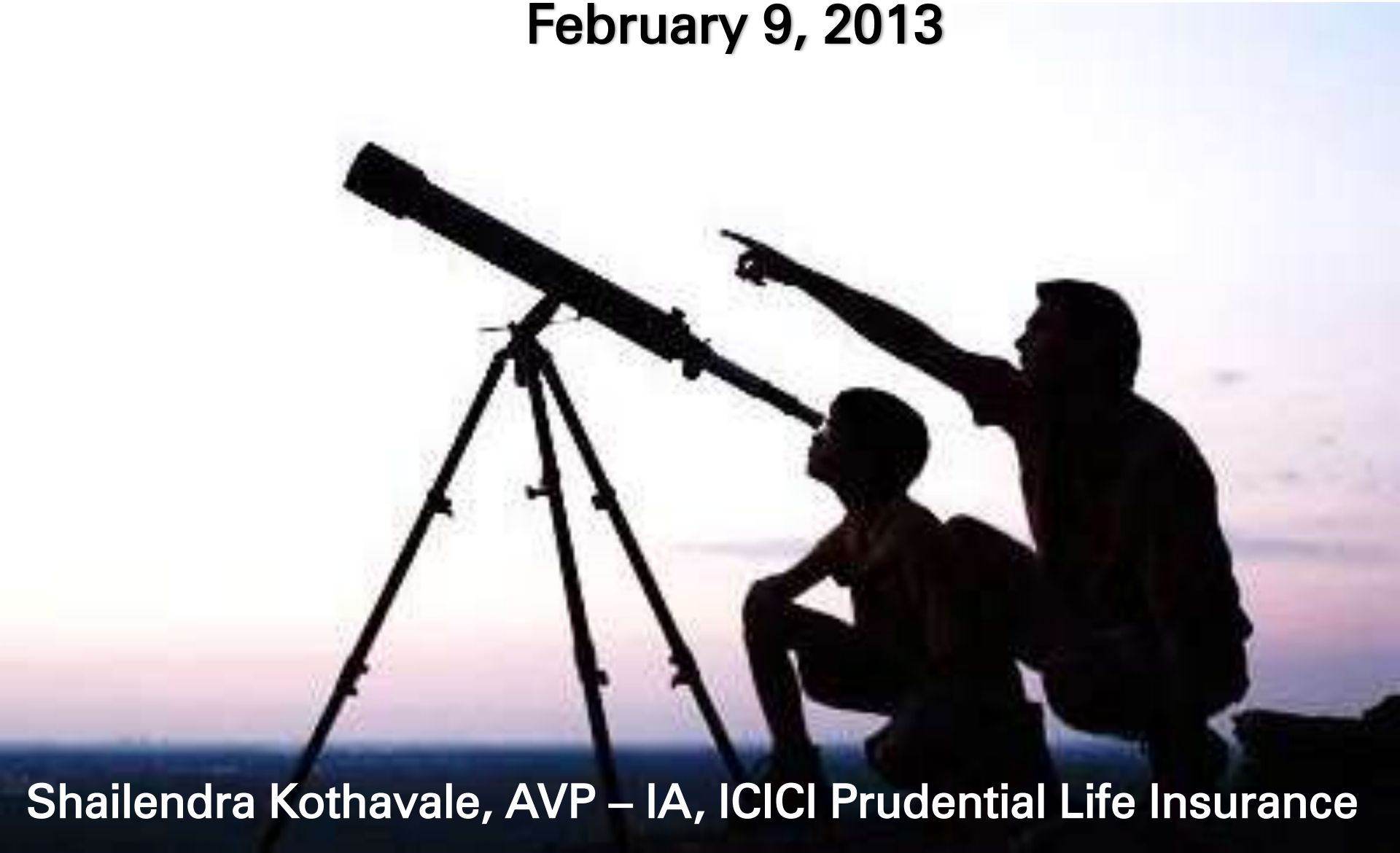


# ICAI - Internal Audit of Life Insurance Companies

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February 9, 2013



Shailendra Kothavale, AVP – IA, ICICI Prudential Life Insurance

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**Name**

**Company & Industry**

**Expectations from session**

# Agenda

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**Indian Life Insurance Industry**

**Regulatory framework**

**Corporate Governance norms**

**Approach to Internal audit – Life Insurance**

**Way forward**

# Agenda

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**Indian Life Insurance Industry**

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# What is Insurance?

