Risk Based Audit Planning Guidelines

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Risk Based Audit Initiative Sub-team Members

This document was prepared based on the collective efforts of the following individuals:

Jennifer Atlee, Hannover Life Re
Isabelle Calderon, Gen Re
Laura D'Andrea, Prudential
Sophie Lajeunesse, Munich Re
Garfield McIntyre, Munich Re (Chair)
Ricky Peterson, Munich Re
John Whitaker, RGA Re

Thank you for your participation on this initiative in order to prepare this risk based audit guideline. Your participation on this initiative will assist members of RAPA to develop an effective and systematic approach for conducting their annual risk based audit plans.

Objectives:

This document is being prepared in order to assist member companies of the Reinsurance Administration Professional Association (RAPA) in developing a systematic approach for conducting the annual risk based audit plan of ceding companies and reinsurers administration audits by reinsurers and retrocessionaires, respectively.

While the approach can be leveraged for other risk based audits, this document does not specifically address Claims or Underwriting reinsurance audits. In addition, the scope of this document does not include the actual audit execution. Refer to the "Operational Risk Management" book that is published by RAPA for more details on the execution of reinsurance administration audits.

Overview:

The risk based audit planning include an assessment of key risks impacting the reinsurers and retrocessionaires business (refer to the risk control framework created by the Risk Management sub-team for a list of key reinsurance administration risks); the identification of ceding companies or reinsurers; and specific blocks of business to audit based on several risk factors captured with Appendix 2. Relevant weights could be assigned to the factors affecting your business in order to prioritize the business partners selected to be audited.

Typically, a risk assessment will be completed using the specific risk factors that apply to your business. Once the target audit companies and subsequent treaties are identified, they will be discussed with relevant internal stakeholders before notifying the audit clients. In addition, the target audits completed in a given year will often be affected by resource constraints. Consequently, audit client selection and the audit scope may be adjusted for resource considerations.

Furthermore, there are certain target companies based upon their risk profile that will often be included for periodic audits. For instance, a desk review and/or on-site audit might be completed of your top tiered business partners every 2 or 3 years, or at another interval that is commensurate with the risks to your business.

Frequency & Timeline:
The risk based audit plan is typically done once a year and will often begin by late third quarter or early fourth quarter. A leading practice is to identify and notify partner companies by the fourth quarter of the current year about planned on-site audits for the subsequent year. However, the selection of the final audits and treaties could go into first quarter of the subsequent year.

The annual risk based audit plan should be updated on a quarterly basis and consider changes in the reinsurers and retrocessionaires companies risk profiles for the block of business assumed.

Once the audits are identified, as much advance notice as possible should be given to the ceding companies and reinsurers as possible to ensure that they are able to facilitate the audits. This is especially needed for on-site audits.

Risk Factors:
There are several quantitative and qualitative risks factors that are involved with the identification and selection of companies for desk and on-site audits. Refer to Appendix 2 for a detailed list of these factors.

The ceding companies that are typically selected for audits are those with a combined risk profile that is above the reinsurers' or retrocessionaires' risk appetite, which can be determined using the quantitative and qualitative risk factors that rely on judgmental and objective criteria. For instance, target audit clients might be those with risk factors resulting in a combined risk profile of 75% or more based upon the risk factors and weights assigned from Appendix 2.

Appendix 1 - Detailed Procedures

Below are the key steps and procedures that are typically followed during the annual risk based audit planning process:

Steps / Procedures	Timing / Frequency	Tools
Get input from key internal stakeholders (i.e. Administration, Business Development/Marketing, Claims, Corporate Actuary, Inforce Management, Pricing, Underwriting, etc.)	3Q – 4Q	E-mails, meetings, surveys
Identify and rank ceding companies by NAR and/or Premium (i.e. top tier, or top 20/30 ceding companies, or those comprising 70% or more of NAR and/or Premium)	3Q – 4Q	Query of administration system via Excel/Access/SQL/etc.
Identify relevant key qualitative and quantitative risk factors, including input from key stakeholders on actual and/or potential impact (Refer to the list provided with Appendix 2)	During 3Q – 4Q for annual risk planning on on-going at least on a quarterly basis	E-mails, meetings, surveys, Excel, Word
Share target audit clients/treaties and audit scope with internal stakeholders	4Q – 1Q	E-mails
Contact clients and work collaboratively to schedule the audits	4Q – 1Q	E-mails and phone calls

Appendix 2 - Key Quantitative and Qualitative Risk Factors[1]

Provided below are several key quantitative and qualitative factors to consider during the annual risk based audit process:

Risk Factors[1]	Possible Weights[1]	Descriptions
Premium and NAR volume		Premium and NAR volume helps to identify key business partners that could materially impact your business.
Shock Lapse & Post level term Business		Identify business partners with higher concentration of term business with eminent shock lapse and post level term business.
Conversion business		Identify business partners with higher concentration of conversion business.
New Business / First list reviews		Review of new treaties with significant business and/or administrative issues within the first 24 months. The intent is to be able to identify variances early in order to avoid significant financial impact after the treaties have been in effect for longer durations. An insurer may want to complete a separate review of new business with its own risk assessment each year.
Business partners that have recently undergone system conversions or have client specific file formats.		May want to wait for at least 2 or 3 cycles after a system conversion prior to selecting for audit. Could potentially include for audit up to 24 months after system conversion. Would usually be done sooner based on client request.
When the client was last audited		It may be preferred to audit top

[1] Note: The risk factors and weights adopted by each company should be assessed and agreed to with relevant internal stakeholders and customized based on the company's risk profile and risk appetite.

Risk Factors[1]	Possible Weights[1]	Descriptions
		tiered business partners more frequently. Refer to Premium and NAR volume risk factor above.
Whether clients have had recent significant issues. For instance, business ceded in error.		Usually identified by stakeholders consulted during the audit planning process.
Volume of joint and frazierized business.		May take into consideration system capabilities as well for processing these.
Review of ceded in error frequency and NAR activities		Typically provided by Claims and/or Administration via Excel
Personnel Consideration (competency / tenure / Training needs)		Change in personnel and their experience levels should be considered.