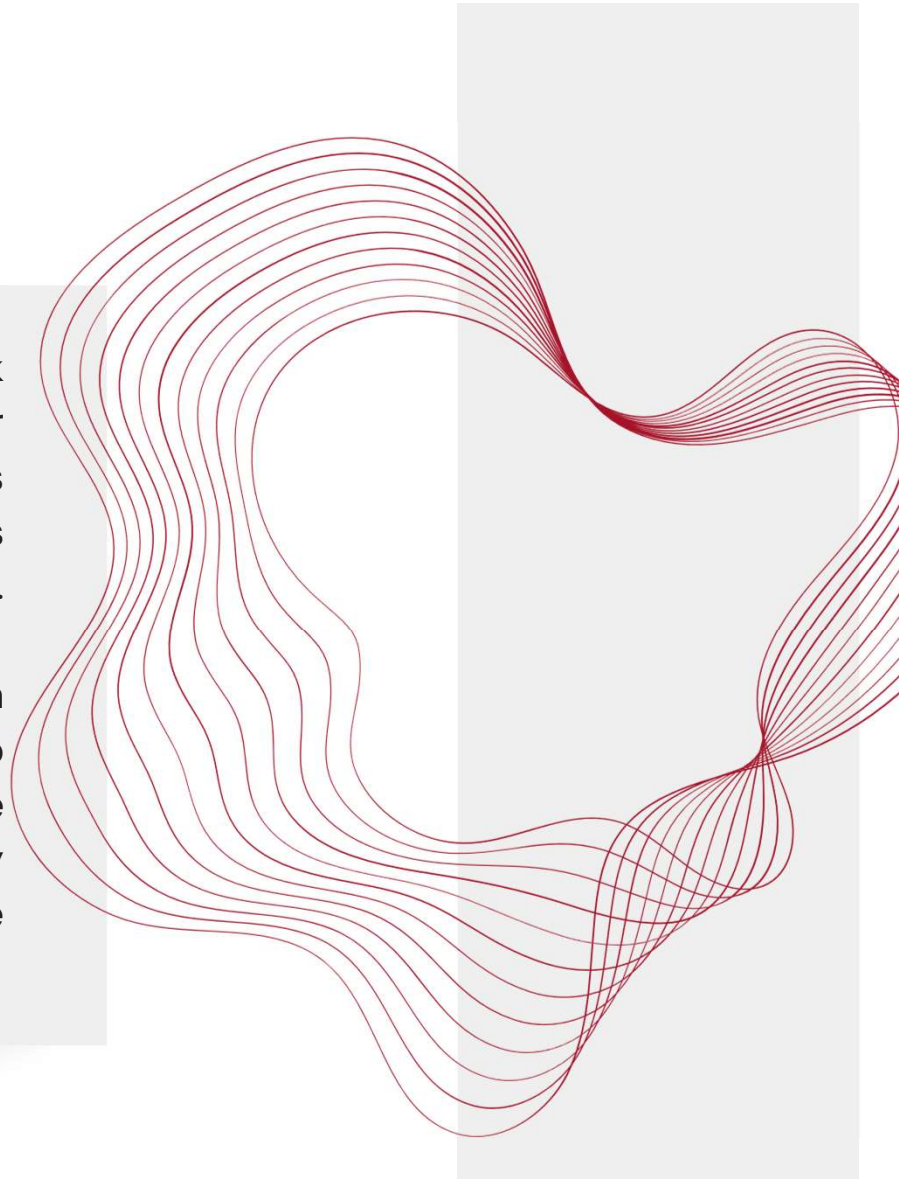


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# INTRODUCTION

The Central Bank of the UAE ("**CBUAE**") issued Risk Management and Internal Control Standards for Insurance Companies ("**Standards**"). These Standards form part of the Risk Management and Internal Controls Regulation for Insurance Companies (Circular No. 25/2022 dated 30 December 2022).

These Standards are mandatory and enforceable on insurance companies incorporated in the United Arab Emirates ("**UAE**"), or a foreign branch of an insurance company, that is licensed to underwrite primary insurance and reinsurance, including Takaful insurance companies ("**Company**").



# SYSTEMS OF RISK MANAGEMENT AND INTERNAL CONTROLS

- ① A Company must establish, implement and maintain systems of Risk Management and Internal Controls that enable it to identify, assess, measure, monitor, control, mitigate and report on risk.
- ② The Company's board of directors ("**Board**") is responsible for the implementation of an effective Risk Culture and Internal Controls across the Company and its Subsidiaries, Affiliates and international branches, where applicable. The Board approved systems of Risk Management and Internal Controls must incorporate a "three lines of defense" approach which includes the **business lines** being the first line, **Control Functions of Risk Management, compliance and actuarial**, being the second line and an **independent and effective internal audit function** as the third line.

# EFFECTIVE RISK MANAGEMENT SYSTEM

*The Risk Management system must address the following:*



# EFFECTIVE SYSTEM OF INTERNAL CONTROLS

- The Board or the Board audit committee must review, at least annually, the effectiveness of the Company's Internal Controls system and processes.
- The Company's Internal Controls system must, at a minimum, address:
  - Organisational structure.
  - Accounting and financial reporting policies and processes.
  - Checks and balances (or "four eyes" principle).
  - Safeguarding assets and investment.

# RISK MEASUREMENT AND THE USE OF MODELS

A Company must use measurement methodologies commensurate with the Risk Profile, nature, size and complexity of the business and the structure of the Company, including, but not limited to, scenario analysis and Stress Testing.