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**Insurance is a contract between the insurance company (insurer) & the policyholder (insured). In return for a consideration (premium) the insurance company promises to pay a specified amount to the insured on the happening of a specific event**

# Risk exists. But, there are 2 ways to manage it

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## Risk retention

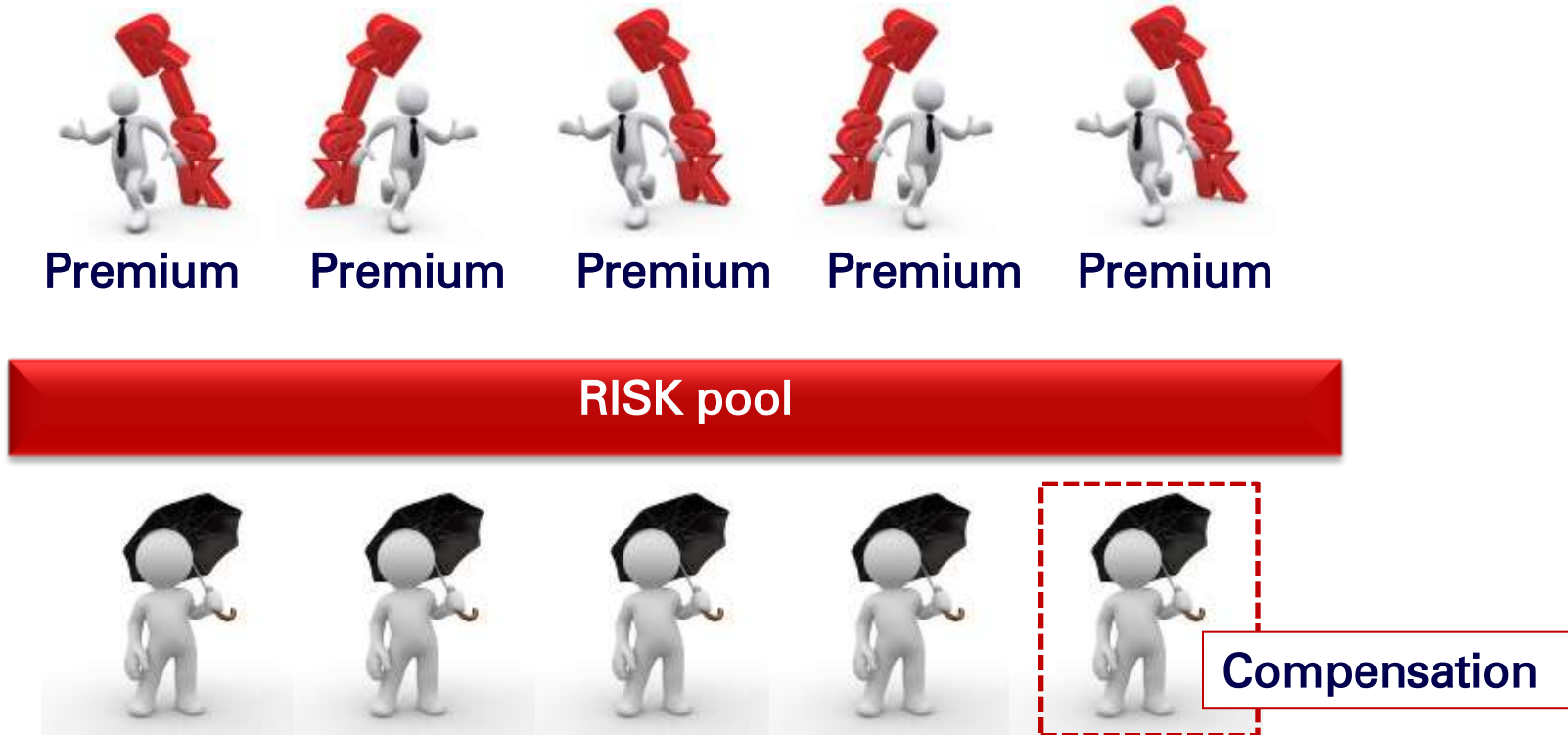
Do nothing about the risk and pray that nothing happens



## Risk transfer

Transfer the risk to someone who can handle it properly. This is called **INSURANCE**

# The way the risk gets transferred



Insurance companies collect premiums from all those who are exposed to the same risks – and put the money into a risk pool

Those who experience the insured event are compensated from this risk pool



## Proposal form

The person seeking insurance (proposer) submits the proposal form to the insurance company. It is evaluated by underwriters



