Insurance Brokers Association of Uganda

Enterprise Risk Management for Insurance Brokers

Presented By AFRI-ACCENT RISK MANAGEMENT SOLUTIONS

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Introduction and some Key Definitions

Introduction

The business environment has become more complex in recent times, and markets more uncertain.

As such, while for regulated sectors the regulators have sought to enhance the sustainability of businesses through enhancing the regulatory framework, individual organization must, by themselves, seek to fortify themselves through adoption of better, market-sensitive methodologies of conducting their business.

Enterprise Risk Management (sometimes simply referred to as risk management) is one of the approaches that companies can apply to meet the above need. While regulators have pushed it/ are pushing it so that companies can do things better, individual companies should take the initiative to make sure they do it right so that its value is derived and maximized.

Doing it as a mere compliance requirement, while it addresses the aspect of regulatory rightness, is not cost-beneficial.

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***Enterprise Risk Management (ERM)** - is the process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on the organization's capital and earnings.*

Key Definitions

Enterprise Risk Management (ERM) - is the process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on the organization's capital and earnings.

Risk – is the likelihood of an event that would jeopardize attainment of set objectives crystallizing.

Risk Management Process - this involves the measures put in place for identifying, assessing, managing and controlling risk.

Inherent risk - refers to the natural risk level in a process. It is determined by the innate characteristics of the process and the activities within it.

Residual risk - is the risk that remains after efforts to identify and eliminate some or all types of risk have been made. The risk that remains after controls have been applied.

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ERM is:

- a process, ongoing and flowing through an entity
- effected by people at every level of the organization
- applied in strategy setting
- applied across the enterprise, at every level and unit, and includes taking an entity-level portfolio view of risk
- designed to identify potential events affecting the entity and manage risk within its risk appetite
- able to provide reasonable assurance to an entity's management and board
- geared to the achievement of objectives – it is "a means to an end, not an end in itself".

The Ugandan Regulatory Perspective

The regulatory perspective for Brokers

An insurance intermediary shall establish and maintain

- a clearly defined strategy and policy for the effective management of all significant risks that the insurance intermediary is, or may be, exposed to including operational risk and other material risks;
- procedures and controls that are sufficient to ensure that the risk management strategy and policy is effectively implemented.

The Insurance (Intermediaries) Regulations, 2021

What Organizations need to do

1. Put in place Risk Management Policies

2. Formulate Enterprise Risk Management Frameworks

3. Procedure manuals that speak to the risk profile of the Organization and facilitate implementation of the Risk Management Policy and ERM Framework

The regulatory perspective for Brokers

The risk management strategy and policy shall:

- be appropriate for the nature, scale, complexity and diversity of the business of the insurance intermediary;
- specify how risks are to be identified, monitored, managed and reported on in a timely manner; and take into account the probability, potential impact and the time duration of risk.

The Insurance (Intermediaries) Regulations, 2021

The regulatory perspective for Brokers

Every licenced broker and third-party administrator shall establish and maintain adequate and effective internal controls appropriate for the nature, scale, complexity and diversity of its business and the risks to which it is exposed.

The Insurance (Intermediaries) Regulations, 2021

Internal controls are the gap between an Organization's inherent risk exposure and the residual risk carried by the Organization.

Deciding appropriate control levels is key in deciding what risk an Organization is willing to carry as it pursues its objectives – risk appetite.

