Risk Management for Small Insurers and Branches
Not just a check box exercise!

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The financial services sector today face risks that are much more complex than a decade ago. In addition to financial, economic, and political risks, organizations face a broad spectrum of other risks including harm to reputation, cyber breach, and often fast moving competitors disrupting the market.

Large insurance are generally better positioned to have an effective risk management program in place, with resources at their disposal such as access to parent company expertise, financial resources and dedicated staffing. Smaller insurance companies, whether domestic companies or branches, equally, need to ensure that their risk management program, while size appropriate, is effective in managing risk consistent with their organization's risk tolerance.

OSFI expects insurers to have good business practices to ensure that they are managing their organization's financial and non-financial risks. The OSFI Strategic Plan 2019-2022 indicates that one of their goals over the next 3 year period is to:

> *"...Improve their preparedness to identify and develop resilience to non-financial risks" "As financial institutions continue to focus on cost efficiencies and product innovation, they are placing greater reliance on technology and a variety of third party providers. This increased dependency contributes to technology risks and requires financial institutions to develop more robust IT risk management frameworks, including increased cyber security readiness capability."*[1]

While smaller branch carriers may place some reliance on their parent company's risk management program, which may satisfy OSFI's requirements, there is a significant benefit to having a local risk management program. This is particularly true for non-financial risks.

Regardless of the size of the organization there needs to be local responsibility for the risk management program. In smaller domestic carriers, it is common for members of the senior management team to wear multiple hats. Oversight of the risk management program should be assigned to someone on the leadership team. Tone from the top needs to be clear that risk management is a priority!

Why develop a risk management program?

Of course no system can completely eliminate the risk of adverse events occurring. However a risk management program is important to help the organization increase awareness of risks, develop an action plan where gaps are identified and continuously manage risk.

There are many benefits to developing a risk management program. The process can help identify opportunities to improve your business practices and controls. As one illustration, small organizations have limited resources and often employees may wear multiple hats, performing task end to end. One of the principles for good internal controls is separation of duties. If the organization has the capacity to separate certain internal control task (ie approving, preparing and authorizing payments), it can reduce the risk of internal fraud.

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[1] OSFI – Strategic Plan 2019-2022 Superintendent's Message – Plan at a glance

A simple risk management program framework:

A risk management program includes defining a local risk appetite based on the local environment, developing local internal controls, and doing a risk assessment.

The risk assessment needs to include:

1. The identification of risks (security, fraud, reputation, strategic, compliance, among others). The description of the risk needs to be specific to the company's operation and should consider broad categories;
2. Outlining the remedies to mitigate each risk;
3. A rating system to reflect the probability and the impact of the event occurring. Of course the scale will depend on the size of the organization. The probability will typically be defined as likelihood of the risk event occurring over a period of time. The impact is typically based on the financial impact to the company, which will depend on the size of the company;
4. Calculation of the score as a multiplication of the probability and the impact rating;
5. Ranking of these risks based on the composite score (probability and impact); and finally,
6. Development of an action plan to reduce or manage the highest rated risks. The organization should ensure that the actions developed from this process are reflected in and are an integral part of the company's operational plan.

The risk management program needs to include a process to monitor, audit and report on risk at regular intervals, including board reporting.

The risk management program cannot be an exercise just to satisfy regulators, or home office requirements. The process of conducting risk assessment and discussing how to manage each risk, can result in identifying great opportunities to improve processes, improve controls, and develop a better understanding of risks. Non-financial risks if ignored, can and often do result in monetary costs to the organization.