## Quotations

Cost and terms of the policy will be held open for a set period. If accepted then the insurance company is bound by the offer. **If there is a change in material fact** then the insurance company is not bound to it



## Insurance contract

Contract starts from the date on which the first premium receipt is issued. If a person dies during the contract, the insurance company is liable to pay the death claim



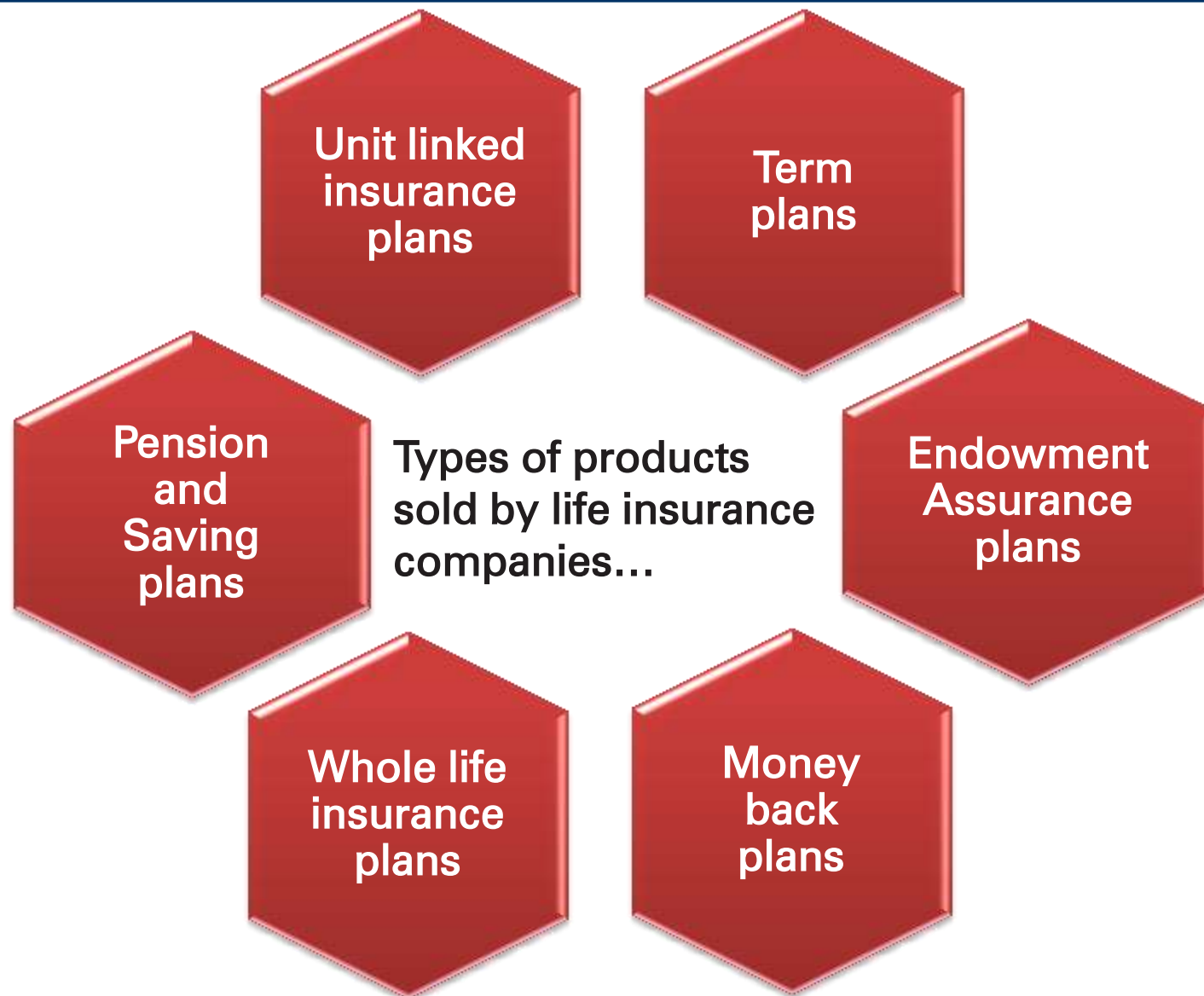


## Renewals

- **Life insurance policies are long-term policies, running for a set period of often many years**
- **At the end of the year the policyholder is invited to renew the policy**
  - **Policy holder retains benefit of insurance protection**
  - **Insurance company does not lose the customer**

