



Risk Based Supervision, Tools, Concepts, Goals, Challenges and Factors Central to Success

COMMISSIONER

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Presentation Outline



What is Risk Based Supervision?

Factors Assessed

Goals of RBS

Tools for RBS

Concepts of RBS

Factors for Success

Appreciation

What is Risk Based Supervision?



Risk Based Supervision

A risk based supervision approach assesses the probability and severity of the material risks to which insurers are subjected to

It assesses the effectiveness of the controls in reducing the probability of risk events occurring or the severity if they do occur

RBS is proactive and forward looking

Evaluating both present and future risk

Supervisory Framework - financial soundness, solvency, asset quality, governance framework, liquidity, and operational viability, to protect policyholders

Rules-based regulation or compliance-based supervision

- Involves checking for and enforcing compliance with rules – legislation, regulations or policies
- Offsite and onsite inspection was based on the CAMELS approach.

Factors Assessed



Inherent risk

- This is the risk of an adverse event occurring;

Controls

- The actions that are put in place by an insurer to lessen the probability or even the severity or both of inherent risk;

Residual risk

- The risk of an adverse event occurring even though the controls are in place and are working or being applied correctly;

Additional support

- Refers to any additional factor that may be in place to deal with the outcome of an event occurring and which would lessen the overall impact of that event.

Process of RBS



Data Gathering and Analysis – supervisors checking inherent risk, and risk indicators



Risk Control and Capital Assessment – Assessment of existing controls for inherent risks and capital



Assessment of probability of failure – based on residual risk and capacity of available capital to absorb risk



Supervisory Responses and Rating – Risk insurer poses on both financial stability and policyholder protection



Action plan and capital add on – Insurer and regulator agree on a plan

Objectives of the RBS Framework



To enable companies become adequately capitalised in line with level of risk

Monitor entities to improve regulatory compliance

Allow regulators to focus on high risk areas, saves resources and time

Enable early identification of emerging risks (through an Early Warning System)

Insurance

Core Principle 16



Enterprise Risk Management for Solvency Purposes

- **(ERM)** - the process of identifying, assessing, measuring, monitoring, controlling and mitigating risks
- Insurance is the assumption, pooling and spreading of risk so as to mitigate the risk of adverse financial consequences to individuals and businesses that are policyholders
- thorough understanding of risk types, their characteristics and interdependencies, the sources of the risks and their potential impact on the business is essential for insurers
- supervisor that establishes enterprise risk management requirements for solvency purposes

Expectations on Insurers

- Insurers should exhibit an understanding of their enterprise risk issues
- Require insurers to address all relevant and material risks
- show a willingness and ability to address those issues
- competent understanding of risk and implements sound risk management practices
- ultimate aim of insurance is to create and protect value for policyholders while using capital resources efficiently

Concepts of RBS



Risk-based supervision concepts are embedded in the Insurance Core Principles

- **To promote soundness, safety and reduce systemic risk of the financial sector**
- **To reduce the probability and impact of any bank failure, particularly on the domestic real economy**
- **which more time and resources are devoted to larger, more complex or riskier**

Other Supervisory Tools

Tools For RBS



Off-site and on site surveillance tools

- Regular liaison meetings with regulated entities,
- Specific questionnaires
- Ad hoc information requests and thematic evaluations
- Complaints handling and data reporting adapted to capture granular data

Early warning systems

- News media monitoring, and other industry research and questionnaires
- Internal risk-assessment workshops, other internal teams and self-assessment tools
- Information from on-site inspections, operational risk reports
- Participation in international fora

Tools For RBS



Build risk profiles and conduct risk assessments

- **Monitor indicators to systematically identify**
- **Measure and monitor risks, determining the probability that a risk will materialize and what its potential impact may be.**

