Continuous Audit in Insurance Industry
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Introduction

Agenda
INTRODUCTION TO CONTINUOUS AUDITING
IMPLEMENTING A CONTINUOUS AUDITING FRAMEWORK
INTRODUCTION TO INSURANCE INDUSTRY
INSURANCE INDUSTRY – CONTINUOUS AUDITING FRAMEWORK

Introduction to Continuous Auditing

- Internal Audit documents, evaluates and tests controls. Effectiveness is demonstrated by using transactional data analysis to test internal controls on historical basis.
  Limitations in the approach
  • Point-in-time analysis
  • Time lag – analysis frequently occurs long after transaction has taken place, too late for action
  • Problems escalate, increasing business risk

- Changing regulatory environment and increased scrutiny
  • Demand for increased accountability
  • Spotlight on corporate governance and financial integrity

Solution = Continuous Auditing or Continuous Control Monitoring Independently test all transactions for compliance with controls at, or soon after the point at which they occur to provide Continuous Assurance

The key objective of CA or CCM is:
- To enable near real-time and regular monitoring of control effectiveness.
- By monitoring the compliance with key controls, the business obtains Continuous Assurance on the accuracy and validity of large volumes of data flowing through their systems, enabling the isolation and containment of control failures on a timely basis.
- It provides a snapshot on the effectiveness of the automated and manual controls in the process. But it is not a Control

Continuous Auditing
- Performed by Internal Audit
- Method used to perform audit-related activities on a continuous basis – includes control and risk assessment

Continuous Monitoring
- Performed by management
- Audit independently evaluates adequacy of management activities
- Method used to ensure policies/processes are operating effectively
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- Role of continuous auditing dependent on management’s role in continuous monitoring of controls
  -- Inverse relationship: the greater the role of management, the less of a direct role of internal audit

**True continuous assurance**
Depends on effective monitoring by management of internal controls and Audit’s independent assessment of that function
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Implementing a Continuous Auditing Framework

Implementing a Continuous Auditing Framework - Scope

Continuous Auditing can be implemented for any control if
- Data is available in any format
- Rules to be validated can be established

Continuous Auditing can be implemented for any process
- Operational processes
- Financial transactions
- Regulatory controls within transactional process areas

Implementing a Continuous Auditing Framework - Approach

Challenges

- Change in Culture
- Understanding data and processes
- Data accuracy/ completeness/ availability
- Volume of data
- Skill Set for Data Analytics
- Tools for analyzing voluminous data
- Timely resolution of issues identified
- Cost

Systems and Tools

Reporting
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Implementing a Continuous Auditing Framework – Using a tool

Presentation layer

- Dashboards – Senior Management

Application layer

- Access by project team, process owners, IT team for configuring rules and tracking issues

Analytics layer

- Data Extraction
- Analytics Engine
- Exceptions Database

Source System

- Policy Administration Systems
- Lead Management System
- Financial System
- Customer Relationship Manager
- Agency Management System

Implementing a Continuous Auditing Framework – Benefits of tool

- Use of Source data independently, 100% of data being reviewed
- Improve quality, broader and deeper coverage
- Increase efficiency i.e. Improve productivity, Better use of resources
- Continuous visibility of state of controls
- Add value i.e. Support compliance and support business performance
- Increase revenue by identifying opportunities for operational efficiencies and cost savings, Arrest Revenue leakage
- Reduce costs and time
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Introduction to Insurance Industry

Insurance Regulatory and Development Authority (IRDA) was established in 1999 under the IRDA Act and is responsible for regulating, promoting and ensuring orderly growth of the insurance and re-insurance business in India.

- Setting up of IRDA & passing of IRDA act
- Product category expanded
- Introduction of Bancassurance
- Influx of partnerships - Reputed Indian business houses with globally renowned MNCs

Phase 2 - Wild Expansion (2004-2008)
- “Growth at Any Cost” - Strong premium growth
- Innovative products (ULIP) riding on buoyant Capital Markets
- Strong capital infusion from promoters
- Bancassurance - Emerged as Strong Distribution channel
- Over 2 M agents added by Private Players, LIC lost market share

Phase 3 - Nervous Re-look (2008-2012)
- De-growth in the Industry due to:
  - Sub-prime crisis
  - Regulatory activism by IRDA, catalysed by the SEBI-IRDA spat
  - Rampant mis-selling & Customer backlash, causing Low Persistency
  - Most insurance companies incurring losses owing to high capital investment required
  - NBAP margins under pressure post implementation of new ULIP guidelines