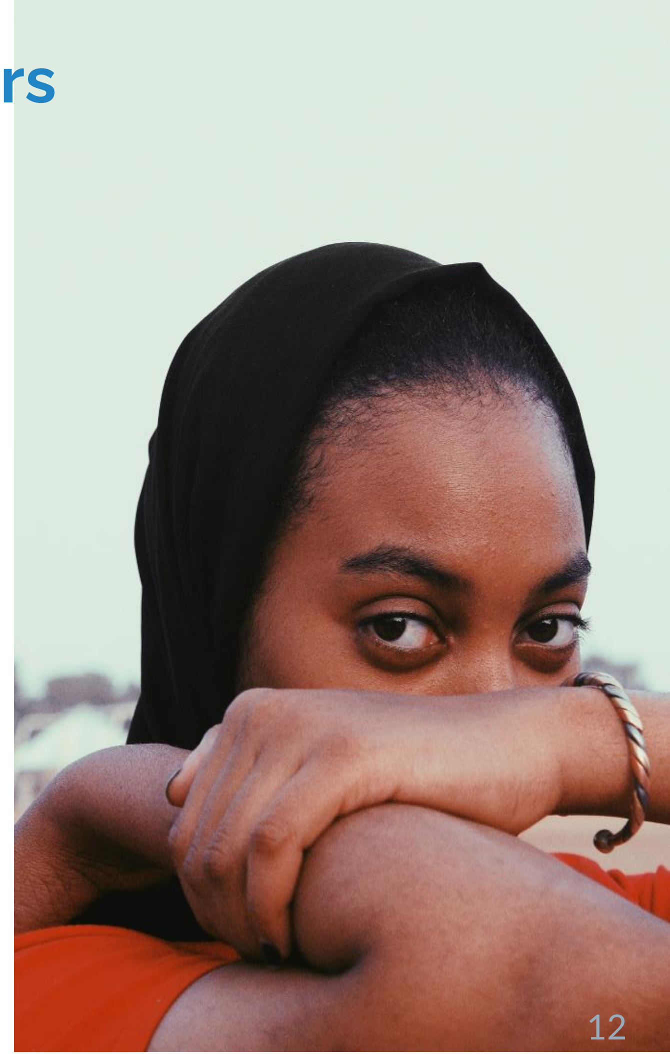
In every Organization, there should be appropriate balance of business activities and control activities – so that controls are pro-strategy, not counter-strategy. ie to avoid overcontrol or inadequate controls.

The regulatory perspective for Brokers

Internal controls shall make provision for the following:

- the proper planning and operation of the business of the licenced broker or third-party administrator;
- the proper management of assets;
- the efficient management of the liabilities;
- the keeping of complete, accurate and timely accounting records;
- the assessment and monitoring of adequacy of capital resources;
- Measures to guard against financial crime including money laundering and terrorist financing;
- contingency arrangements to deal with any unforeseen situations such as loss of data;

The Insurance (Intermediaries) Regulations, 2021



The regulatory perspective for Brokers

Internal controls shall make provision for the following:

- adequate controls in relation to information technology systems, including controls that—

  (i) cover the key business, IT and financial policies and procedures and the related risk management and compliance systems;

  (ii) protect the accuracy and security of the information technology systems;

  (iii) restrict employees' access to records; and

  (iv) ensure that changes to systems and records are recorded.

The Insurance (Intermediaries) Regulations, 2021

The regulatory perspective for Brokers

Every insurance intermediary shall establish a business continuity plan to deal with unforeseen interruptions or disruptions to business.

A business continuity plan shall make provision for measures—

- to meet legal and regulatory obligations;
- to limit losses core to functions and systems;
- to recover any losses in a timely manner;
- to mitigate loss or failure of internal and external resources, including human resources, systems and other assets;

The Insurance (Intermediaries) Regulations, 2021

The regulatory perspective for Brokers

A business continuity plan shall make provision for measures—

- to mitigate loss or corruption of data and other information;
- to mitigate the effect of external events including criminal acts, weather events and other natural disasters.
- to resume business in a timely manner, where business or any part of it temporarily ceases.

A business continuity plan shall—

- take into consideration the nature, scale, complexity and diversity of the business of the insurance broker or corporate insurance agent; and
- be regularly reviewed and updated

The Insurance (Intermediaries) Regulations, 2021

Stages of developing a Business Continuity Plan

1. Initiation – identify potential events that can disrupt business.
2. Business Impact Analysis – analyse information about critical business functions. Determine the most critical business functions with the greatest risk potential.
3. Develop Recovery Strategies (Response, Resumption, Recovery, Restoration)
4. Implement
5. Test and Monitor

The value of ERM

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What value does ERM add to your business?

- *Reduce unacceptable performance variability*
- *Align and integrate various views of risk management*
- *Build confidence of stakeholders*
- *Enhance Corporate Governance*
- *Successfully respond to a changing business environment*
- *Align strategy and corporate culture*

The value of ERM to your business

- Reduce unacceptable performance variability: ERM assists management with (a). evaluating likelihood and impact of major events (b). developing responses to either prevent those events or manage their impact if they occur. There should be a process for anticipating new and emerging risks.

- Align and integrate various views of risk management: when there are multiple functions managing multiple risks with an organization, there is need for a common framework. The silo mentality inhibits efficient allocation of resources and management of common risks enterprisewide.