# Retail Insurance Products

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# History of Life Insurance in India

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Insurance had its origin in Lloyds Coffee House in London (1680s – Marine Insurance)



Bombay Mutual Assurance Society Ltd – The first Indian insurance company formed in 1870

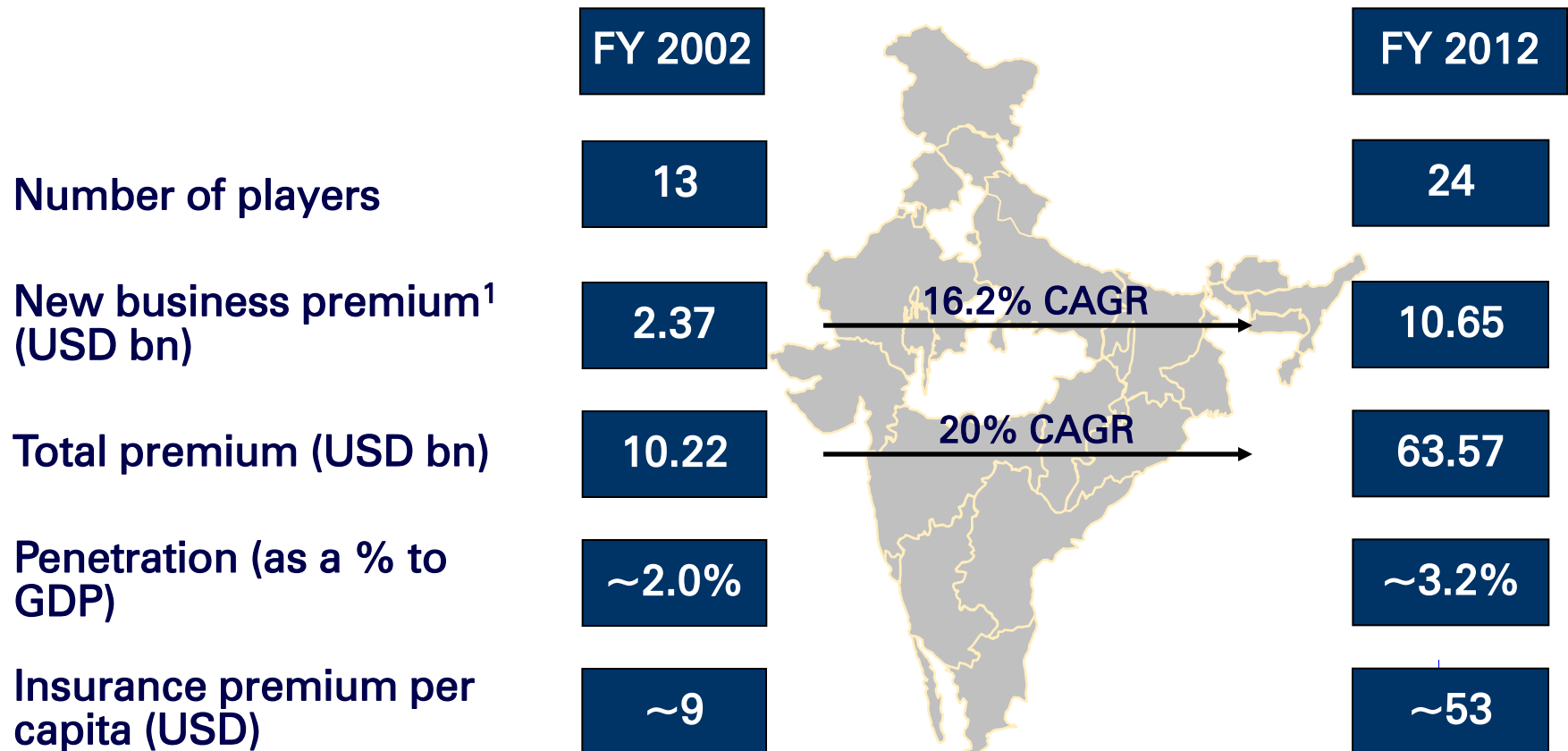


Life Insurance was nationalized & LIC was formed in 1956



IRDA introduced as regulator for insurance business in India in 1999 & market opened for private players