Phase 4 - Changing regulatory environment (2013)
- More than 10 new regulations being introduced by IRDA
- 8 to 9 insurance Companies being fined by IRDA for non compliance to IRDA regulations. Fines ranging from Rs 10 lacs to Rs 3.16 cr
- Licenses cancelled for multiple brokers due to non compliance to IRDA Regulations
- Introduction of new product regulations (Linked and Non Linked) which required to file new products and launch them by 1 January 2014
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Introduction to Insurance Industry – Impact

- **Traditional Products**
  - Increase share of Traditional to protect margins and distributor interests
  - New ULIPs being looked at as more investor friendly

- **Cost Management**
  - Stringent cost rationalization and variabilization to protect margins

- **Overhauling Distribution models**
  - Bargaining power of large distributors strengthened - innovative distribution deals order of the day.
  - New norms are hard on all distribution channels
  - Large players have exited Tier 2 and Tier 3 cities to cut costs and to maintain margins.
  - Alternate channels of distribution - internet, web aggregators, telemarketing

Introduction to Insurance Industry – Key regulations

- Investments
- Commission structure
- Policyholders Protection

- Rural and Social Obligations
- IRDA Guidelines on Distance Marketing
- File and Use Provisions

- Standard Proposal form
- Suitability Analysis
- Licensing of Agents and Persistency Guidelines

- Advertising Regulations
- Health Regulations
- Electronic Issuance of Policies

- AML Regulations
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Insurance industry – Continuous Auditing Framework

Insurance industry – Continuous Auditing Framework – Insurance Life Cycle

- Finance
  - Product development, approval and launch
  - Policy Payouts
  - Distributor Payouts
- Admin
  - Sales by distributors
  - Policy Accruals
  - Investment Management
- Legal and Compliance
  - Policy issuance and underwriting
  - Policy Servicing
  - Actuarial Reserving
- Marketing
  - Policy Maintenance
  - Policy Reinsurance

Insurance industry – Continuous Auditing Framework - Scope

- Sales and Distribution
  - Direct Sales Force
    - Bancassurance
      - Online
    - Group
  - Rural and MI
    - R & R
      - Sales Training
      - Advisor Hiring & Licensing
  - Marketing
- Actuarial
  - MCEV reporting & forecasting
  - Capital Mgmt/ Solvency
  - Product Development And Management
  - Actuarial reserves
  - Other Actuarial Services
- Finance
  - Financial reporting
  - Financial Year and Closing Process
  - Treasury & Investment services
  - Procurement
  - Taxation
  - Revenue Accounting
  - Commission
- Risk, Legal & Compliance
  - AML, Fraud and Market conduct
  - Financial Reporting
  - Regulatory Management
  - Legal
  - Risk Framework
- HR
  - Recruitment
  - Payroll Management
  - Performance Management
  - Training & Development
  - Other Services
- Customer Services
  - Policy Issuance
  - IT Governance
  - Financial Support
  - IT Operation and Problem Management
  - Policy Servicing
  - Data centre management
  - Underwriting
  - IT Facility management
- Information Technology
  - Claims
    - Branch Operations
    - Business Protection
  - Other
    - Customer Complaints
    - Application Development
    - Reinsurance
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Insurance industry – Continuous Auditing Framework – Revenue Assurance

Scope that can be covered under the CAF

- Accuracy of Unit deduction in Policy Administration System
- Accuracy of charge deduction in Policy Administration System
- Compliance to boundary conditions as stipulated in the product File and Use
- Accuracy of the premium to be collected from the customer

Insurance industry – Continuous Auditing Framework – Expense Management

Scope that can be covered under the CAF

- Compliance to Sec 40 A of the IRDA regulations
- Accuracy of the commission payable to an Agent
- Accuracy of the incentives and other benefits payable to an Employee or Agent allowed within the limits of Section 40A
- Compliance to Reinsurance treaty, Accuracy of reinsurance premiums paid and claims money to be collected from the reinsurer,
- Accuracy of payouts being made to customers not limited to surrender, maturity, death of policy

Insurance industry – Continuous Auditing Framework - Compliance

Scope that can be covered under the CAF

- Policyholder’s Protection Act which lays down guidelines on TAT’s for policy issuance and servicing
- Compliance to Product File and Use provisions pertaining to features available such as Lapsation, Paid up, Systematic Transfer Plan etc
- Compliance to IRDA regulations pertaining to NAV allocations, ULIP
- Compliance to AML regulations

Insurance industry – Continuous Auditing Framework – Process Adherence

Scope that can be covered under the CAF

- Adherence to Policy Issuance process pertaining to
  - Financial underwriting
  - De-duplication of clients
  - Section 64VB compliance
- Adherence to Underwriting process pertaining to
  - Underwriting limits
  - Medical grid
  - Policies to be reinsured
- Adherence to Claims and Annuity processes