The value of ERM to your business

- Build confidence of stakeholders: as a company increases the transparency of its risks and risk management capabilities, and improves maturity of its capabilities around managing critical risks, management is able to articulate more effectively how well they are handling existing and emerging industry issues. This has impact on how rating agencies and regulators assess an organisation.

- Enhance Corporate Governance: ERM strengthens board oversights, forces an assessment of existing senior management-level oversight structures, clarifies risk management roles and responsibilities, sets risk management authorities and boundaries, and effectively communicates risk responses in support of key business objectives.

The value of ERM to your business

- Successfully respond to a changing business environment: ERM drives management to identify alternative future scenarios, evaluate the likelihood and severity of those scenarios, identify priority risks and improve the organization's capabilities around managing those risks. As the environment changes, new risks emerge and are escalated in a timely manner for action.
- Align strategy and corporate culture: ERM helps management to create awareness and an open, positive culture with respect to risk and risk management. ERM centralizes policy-setting and creates focus, discipline and control. It clarifies the distinction between risk-taking and risk-avoidance behaviors, improves tools for quantifying risk exposures, increases accountability for managing risks across the enterprise and facilitates timely identification of changes in an entity’s risk profile.

ERM balances entrepreneurial activities and control activities in an organization.

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The Risk Management Process

1. ESTABLISHING THE CONTEXT - being clear about the internal and external environment in which the organisation is operating.

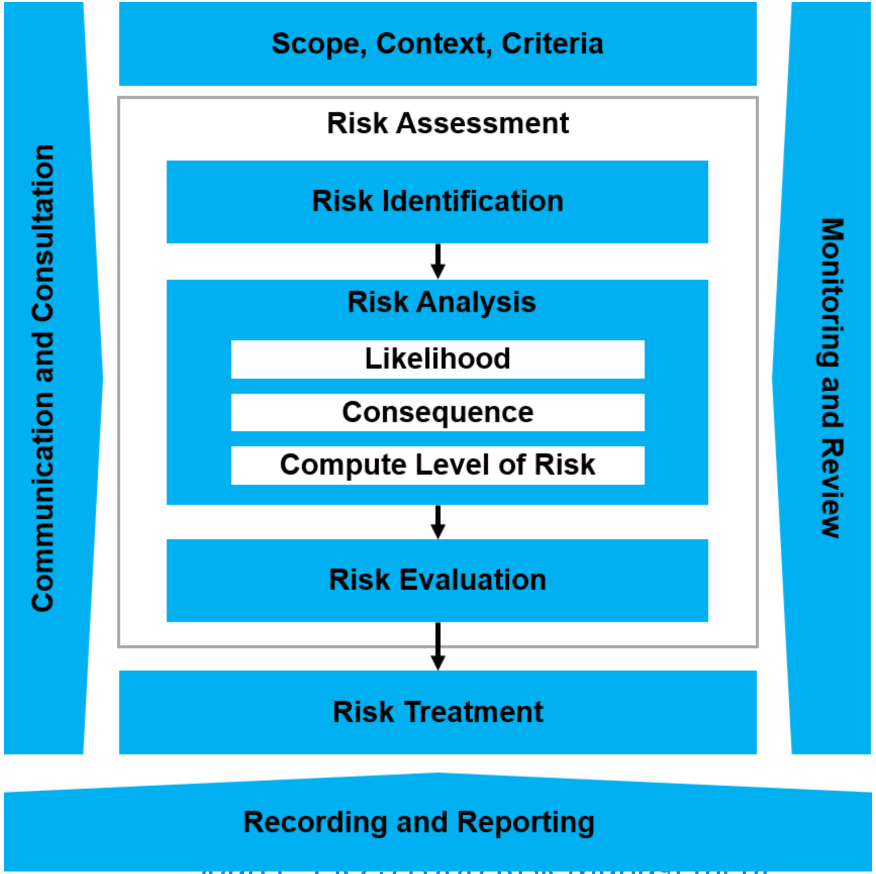
The Organisational Context: look at your organisation's aims, activities, structure, membership and methods of operation. For example:

- What are the aims and objectives of your organisation?
- What is your organisation's core activity?
- Who is involved with your organisation - both internally and externally?
- What facilities do you have and/or use?
- What is the organisation currently doing to manage risk?

