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Risk-Based Supervisory Framework

For the Egyptian Insurance Supervisory Authority

Inventory of Questions for the On-site Inspection at Allianz Life Assurance Company - Egypt

Compliance and Actuarial Functions

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This publication was produced for review by the United States Agency for International Development. It was prepared by Ron Bergeron

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Compliance and Actuarial Functions

TECHNICAL ASSISTANCE FOR POLICY REFORM II

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Compliance Function – Manager (Interviewee)

Q1. Role

The Compliance function provides independent oversight of the management of the insurer's compliance with laws, regulations, and guidelines relevant to the activities of the insurer.

- Tell about how your department is structured?
- Who do you report to? Do you have direct access to the General Manager and the Board on major findings?
- Do you consider yourself independent of the day-to-day management of the compliance with the laws, regulations and guidelines?

Q2. Mandate

Supervisors should document their understanding of the appropriateness of the roles and responsibilities delegated to the Compliance function and the adequacy of the related policies and practices. Mandates may be formally documented, delineated in position descriptions, or verbally communicated, depending on the size and complexity of the insurer. Supervisor should highlight any material changes, since the last review, in, and significant aspects of, the function's mandate, which may or may not contribute to its effectiveness.

- How was your mandate and objectives established? Tell me about some of the objectives that you were given.
- Do you feel you have the level of authority needed to carry your responsibilities?
- Tell me about your ability to access the company's records, information and personnel. Give me a recent example where you had to do that.
- How do you express your opinion on the adequacy and effectiveness of the day-to-day compliance processes?
- Do you feel you have the authority to follow-up with management on issues identified and recommendations made related to compliance? Give me a recent example.

- Tell me how your mandate is communicated across the organization.

Q3. Resources

Supervisors should document their assessment of the adequacy of the function's processes for determining the required skills as well as whether the function has the requisite skills and experience to fulfill its responsibilities going forward.

- Tell me about the level of resources you think you need to carry out your responsibilities.
- Tell me about the qualifications and competencies of your staff.

Q4. Methodology and Practices

Supervisors should document their assessment of the adequacy of the function's policies and practices relative to the needs of the insurer, and generally accepted industry practices. The assessment should consider whether they foster a timely response to changes in legislation and the insurer's activities through effective documentation and communication.

- How do ensure that your approach and practices are in line and appropriate for the execution of the function's mandate?
- Tell me about your policies and practices to develop or amend the insurer's compliance policies as legislation is introduced or amended or as new or changing business activities impose different legislative requirements on the insurer.
- Tell me about your policies and practices to monitor adherence to applicable laws, regulations and guidelines across the company in order to ensure that significant issues are identified and brought to Senior Management's attention for timely resolution.
(or Tell me about how you ensure your policies and procedures are integrated into day-to-day business activities in order to identify on a timely basis compliance requirements?)

Q5. Senior Management and Board Oversight

Supervisors should document the extent of Board or Board Committee and Senior Management oversight over the Compliance function. In a corporate structure, responsibilities are delegated from the Board to Senior Management and, depending on the size and/or complexity of the insurer, may be further delegated to a specific oversight function such as the Compliance function.

While responsibilities can be delegated in this manner, accountabilities remain with the party delegating the responsibilities. Accordingly, there needs to be appropriate approvals by and structured reporting to the Board and Senior Management in order to ensure that their accountabilities are met through the delegation process. This oversight also enhances the overall effectiveness of the function and, in turn, our ability to leverage off it.

- To what extent does the Board (or a Board committee) and Senior Management approval is required for the appointment and/or removal of the function head (your position); and the function’s mandate and resources?
- Tell me about your policies and practices to report periodically to the Board (or a Board committee) and Senior Management on compliance issues, recommendations and status of compliance.

Compliance Performance

(The following was extracted from the Risk-Based Supervisory Framework Guide to help supervisors conclude on their assessment of the Compliance function.)

The quality of the Compliance function’s performance is demonstrated by its effectiveness in overseeing management of the insurer’s compliance with applicable laws, regulations and guidelines.

