





# *Governance Priorities for Regional Insurance Players - Current Trends and Hot Topics*

A presentation by

**DAVID CAFFERTY**

Head of Compliance Advisory Services  
Kane Limited

Date: February 2015



# Agenda

## *Key issues only*

- Many issues that could have been considered but will focus on the following: -
  - Cybercrime
  - Bribery & Corruption
  - Compliance Priorities
  - Ongoing issues



## Current trends and hot topics

### Cybercrime

**What have these five entities got in common?**

- Walmart
- Apple
- Target
- Home Depot
- Sony

**Answer:** All five suffered from major cyber breaches in 2014!



## Current trends and hot topics

- Cybercrime is costly for all businesses
- Cost estimates range from US\$ 3.5 billion in direct losses
- Total loss estimates as high as US\$ 274 billion
- Levels of impact on insurance industry difficult to quantify
- Estimates of global defence expenditure from US\$ 67 billion but losses still increasing
- Threat from organised cyber criminals increasing
- Governments forced to act



## Current trends and hot topics

### 2013 - US Initiative

- Executive Order: Improving Critical Infrastructure Cybersecurity
- Directed National Institute for Security and Technology (NIST) to work with private sector to develop a risk-based Cybersecurity Framework as a set of industry standards and best practices
- 2014: NIST released "Framework for Improving Critical Infrastructure Cybersecurity" (The Framework)
- Introduced as a "National Standard"
- "Critical Infrastructure" of 16 sectors includes financial services
- Applicable to all organisations on a 'voluntary' basis



## Current trends and hot topics

### The Framework

- Three components
  - The Core
  - Implementation Tiers
  - Framework Profiles
- The Core – five continuous and concurrent functions
  - Identify / Protect / Detect / Respond / Recover
  - Act as Cybersecurity risk lifecycle
  - Further divided into needs and activities
  - Pointers to standards, guidelines and good practices

## Current trends and hot topics

- Implementation Tiers
  - Four levels of sophistication
    - Tier 1: Partial – informal and ad-hoc with limited awareness
    - Tier 2: Risk informed – risk management policies in place and approved by senior management, with some effort to implement appropriate structures
    - Tier 3: Repeatable – formal security procedures which are regularly updated. Appropriate structures in place and risk-based decision making.
    - Tier 4: Adaptive – "real time" cybersecurity practices with continuous improvements leading to rapid response





## Current trends and hot topics

- The Framework Profile – a tool for storing information on cybersecurity programmes
  - Allows an organisation to articulate programme goals
  - Risk-based programme that adapts to level of risk
  - Profile comparisons allows for identification of desired outcomes and gaps in procedures

Not the only solution but a good model

**Remember** – bad things can happen to good organisations, so which Tier do you fit into?



## Current trends and hot topics

### **"Managing bribery and corruption risk in commercial insurance broking" (2014)**

- UK (FCA) Study
- A follow-up to an earlier report
- Considered if intermediaries were adequately addressing bribery and corruption risk across their businesses
- Focus on – governance, due diligence, ongoing monitoring, payment controls, recruitment / remuneration, training / awareness, incident reporting, and whistleblowing
- Study sample consisted of small / medium-size firms including Lloyd's brokers



## Current trends and hot topics

### Key messages

- Most intermediaries did not adequately manage the risks of bribery and corruption
- More work needed to be done before anti-bribery and corruption (ABC) systems would be fully effective
- Improvements in ABC training
- Improvements in remuneration policies
- Improvements in Gifts and Hospitality policies
- Comprehensive risk assessment required
- Risk assessments of individual relationships also required
- Insufficient information to support management oversight



## Current trends and hot topics

### **Development of good practice should focus on: -**

- Governance and management information – appointment of an ABC manager, with appropriate experience, and supported by good information flows in relation to business activities and payment processes
- Comprehensive ABC risk assessments – should be a continuous process and encompass both a business-wide and individual relationships assessment. A holistic view of both is required.
- Ongoing monitoring and review – on a risk-based approach, with up-to-date information and evidence of risk assessments. Monitoring should encompass business relationships and financial monitoring.

## Current trends and hot topics

- Recruitment and remuneration – remuneration policies should discourage risk-taking, and be documented. Recruitment strategies based on 'word of mouth' recommendations should be supported by formal policies.
- Training and awareness – specific ABC training should be provided on joining and on an ongoing basis, and at least annually. Training should be focussed and up-to-date.
- Whistleblowing – whistleblowing arrangements should be in place and covered in ABC and Induction training.

**Warning: UKBA is a powerful piece of legislation and may be used against you!**



## Current trends and hot topics

### Compliance Priorities for 2015

1. Managing “personal regulatory risk” (personal liability)
2. Managing “regulatory relationships”
3. Improving management information
4. Increase focus on “Conduct Risk”
5. Managing “Conflicts of Interest”
6. Broadening management of “financial crime”
7. Improving “Product Governance”
8. Managing “cyber-risks”
9. Managing “complexity”
10. Future-proofing systems and procedures
11. Managing “counterparty-risk”
12. Managing the impact of “de-risking” in financial services



## Current trends and hot topics

### Ongoing Issues

- FATCA
- Solvency II
- Crypto-currencies (bitcoin)
- AML / Sanctions
- De-risking
- Corporate Governance



## Current trends and hot topics

***DON'T TAKE YOUR EYE OFF OF THE BALL!***