the Islands; or
(b) property that, at the time of effecting the contract, is in the Islands or, in the case of a vehicle, vessel or aircraft, or other movable property is ordinarily based in the Islands.

implemented and ensure that these systems are reviewed at least annually. The risk management framework should be documented and include a strategy which stipulates an appropriate risk tolerance level or risk limit for material sources of risk. It should be capable of promptly identifying, measuring, assessing, reporting and controlling all sources of risks that could have a material impact on the operations of the entity. Additionally, the framework should be appropriate having regard to the size and complexity of the insurer and the nature of its risk exposures.

The insurer should document the results of reviews that are conducted on the market environment in which it operates and conduct stress testing on the financial projections that were incorporated into the business plan. The effects of significant but plausible unforeseen events and the actions that will be taken to manage any adverse impacts that may occur should be highlighted in the report.

The head of all risk management functions for example Internal Control, Compliance and Internal Audit, should have access to, and the ability to report directly to the Board. Additionally, that officer should have the authority and obligation to inform the Board promptly of any circumstance that may have a material effect on the risk management system of the insurer.

3. INTERNAL CONTROL SYSTEMS

Internal Controls should be designed to provide reasonable assurance regarding the efficiency of operations, the reliability of financial and non-financial reporting, adequate control of risks and compliance with applicable legislation. The Board should have an understanding of the control environment and should require Senior Management to establish appropriate controls for each key business process and policy. The internal control environment should be periodically assessed and the result of such assessments should be submitted to the Board. At a minimum the report should include an assessment of how the various organisational units or major business areas of the insurer are performing against internal control standards and goals. Additionally, the individual responsible for correcting the breaches that were identified and any management responses to these breaches should be highlighted in the report.

Procedures should be implemented that will ensure the timely recording of adequate and accurate information regarding claims. This is to facilitate a proper assessment of the ultimate cost of all claims and to ensure that adequate funding provision has been made to cover liabilities attaching to insurance contracts.

Insurers must establish adequate internal controls designed to ensure that investment activities are properly supervised and are made in accordance with the approved investment policy.

4. COMPLIANCE FUNCTION

The Board should adopt a code of conduct or take other appropriate means to commit the insurer to comply with all applicable laws, regulations, supervisory decisions, internal policies, and to conduct its business ethically and responsibly. This would allow the company to meet its legal and regulatory obligations and promote a corporate culture of compliance and integrity. Any compliance issues involving management or persons in positions of major responsibility within the insurer, and the status of any associated investigations or other actions being taken should be properly documented.

Material fines or other disciplinary actions taken by the Commission or any other regulator in respect of the insurer or any employee should also be documented and reported to the Board.

5. INTERNAL AUDIT FUNCTION

The insurer should have an on-going internal audit function, which should be objective and independent from its operational functions. The internal audit function should employ methodologies that identify the key risks inherent to the company and develop a risk-based audit plan to examine general and specific areas. The Board should grant suitable authority to the internal audit function including the authority to require an appropriate management response to internal audit reports including the development of a suitable remediation, mitigation or other follow-up plan as needed.

6. ACTUARIAL FUNCTION

The actuarial function should have access to and report periodically to the Board on any circumstance that may have a material effect on the insurer, the adequacy of the technical provisions and other liabilities, the current and prospective solvency position of the insurer, the minimum capital required for regulatory purposes and any other matters as determined by the Board. The Appointed Actuary should provide guidance on premium and pricing activities, investment policies and the valuation of assets. Written reports on actuarial evaluations should be made to the Board and Senior Management. The Appointed Actuary should not hold positions within[2] or outside of the insurer that may create conflicts of interest or compromise his or her independence. If an Appointed Actuary resigns or is replaced, the insurer should notify the Commission and give the reasons for the resignation or replacement.

7. SPECIAL CONSIDERATIONS FOR GROUPS

It is important that appropriate governance exists across the group and that risks are being identified, assessed, monitored and managed appropriately on a group-wide basis. Where the internal audit function is centralized at the group level, the local Board should establish a relationship with internal audit, with the view to ensuring that adequate audit coverage is in place to satisfy the local regulatory requirements.

8. OUTSOURCING OF MATERIAL FUNCTIONS OR ACTIVITIES

Outsourcing of any material function or activity must be approved by the Board. However, the Board and Senior Management remain responsible in respect of all functions or activities that are outsourced. Outsourcing relationships should be governed by written contracts that clearly describe all material aspects of the relationship, including the rights, responsibilities and expectations of all parties. Appropriate assessment must be carried out on the risks of outsourcing, including business continuity and suitable controls must be put in place to mitigate against these risks, prior to a contract being signed. Outsourcing arrangements should be subject to periodic reviews, and the results of such reviews should be formally communicated to the management and the Board.

Outsourcing should not materially increase the Company's risk profile or adversely affect its ability to manage risks and to meet legal and regulatory obligations. Insurers who outsource any material function or activity should have an appropriate policy in place, which sets out the internal review and

[2] The Approved Actuary cannot be either the Chief Executive Officer or the Chief Financial Officer or their equivalent.

approvals required and provide guidance on key risk issues to consider. This includes considering limits on the overall level of outsourced activities by the insurer and on the number of activities that can be outsourced to the same service provider.

9. INTERMEDIARIES

An insurance intermediary is expected to have adequate policies and procedures in place for the safeguarding of funds held on behalf of their customers and the insurer. Where the insurance intermediary acts as agent for the insurer, the insurer is responsible for such funds held by agents on its behalf. An intermediary should ensure that its bank accounts are clearly distinguishable from an insurer's account.

Where the insurance intermediaries operate client accounts, the terms and conditions of such accounts should be disclosed to their customers, including whether funds held in such accounts are at the risk of clients or at the risk of the insurer. In the interest of safeguarding clients' money it is important that client accounts cannot be used to reimburse creditors of the insurance intermediary in the event of its bankruptcy. In setting requirements for the safeguarding of client monies, the Board should ensure that adequate financial systems and controls are maintained, that books and records are subject to audit, that reconciliations are performed on a regular basis and reviewed by a senior personnel and discrepancies are followed up promptly and resolved satisfactorily.

The Financial Services Commission
1st August 2014