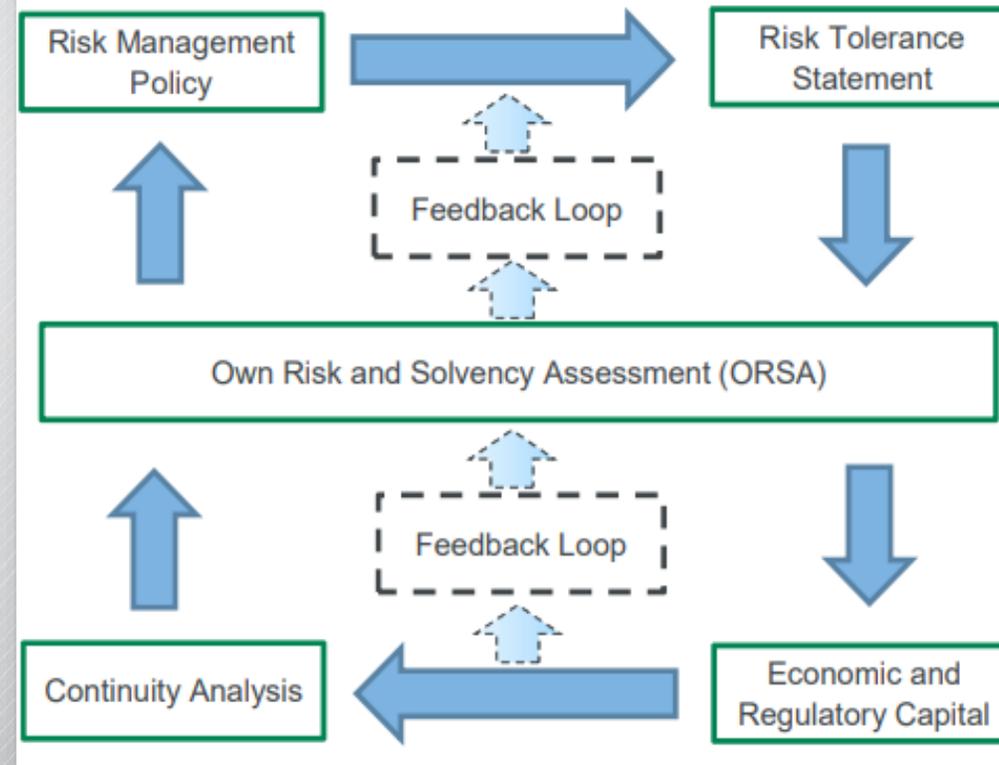
Other Supervisory Tools

- Relevant regulators in their jurisdiction
- Anti-money laundering authorities
- Other supervisors outside their jurisdiction
- Other financial supervisors in their jurisdiction
- Data-protection authorities
- Competition authorities
- Other authorities in their jurisdiction
- Telecommunications regulators

Diagrammatic Presentation of ICP 16



Insurance Core Principle 16



What Risks are Insurers Exposed to?



Asset Risks

- Market risk
- Credit Risk
- Concentration risk
- Asset Valuation Risk

Liability Risks

- Claims,
- Pricing,
- Underwriting,
- Concentration, reserving, catastrophe and reinsurance

Operational

- Business disruption risk
- Cyber security risk
- Technology risks
- Pandemic Risk

Capital

- Cost of capital
- Mismatch risks (ALM)
- Solvency Margin risk
- Accounting Risk

Liquidity Risks

- Financing risk
- Mismatch risk
- Capital Access risk
- Mismatch risk (Cashflow)
- Surrender risk

Other Risks

- Legal risk
- Regulatory risk
- Reputational risk
- Strategic risk

Challenges for implementing risk-based supervision



Difficulty establishing the organizational culture and mindset for risk-based supervision

Communication strategy – clear internal and external communication

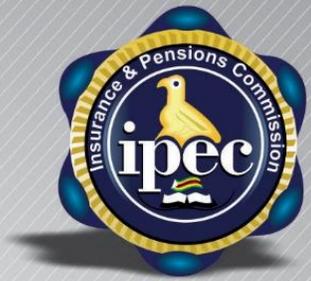
Lack of high-quality data and systems for accurate, efficient monitoring and risk assessment

Limited capacity to appreciate or differentiate risks among business models and provider types

Inadequate training and development programs to instil a risk-based approach

Limited capacity to create, implement and monitor risk models

Considerations of RBS:



A prerequisite for good RBS is knowledge of the institution, its industry and operating environment.

These can all be observed by creating a risk profile of an institution on: -

- Institution's activities and risks in those activities
- Quality of risk management (day-to day management and Oversight)
- Capital required to support operations
- Identifying the key risks within an institution that may affect its risk profile
- That its supervisory activity and resources applied are commensurate with the level of risk
- Off-site monitoring – Review the financial data filed by the institution, using ratios and other methods of analysis

Factors For Success



RBS involves a culture change, paradigm shift

- Use continual **intelligence gathering and dialogue with industry to assess how providers manage risks.**
- It is data intensive, deep knowledge of sectors and providers, critical thinking and subjective judgment.
- Also monitor how risks are evolving
- Identify emerging risks and pre-emptively address them.
- Conduct extensive, high-quality off-site supervision for ongoing risk assessment,
- Allocate fewer resources to on-site inspections of providers that present low risks

Because RBS is forward looking

- Supervisors need to understand the insurer's business strategy properly
- Check risks inherent in the strategy
- The risk that the Board and Management cannot execute the strategy effectively
- The Board and Management not being aware of any legal constraints

Factors For Success



RBS is data intensive

- RBS needs to take account of relevant information
- RBS process focuses heavily on off-site surveillance
- Extremely data intensive and it is envisaged that insurer's will

Insurer relationship management

- Increased engagement between the supervisor and the senior management
- Ensure good corporate governance and transparency
- Accuracy of information used by senior management for decision making.

Conclusion



No one size fits all for RBS

- Supervisors to contextualise the external environment
- Current legislative framework
- Skills competency and capacity
- Existing resource constraints and challenges

Finally RBS is a journey and not a destination

- As the regulatory environment compounded by digitalisation is fluid.





Thank You