The Strategic Context: look at the environment in which your business operates. For example:

- What relationships does your organisation have and how important are these?
- What laws, regulations, rules or standards apply to your organisation?

External trends – e.g greater public awareness of legal rights, duty of care (identify your duty care and what ought to be done to accept it)



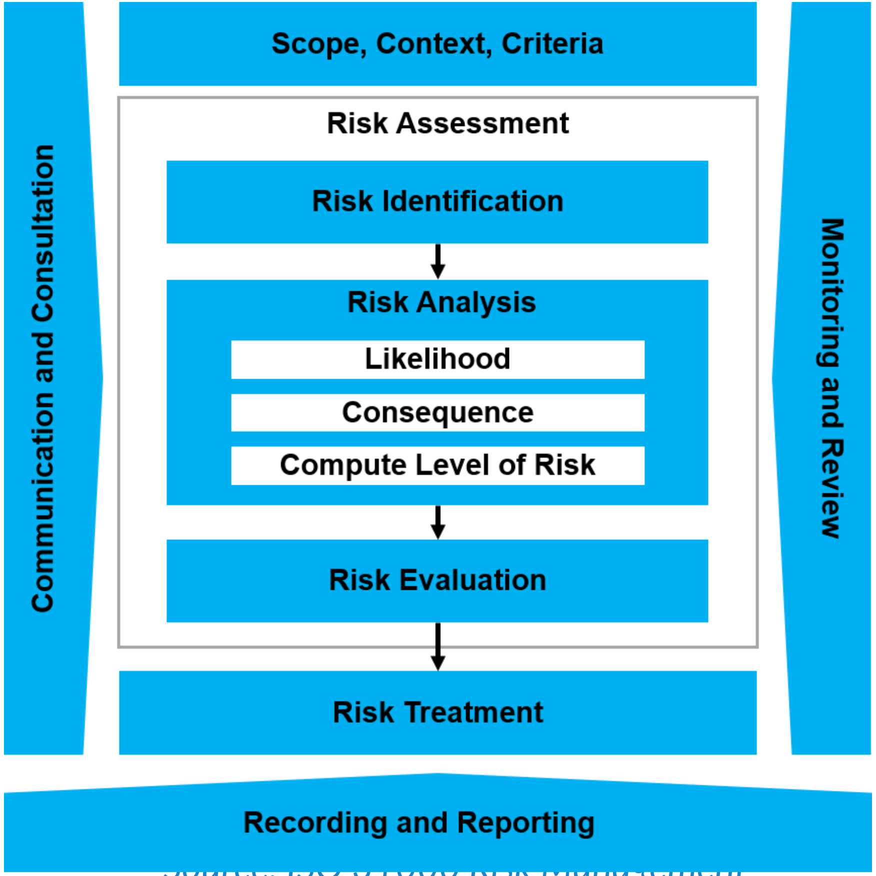
Source: ISO 31000 Risk Management Guidelines

2. **RISK IDENTIFICATION** - is the process of determining risks that could potentially prevent the organisation from achieving its objectives. It includes documenting and communicating the concerns.

3. **RISK ANALYSIS** - is the process of defining and analyzing the dangers to businesses posed by potential natural and human-caused adverse events. It often involves mathematical and statistical methods of assessing the extent of exposure to particular risk events.

4. **RISK EVALUATION** - determination of risk management priorities through establishment of qualitative and/or quantitative relationships between benefits/ possible losses and associated risks.

5. **RISK TREATMENT** - the process of selecting and implementing of measures to modify risk. Risk treatment measures can include avoiding, optimizing, transferring or retaining risk.



Guidelines

What needs to be done by Brokers

Setting appropriate risk culture

Training and Capacity Building – for Boards, Senior Management and Staff

- Enterprise Risk Management for Insurance Brokers
- Risk Governance
- Compliance Management
- Business Continuity Management

Risk management foundations

Developing Enterprise Risk Management foundational documents

- Developing Risk Management Policies
- Formulating Risk Management Frameworks
- Training support for implementing risk management policies and risk management frameworks

Operationalization of risk management documents

Operationalizing ERM Frameworks

Implementation of Enterprise Risk Management Frameworks

- Risk Identification
- Risk prioritization
- Formulating risk mitigation responses
- Formulating risk registers