The assessment will consider the effectiveness with which the Compliance function actively promotes compliance with applicable laws, regulations and guidelines throughout the insurer, ensuring that breaches are identified and resolved on a timely basis, and resolution issues are appropriately escalated.

This assessment should reflect the Compliance function’s demonstrated “effectiveness”, based on the assessments made at the Significant Activity level. The explanation should conclude on performance across all Significant Activities, identifying where particular performance indicators were widespread or isolated, and how these impacted the assessment.

The quality of the Compliance function’s performance is demonstrated by its effectiveness in overseeing management of the insurer’s compliance with applicable laws, regulations and guidelines.

Examples of indicators that could be used to guide supervisory judgement include the extent to which Compliance:

- a) Develops, documents and actively communicates new and amended compliance policies or requirements to all impacted areas of the insurer;
- b) Proactively assists management in identifying, addressing and integrating significant legislative or regulatory compliance requirements into its business activities;
- c) Actively monitors adherence to applicable laws, regulations and guidelines across the insurer;
- d) Escalates significant breaches of compliance requirements to Senior Management and the Board;
- e) Proactively follows up to ensure that significant issues are addressed on a timely basis; and
- f) Periodically reviews compliance practices for continuing effectiveness.

END OF SECTION

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Actuarial Function – Manager (Interviewee)

An evaluation of the adequacy of an insurer's reported reserves is essential to an evaluation of its profitability, leverage (capitalization) and liquidity. Net income and policyholders' surplus are directly affected by changes in reported reserves.

For life and health companies, the valuation methodology should be reviewed, including interest assumptions and degree of conservatism in the establishment of life, health and annuity reserves. The degree of uncertainty in policy reserves, recognizing that they are only actuarial estimates of future events should also be assessed. If the degree of uncertainty exceeds any equity in the reserves, and is large in relation to net income and policyholders' surplus, these will have an impact on the company's reported profitability, liquidity, and leverage (capitalization).

Factors to be considered:

Q1. Amount, Composition and Trends

- What are the margins for adverse deviations?
- Have there been any significant changes in these levels for the past three years?
- How do expected assumptions compare to actual experience?

Q2. Valuation Philosophy

- What is the valuation philosophy (i.e.: are assumptions on the conservative end of the range taking into account the risk profile of the business)?
- Has there been any change in valuation philosophy over the last year?
- How are policy liabilities established?
- Under what circumstances are liabilities decreased?

Q3. Department Organization

- Is there an in-house actuarial department? And if so, how is it structured?
- Who does Actuarial report to?
- Give me an example where you found yourself in disagreement with the certified actuary?
- Tell me about the communication links between the certified actuary and those responsible for managing significant aspects of the operations (e.g., CEO, CFO, managers for investments, underwriting, product pricing, marketing, administration, and asset and liability management)?

Q4. Resource, Staffing and Training

- What are the qualifications and experience of the staff?
- How do you ensure the staff keeps its qualifications up to date?
- Tell me about the type of staff turn over you are experiencing in your department.

Q5. Policies and Procedures

- How do you ensure your policies and procedures are consistent with the strategic plan and business objectives?

Q6. Monitoring

- Tell about your management information systems and its adequacy to quantify and monitor the risk positions of the insurer.
- How do you go about updating valuation assumptions?
- How do you monitor trends and exposures (e.g., large claims) on an ongoing basis?

Q7. Financial Analysis

- How do you analyze the various sources of, and trends in, profit and loss during the fiscal period and compare them to the expected sources of profit and loss estimated in the previous actuarial valuation?
- How does the insurer measure and analyze stress situations as a result of probable events or material changes?

Q8. Compliance

- How do you ensure the actuarial processes are in compliance with all applicable acts and regulations, and with internal policies and procedures?

Q9. Senior Management and Board (or its committee)

- To what extent are Senior Management and the Board involved in the valuation process? Do they actively engage in discussions, concerns and recommendations with management and the certified actuary? Give me an example when this happened recently?
- What type of information do Senior Management and the Board receive on a regular basis?

END

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