# Evolution of industry since liberalization



<sup>1</sup> Retail weighted premium

Source: IRDA, Swiss Re, market estimates

Exchange rate FY 2002 \$1 = ₹ 49

FY 2011 \$1 = ₹ 45

# Agenda

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# Regulatory - Background

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- **Role of Insurance Regulatory Development Authority (IRDA)**
  - To protect interests of policyholders
  - To regulate, promote & ensure orderly growth of the insurance industry
- **Regulatory framework**
  - **Acts**
    - The Insurance Act, 1938
    - Insurance Regulatory Development Authority (IRDA) Act, 1999
  - **Regulations**
  - **Guidelines**
  - **Circulars**



# Provisions of Insurance Act ,1938

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- Registration of insurers and renewal of registration
- Manner of investment of premium
- Maintenance of insurer's solvency levels
- Appointment of staff
- Assignment of transfer of policies and nominations
- Rural and social sector
- Control over management
- Licensing of agents and their commission
- Prohibition of rebates
- Power of investigation and inspection by the regulatory authority
- Protection of policyholder's interests

# IRDA (Investment) Regulations, 2000

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Investment in the insurance companies is guided by the Insurance Regulatory and Development Authority (Investment) Regulations, 2000. The regulation broadly is divided into 5 parts:

## IRDA (Investment) Regulations, 2000

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graph TD; A[IRDA (Investment) Regulations, 2000] --- B[Regulation 3 (Manner of Investment – Life Insurance)]; A --- C[Regulation 4 (Manner of Investment – General Insurance)]; A --- D[Regulation 5 (Exposure Norms- Life/General Insurance)]; A --- E[Regulation 6 (Returns to be submitted by an Insurer)]; A --- F[Regulation 9 (Organization of Investment Committee)];
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**Regulation 3**  
(Manner of Investment – Life Insurance)

**Regulation 4**  
(Manner of Investment – General Insurance)

**Regulation 5**  
(Exposure Norms- Life/General Insurance)

**Regulation 6**  
(Returns to be submitted by an Insurer)

**Regulation 9**  
(Organization of Investment Committee)



# AML Guidelines

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- **What is money laundering?**
- **KYC norms & Risk profile of the customer**
- **Vulnerability of products**
- **Sources of funds**
- **Verification at the time of redemption/ surrender**



# Recent developments in the Insurance industry

# Agenda

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# Corporate Governance

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- **Set of relationships between a company's management, its board, its shareholders and other stakeholders**
- **Structure through which the objectives of the company are set -means of attaining those objectives & monitoring performance determined**
- **Provide a degree of confidence that is necessary for the proper functioning of a market economy**

# Corporate Governance Norms

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- **Corporate Governance guidelines issued by IRDA on August 5, 2009:**
- **Objective:**
  - **Defines roles, responsibilities and accountability within an organisation with a focus on role of the Board & Directors**
  - **Protect the interests of the policyholders and other stakeholders**

# Control framework

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- Ensure adequate control environment through:
  - Internal controls, including segregation of duties
  - Internal audit
- Ensure compliance with applicable laws and put in place robust compliance systems
- Prescribe and review all delegations of authority to various levels of management
- Appointed Actuary, Internal Auditors & Statutory Auditors - whistle blow to IRDA on material adverse financial condition
- Appropriate IT systems & MIS systems in place
- Outsourcing norms

# Agenda

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**Indian Life Insurance Industry**