Risk prioritization is based on the potential Impact (I)of a risk exposure and the probability (P) that this exposure is likely to manifest/ crystallize.
The measure of priority is normally derived as the product of the Impact and the Probability (I x P)

Operationalization of risk management documents

Assessing potential impact of risk exposures

Score	Descriptor	Decision Level	Financial
5	Critical	• Comprehensively detailed action plan required • Strongly involves CEO, Board & IRA. • Reported to EXCO, Board	• Estimate total cost over UGX20m • 5% of Budget • Excessive costs gravely impacting long term earnings, profitability & viability.
4	High	• Detailed action plan required • Significantly involves CEO & Board. • Reported to EXCO, & Board.	• Estimate total cost >UGX5m but <UGX20m • 3% of Budget. • Significant costs impacting medium term earnings & profitability.

Extends to effect on:
-Business Processes & Systems
-Reputation
-Staff
-Directors & Senior Management

Extends to: Moderate, Low, Minor – on a scale dropping from 5 to 1

Operationalization of risk management documents

Assessing likelihood/ probability of crystallization of risk event

Score	Descriptor	Probability	Explanation of Historical Basis of Probabilities
1.0	Expected	above 60%	This is expected to occur in most circumstances.
0.8	Highly Likely	40 to 60%	This will probably occur.
0.6	Likely	20 to 40%	This might occur at some time in the future.
0.4	Not Likely	10 to 20%	This could occur but doubtful.
0.2	Remote	0 to 10%	This may occur but only in exceptional circumstances.

The assigning of probability of crystallization of risk exposures is, in many instances, subjective especially at the commencement of the ERM journey. In other instances, historical record may be relied upon to assign logical probability scores.

Operationalization of risk management documents

Incorporating the value of strength of internal controls

Descriptor	Explanation of Scoring Criteria	Discount factor applied to inherent risk (to get residual risk)
Effective	The internal control system is efficient, reliable and adequate.	0.2
Acceptable	A few corrections should make the internal control system satisfactory.	0.4
To Improve	The internal control system has to be enhanced and the process monitored more closely.	0.6
Defective	The internal control system of the process/ procedure has to be fully reengineered immediately.	0.8

The ERM adoption and maturity journey

The ERM Maturity Profile

1. Culture	2. Risk Identification	3. Qualitative Management	4. Quantitative Measurement	5. Integrated Management
1.1 Creating awareness & set tone on Importance of Risk	2.1 Risk Identification & Risk Maps	3.1 Self Assessment Tools - CRSAs	4.1 Capture Internal Risk Data	5.1 Integrate with existing systems
	2.2 Risk Governance & policy design	3.2 Key Risk Indicators (KRIs)	4.2 Consideration of External Data	5.2 Risk Return Metric
			4.3 Internal Model to Quantify Risk	5.3 Management Controls & Corrective Actions
				5.4 Reporting to Management and Stakeholders

Presenter’s profile

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Raymond Mugisha

Raymond is a Chartered Risk Analyst. He is a Fellow of the American Academy of Financial Management and holds a Masters Degree in Economic Policy Management and Bachelors degree in Agricultural Engineering from Makerere University, Uganda. He is currently pursuing an MBA – Risk Management with The University of Cumbria, United Kingdom. He has conducted several consulting assignments on the subjects of enterprise risk management, compliance management, strategy, internal control and corporate governance enhancement and also served in executive management roles in different organisations as an enterprise risk manager.

Raymond has executed risk management responsibilities in both public and private sector entities, including insurance sector Organizations, in Uganda, Zimbabwe, Botswana and Malawi. He has developed and overseen implementation of enterprise risk management frameworks for different organizations. He has been responsible for starting risk management departments for various organisations. His career began in PwC and Deloitte & Touche in Uganda, where he held auditing and business advisory roles. His work experience spans seventeen years.

He is currently Managing Consultant of **Afri-Accent Risk Management Solutions Limited**, a company incorporated in Uganda with a vision to make a lasting contribution to the advancement of Africa through delivery of consulting services that tie the continent's heritage, its present and its prospects to enhance the strategy capacity and sustainability of enterprises. The company focuses on enterprise risk management, corporate governance, compliance management, strategy, capacity building and information technology & innovation.

Raymond is also a contributing writer to Uganda's Daily Monitor, a member of East Africa's Nation Media Group. His writing focuses on subjects related to the transformation of the African continent.

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