

Federal Reserve Board

# Course Description for Principles of Insurance Risk Supervision(PIRS)

Course Catalog Detail

5/19/2009

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## **PRINCIPLES OF INSURANCE RISK SUPERVISION (PIRS)**

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### **TYPE OF PARTICIPANT TARGETED**

This course is designed as a supplementary course for safety and soundness examiners and certain other supervision staff.

### **PREREQUISITES**

There are no pre-requisites for this course although the expectation is that participants are likely to be involved in bank examinations that require background knowledge of insurance products and the fundamentals of insurance risk supervision.

Prior to attending the course, participants will receive precourse reading material that will provide background information on the insurance industry, insurance consumer products, and insurance business products.

### **COURSE OVERVIEW**

Designed as a supplementary course for safety and soundness examiners and certain other supervision staff, this 4.5 day course provides examiners with the tools to better understand and analyze products and processes with an insurance component. The course also covers the use of insurance products as part of a broader enterprise-wide risk management strategy and provides an overview of key and unique risk management issues raised as a financial institution conducts insurance and annuity product sales or underwriting activities. The course will also enhance examiner skills necessary to complete risk assessments of activities in which insurance risk is embedded. A pre-course reading assignment must be completed prior to attendance. Insurance concepts and terminology as well as types of insurance products, industry participants, and lines of business, operations, and regulation will be covered.

### **COURSE OBJECTIVES**

By the end of this 4.5 day course, participants will be able to:

- Provide an overview of the insurance industry and its participants
- Explain insurance risk management
- Describe the insurance business and its operations

- Define insurance and annuity products
- Explain key insurance concepts and contract characteristics (parts 5A, B, and C)
- Review financial statements of Insurers
- Explain the insurance related impact of GLBA
- Explain insurance industry regulation
- Describe supervisory coordination among regulators
- Identify unique risks associated with various types of underwriting
- Explain why BSA/AML requirements have expanded to include insurers
- Describe categories and characteristics of corporate and bank-owned life insurance (BOLI)
- Explain insurance and annuity sales activity authority of state and federal regulators
- Describe the risks associated with COLI and BOLI and how to perform assessments of these programs
- Describe how to perform assessments of compliance with Regulation H-Consumer Protections in Sales of Insurance (CPSI) and the adequacy of a banking organization's oversight and audit program for ensuring compliance with CPSI

## **POST-COURSE INTERVENTION**

During the course, participants are provided with suggestions for insurance continuing education, including information on self-study courses and certifications, annual conferences, seminars, insurance trade journals and periodicals, and pertinent insurance-related web sites.

After completing PIRS, the participant should be given on-the-job assignments that will increase the retention of competencies presented during class. Such assignments include, but are not limited to:

- Participation in a targeted operational risk review at a larger banking organization to assess the corporate insurance program and the insurance risk management process, which is one element of operational risk
- Participation in a targeted examination to review COLI and/or BOLI at a larger banking organization
- Participation in a review of insurance and annuity sales activities at a larger banking organization to perform an assessment of the risk to the banking organization from these activities
- Participation in a review of insurance underwriting activities at a nonbank subsidiary of a financial holding company (FHC) to perform an assessment of the risk to the FHC from these activities
- Participation in an examination at a community banking organization to perform an assessment of COLI and/or BOLI programs

- Participation in an examination at a community banking organization to perform an assessment of the corporate insurance program and the insurance risk management process, which is one element of operational risk
- Participation in an examination at a community banking organization to perform an assessment of the insurance sales activities and compliance with CPSI
- Participation in an examination at a community banking organization to perform an assessment of nonbank subsidiaries, including a review of a credit life reinsurance captive, which is a subsidiary of the bank holding company
- Review, on a quarterly basis, applicable insurance-related regulatory reporting information and surveillance screens and use this information on insurance-related examinations to confirm its accuracy
- Work with applicable regulatory reporting and statistics personnel at applicable Federal Reserve District to answer periodic insurance-related regulatory reporting questions to ensure that banking organizations are reporting accurate insurance-related statistics and structure data
- Stay abreast of current developments in the insurance industry to assist with the identification of emerging risk areas at banking organizations related to insurance, including but not limited to, life settlements

## OVERVIEW OF CURRICULUM

### FEDERAL RESERVE PORTION OF COURSE

#### Wednesday

Time	Module	Time Assigned
1:45 p.m.	Legislation (GLBA)	1 hour
2:45 p.m.	<b>Break</b>	15 minutes
3:00 p.m.	Insurance Underwriting Activities/Captives	1 hour 30 minutes
4:30 p.m.	Assignments for Thursday; Questions	15 minutes