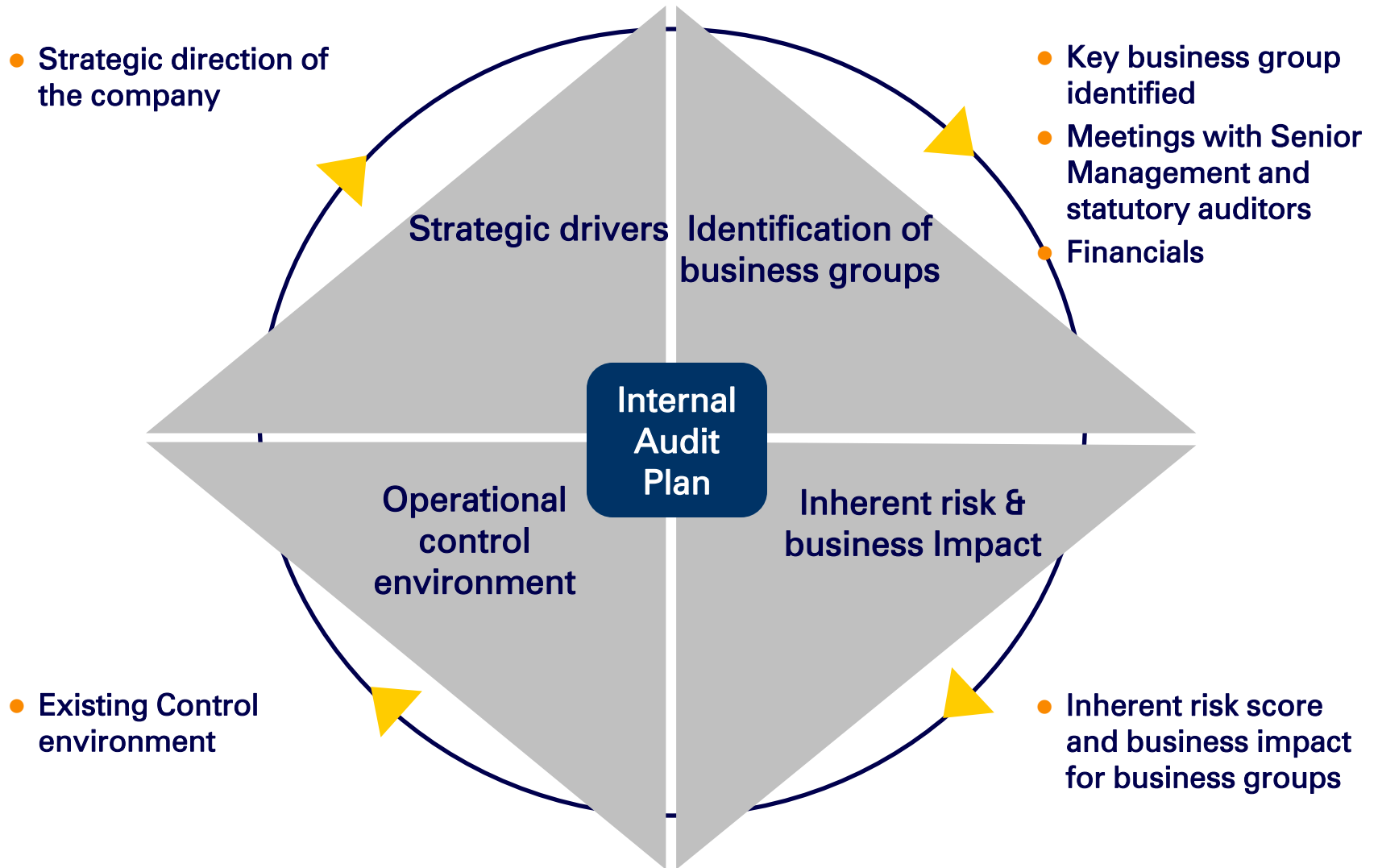
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# Risk Based Audit Plan





# Regulatory audits

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- **Investment audit**
  - **Daily NAV and process concurrent audit**
  - **Systems Review**
- **Corporate Agents Inspection**
- **Anti Money Laundering**
- **Visits to Micro Finance Institutions**
- **Payouts to Agents**
- **Outsourcing Policy**
- **Corporate Governance**

# Agenda

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**Indian Life Insurance Industry**