Risk measurement and modelling techniques must be used in addition to qualitative risk analysis and monitoring.

A Company must use measurement methodologies commensurate with the Risk Profile, nature, size and complexity of the business and the structure of the Company, including, but not limited to, scenario analysis and Stress Testing.

Model-based approaches must be supplemented by other measures. These include qualitative assessment of the logic, judgement and types of information used in Models, as well as assessment of policies, procedures, Risk Limits and exposures, especially with respect to difficult to quantify risks such as operational, compliance and reputational.

# STRESS TESTING OF MATERIAL RISKS

A Company must have a forward looking Stress Testing programme that addresses *inter alia*, underwriting, reserving, asset-liability management, investments, liquidity, reinsurance, concentration of risk, operational risk, risk-mitigation techniques and conduct of business, taking into account, that based on the Risk Profile of the Company, capital may be required in excess of the minimum capital requirements.

A Company's Stress-Testing programme must be undertaken on a regular basis to facilitate the tracking of trends over time and developments in key risk factors and exposure amounts, in addition to ad hoc Stress Tests, when needed.

Stress Test programme results must be periodically reviewed by the Board or the Board risk committee. Results must be incorporated into reviews of the Risk Appetite, capital and liquidity planning processes. The Risk management function is responsible for recommending any action required, for example adjustments of Risk Limits or contingency arrangements, based on Stress Test results.

## COMPLIANCE FUNCTION

Compliance Staff must have a sound understanding of the CBUAE laws and other relevant laws.

The compliance function must have access to any member of Staff and all records and data of the Company.

Establishment of a Group compliance function accountable to the Board of the Controlling Shareholder, or through compliance functions established in each entity.

## ACTUARIAL FUNCTION

An effective actuarial function must be well resourced and properly authorised and staffed as it plays a major role in the Company's overall system of Risk Management and Internal Controls.

## INTERNAL AUDIT FUNCTION

Establishing, implementing and maintaining an audit plan.

Disclosing any adverse matters affecting the function's independence.

Conducting risk-based audits to assess the Company's alignment with the Company's Risk Culture, Risk Appetite, Risk Profile and Risk Limits.

Verifying compliance of Senior Management with the decisions taken by the Board.

# COUNTERING FRAUD IN INSURANCE



***A Company must have policies, procedures and controls to minimise the risk of internal and external fraud.***

**Insurance fraud categories include:**

- Internal fraud, which is committed by a Board member, Senior Manager or other member of Staff on his/her own or in collusion with others who are either internal or external to the Company.
- Insurance Related Professions' fraud, which is committed by practitioners against the Company, policyholders or beneficiaries.
- Policyholder fraud, which is committed against the Company in the purchase and/or execution of an insurance product by one or more persons by obtaining wrongful coverage or payment.

***A Company must retain records of all reported cases of fraud along with the findings, and must establish standards relating to the turnaround time for the assessment of fraud, documentation of analysis and keeping records of fraud incidents.***

***A Company must report any suspected or confirmed fraud cases to the proper law enforcement authorities immediately and notify the Central Bank of such reporting.***





## How can the GLA team assist?

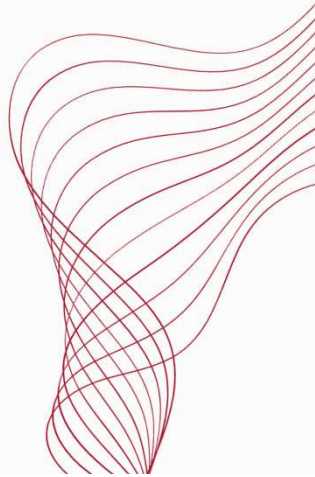
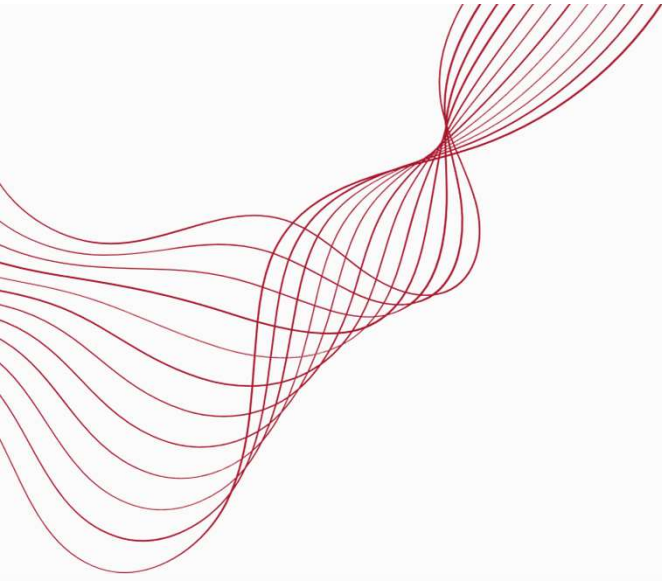
Given the requirements of the Risk Management Regulations will affect the insurance companies, a need to establish strong governance is inevitable in order to comply with the CBUAE Standards, as well.

We would be happy to advice on how these regulations will affect your business and assist with putting in place the governance necessary to be compliant with the Standards.

If you have any questions, feel free to reach out to our Partner Yousef Alamy: [y.alamy@glaco.com](mailto:y.alamy@glaco.com) .

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