#### Thursday

Time	Module	Time Assigned
8:30 a.m.	BSA/AML	45 minutes
9:15 a.m.	Regulation H – Consumer Protections	1 hour
10:15 a.m.	<b>Break</b>	15 minutes
10:30 a.m.	Insurance Risk Management (IRM)	1 hour 30 minutes
12:00 p.m.	<b>Lunch</b>	1 hour
1:00 p.m.	BOLI	1 hour 30 minutes
2:30 p.m.	<b>Break</b>	15 minutes
2:45 p.m.	Regulatory Reporting	45 minutes
3:30 p.m.	Insurance Sales Activities	45 minutes
3:45 p.m.	<b>Break</b>	15 minutes
4:00 p.m.	Time to Read Case Study	45 minutes

## Friday

<b>Time</b>	<b>Module</b>	<b>Time Assigned</b>
9:00 a.m.	Open Q&A Session	30 minutes
9:30 a.m.	Case Study (Group Exercise)	1 hour
10:30 a.m.	<b>Break</b>	15 minutes
10:45 a.m.	Federal Reserve System Supervisory Priorities	1 hour
11:45 a.m.	Post-Course Assessment	15 minutes

## MODULE LEARNING OBJECTIVES

By the end of each module, the learner should be able to:

### Overview

- Identify and describe insurance industry sectors
- Explain how industry sectors interact to create value and provide services for all their constituents
- Describe the incentives present in distribution systems and how they can affect behaviors
- Distinguish between insurance company classifications for regulatory purposes
- Explain insurance industry risk to which banks may be exposed
- Describe key insurance concepts and contract characteristics
- Identify the characteristics of property/casualty insurance contracts, including indemnity-based contracts and conditional contracts
- Apply and utilize the terms of art and concepts utilized in risk management and insurance

### GLBA

- Describe what GLBA did to modernize the financial services industry
- Describe the expanded powers for banks under GLBA
- Define financial holding company (FHC), how it is structured, and what insurance activities it can conduct
- Describe other financial and complementary activities under GLBA

- Explain the role of functional regulators
- Describe supervisory coordination among regulators, including the sharing of confidential information

## **Insurance Underwriting**

- Explain why banking institutions are engaged in insurance underwriting
- List key types of insurance underwriting activities
- Explain how banking institutions are involved in insurance underwriting
- Identify unique risks associated with various types of underwriting
- Recognize the functional role of the state insurance regulators
- Identify primary responsibilities of and differences among insurance regulatory regimes
- Describe FRB consolidated (umbrella) supervisory responsibilities and current guidance
- Describe sound practices/effective supervisory approach to assessing risk to the consolidated entity from insurance underwriting activities

## **BSA/AML Considerations**

- Explain why BSA/AML requirements have expanded to include insurers
- Identify what entities are covered under the AML requirements applicable to insurers
- Identify the insurance products that are covered and are not covered under the AML requirements applicable to insurers
- Explain the role of insurance agents in AML and whether the AML requirements apply to insurance agents
- Describe the AML requirements for insurers
- Identify suspicious activities with respect to insurance products and potential trends
- Identify the risks from noncompliance with the AML requirements and how to mitigate those risks

- Identify the primary regulator for insurers with respect to BSA/AML
- Explain status of IRS examinations of insurers for money laundering and preliminary results of these examinations
- List key AML questions for banks that sell insurance and annuity products

### **Insurance Risk Management (IRM)**

- Explain why insurance risk management (IRM) is important
- Explain IRM activities in general and purchasing activities
- Identify key documents used by insurance risk managers
- Evaluate the adequacy of key documents used by insurance risk managers
- Identify sound practices that facilitate insurance as an effective risk transfer
- Apply these sound practices to IRM fact patterns
- Describe horizontal analysis of sound practices based on exam field work
- Explain how IRM is reviewed and rated
- List Basel II considerations

### **Bank Owned Life Insurance (BOLI)**

- Describe categories and characteristics of bank-owned life insurance (BOLI)
- Explain why banking institutions purchase BOLI
- Explain how banks should report BOLI on regulatory reports
- Identify risks arising from BOLI
- Describe key elements of the Interagency Statement on the Purchase and Risk Management of Life Insurance
- Explain when supervisory action may be taken with respect to BOLI
- Summarize horizontal analysis of exam field work related to BOLI
- Describe how to rate a banking institution's compliance with the Interagency Statement

### **Regulatory Reporting**

- Describe insurance-related regulatory reporting requirements, including regulatory report items, pertinent ratios and surveillance screens pertaining to banking organization insurance activities

## **Supervision of Insurance and Annuity Sales Activities**

- Define agent misconduct
- Describe operational, legal, and reputational risks and risk mitigants for insurance and annuity sales activities
- Explain how the Federal Reserve supervises insurance and annuity sales activities
- Describe how to perform assessments of compliance with Regulation H – Consumer Protections in Sales of Insurance (CPSI) and the adequacy of a banking organization’s oversight and audit program for ensuring compliance with CPSI

## **CLASS SIZE**

Minimum class size is 10 with a maximum of 25.

## **INSTRUCTORS**

The first 2.5 days of the course are taught by vendors. The remaining 2 days are taught by 3-4 Fed instructors