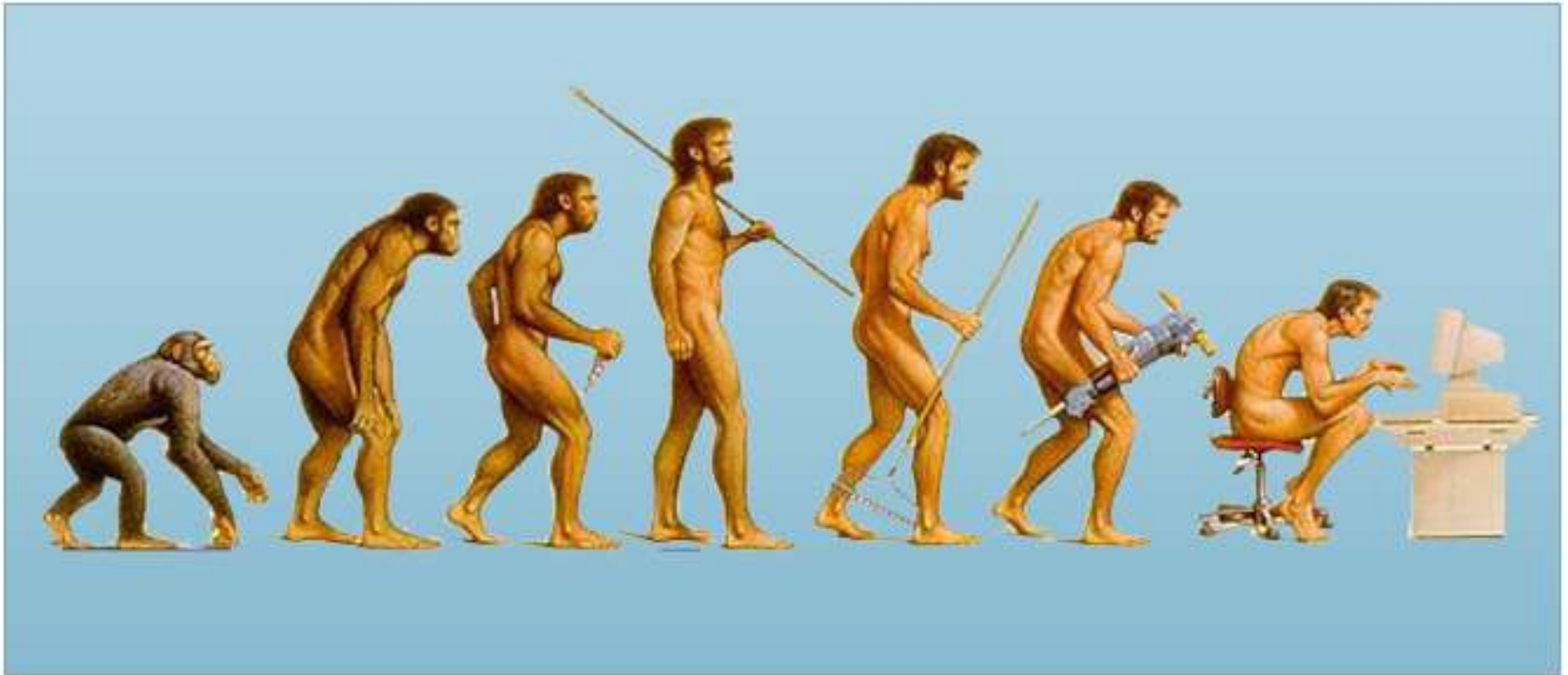
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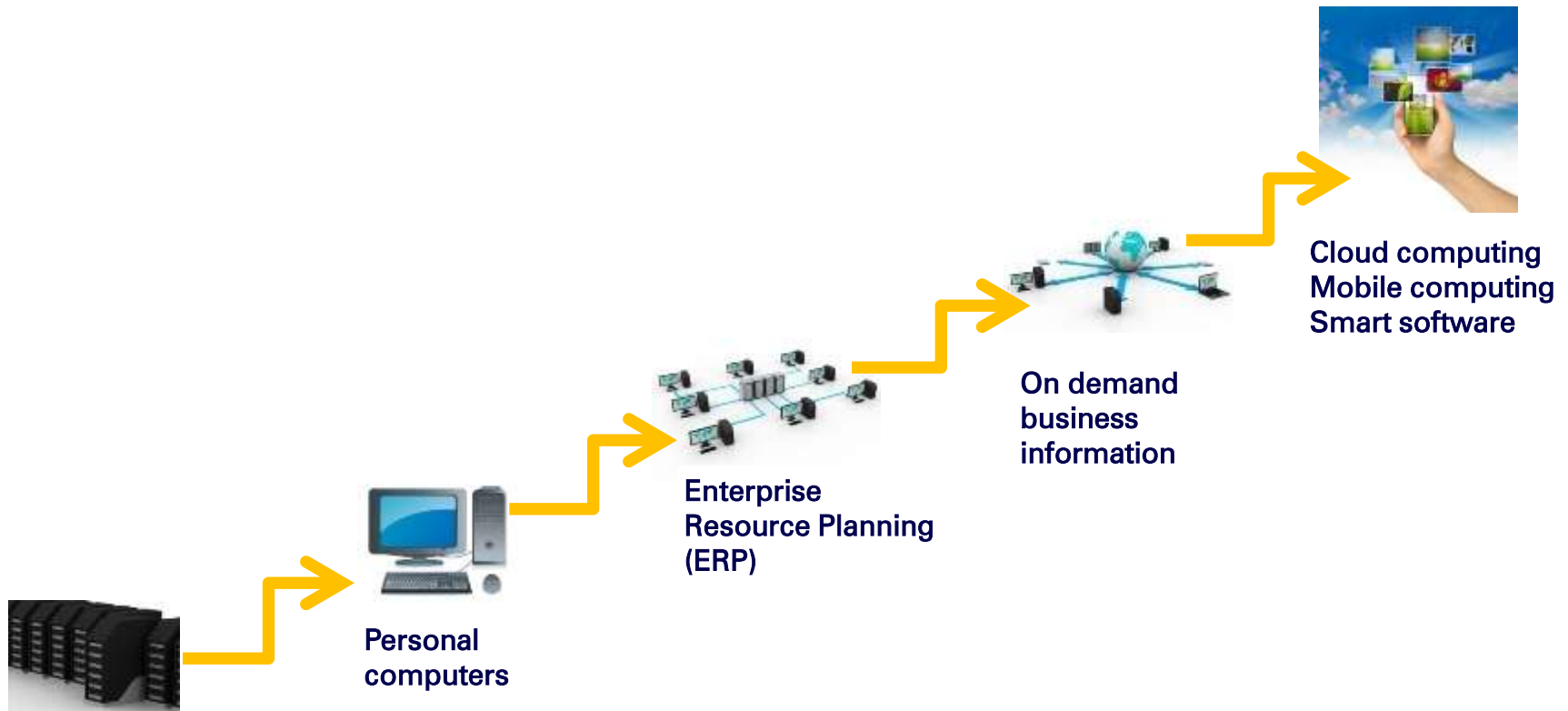
**Way forward**

# Human evolution



Evolution time 6 million years

# Changing information ecosystem



How much time it will take for next big change in IT?

# Changing information ecosystem

Cloud Computing



BYOD - Mobile computing & Applications



Social Media



Big Data

**Reference:** Gartner Survey; Deloitte Tech Trends 2011

# Today...

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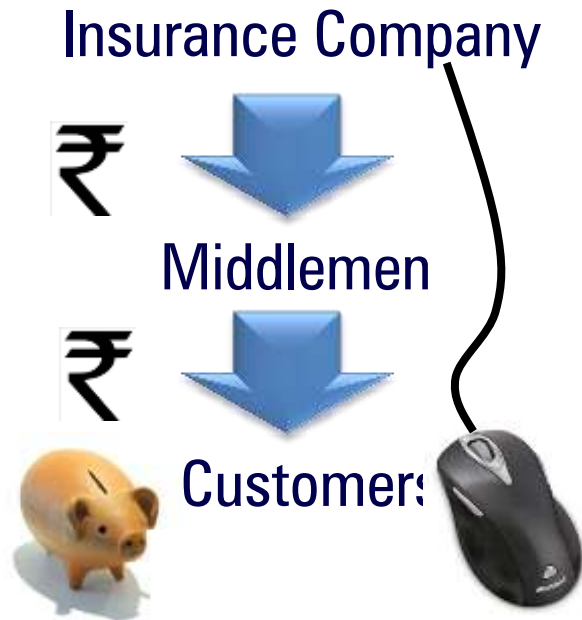
## Growing importance of IT



- Customers can pay their premiums and check the status and other details of their policy using the company's website
- Updates relating to the receipt of premiums or changes to their policy are sent to the customer through mobile SMS

# Today...

## Online sales



Lower premiums by selling directly to customer on the internet. Pass on the savings of having no middlemen

# Today...

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## Grievance redressal



- Insurance companies to set up internal customer grievance redressal cells/departments
- Insurance Ombudsman established
- Call centre for grievances proposed



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**Is Internal Audit function geared up to meet expectations, address external environment changes and evolve as a game changer?**

# Current Gaps perceived

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- Awareness of changing business processes, environment, regulations and associated risks
- Balance between financial and non-financial risks such as IT security, strategic and reputation
- Vision beyond internal control - business enabler
- **Rigid Audit plans**
- **Right skills**
- Auditor auditee relationship
- Assessment of internal audit performance/ productivity
- Reliance on manual or paper intensive processes; lack of automation

# Conclusion

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- **Internal Audit will need to evolve :**
  - **Stay abreast of the ever-changing environment**
  - **Look at the big picture - align with the organisation's mission, vision, values, objectives and strategies**
  - **Perform integrated audits involving both technological controls and functional checks**
  - **Assess the adequacy of overall governance activities**





**Thank you**

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