

Risk Management Systems Checklist (Common Items)

This checklist contains check points that are common to all types of risk. It is to be used by inspectors in the inspection of insurance companies.

The check points covered in this list are basic aspects of risk management that should naturally be engaged in as part of insurance-company management. The list focuses particularly on the recognition and practices of the directors of the insurance company themselves. Should director recognition be lacking, this in itself is exposed to a serious management risk to the insurance company, so the emphasis in this list is on the ability of the insurance company's directors. (Obviously, manager and auditors should also recognize the items contained in this checklist.)

Inspectors will inspect the risk management systems of the insurance company using this checklist and the checklists for individual risks.

This checklist and manual apply to all insurance companies, including the foreign offices of Japanese insurance companies (foreign branch , foreign subsidiaries, and offices of the overseas workers, etc., though whether to include these offices in the inspection by this checklist and manual will be determined in light of applicable laws and ordinances, including applicable foreign-country laws and ordinances) and the Japan offices of foreign insurance companies.

[Notes on the use of this manual in inspections]

This manual is essentially a handbook to be used by inspectors in the inspection of insurance companies. It is expected that, as part of their efforts to ensure sound and proper operations and in accordance with the principle of self-responsibility, individual insurance companies will fully exercise their creativity and innovation to voluntarily create their own detailed manuals. These insurance company manuals should make note of the content of this manual and be adapted to the size and nature of the insurance company.

The check points in this manual represent standard to be used by inspectors in evaluating the risk management systems of insurance companies. They do not constitute direct statutory obligations to be achieved by insurance companies. Care must be taken that the manual is not adopted by rote and uniformly. If there may be cases in which the checklist description has not been fulfilled literally, by insurance company , in the light of ensuring the soundness and appropriateness of its operation only the time that the measures by insurance company are equivalent in their effects to the descriptions for the check point or are sufficient given the size and nature of the insurance company, these measures would not be deemed inappropriate.

Inspectors will therefore need to fully dialogue relevant points with insurance companies during on-site inspections.

Note: Explanation of check points

Unless explicitly stated otherwise, items expressed in the question form such as “does the insurance company” or “is the insurance company” are minimum standards that are expected of all insurance companies. Inspectors, as they go through their checklists, need to fully verify the effectiveness of these items.

Unless explicitly stated otherwise, items worded in the form of “it would be desirable that” constitute “best practice(sound practice)” for all insurance companies. Inspectors need only confirm these items.

Note: Distinction between “board of directors” and “board of directors, etc.”

Items that are defined as roles of the “board of directors” are items for which the board of directors itself needs to determine all essential matters. This does not, however, preclude the board of directors from delegating consideration of draft documents to the management committee or similar bodies.

The phrase “board of directors, etc.” includes the board of directors, the management committee, the management meeting, and similar bodies. Items that are defined as roles of the “board of directors, etc.” would ideally be determined by the board of directors itself, but may be delegated to the management committee, etc. provided that there has been a clear delegation of this authority from the board of directors, the management committee, etc. has kept minutes of its proceedings and other materials that would allow after-the-fact confirmation, and there are adequate internal checking by the measure the results are reported to the board of directors, or auditors are allowed to participate in the management committee, etc.

Note: Explanation of “business base”, “business bases”, “insurance sales”

The phrase “business base” refers to organizations other than the head office that constitute business bases, such as branch offices, business headquarters, foreign branch offices, and foreign subsidiaries. The phrase “business bases” refers to organizations other than the head office that do not engage in sales activities, such as operating bases, service centers, and foreign liaison offices.

The phrase “insurance sales” refers to insurance agency or insurance agent and does not include insurance broker.

Item	Risk Management System Check Point	Explanation of Risk Management Check Points	Remarks
<p>I. Recognitions of risk management</p> <p>1. Recognition of directors and role of board of directors, etc.</p>	(1) Representative directors' understanding of risk	(1) Do the representative directors understand the nature of various risks, including the nature of liabilities? Are they able to allocate resources appropriately in conformity with strategy? Do they have structures in place that are able to provide dynamic management of risks?	
	(2) Functions of the board of directors as the body making decisions on business-execution and supervising activities of directors	(2) Do the directors, from the perspective of checking and restraining unilateral actions of the representative directors in the execution of business activities, facilitating appropriate business execution and, maintaining and improving the trust of the insurance company, take active part in the decision-making process of the board of directors and in the supervision of business execution by directors? Do the directors fulfill their obligations as good caretaker and faith in the execution of business based on substantive discussions from the perspective of strengthening the insurance company's base of trust? Does the board of directors position the formulation of corporate ethics, as defined by social responsibilities, public duties, and similar considerations, as a priority task and does it erect structures to achieve this? Does the board of directors discuss, not only ways to promote business, but also any issues of risk involved in the business management?	
	(3) Minutes of board of directors meetings	(3) Does the board of directors: Drawn up minutes of its meetings? Store minutes of its meetings for the period of time as specified by law? Drawn up base documents from which can be determined the nature of the items on its agenda? Store the documents described in the above question for the same period of time as the minutes of board of directors meetings? Drawn up minutes of board of directors meetings and base documents that record the process of risk-related decisions by the representative directors, and allow verification of the status of various risks and problems related thereto, and reports of scandals and other problems?	
	(4) Establishment of management policies	(4) Does the board of directors clearly articulate management policies based on the overall targets towards which the insurance company is working? Does it provide a clear business plan based on the policies and does it communicate this plan to the organization as a whole?	
	(5) Articulation of strategic goals based on management policies for the insurance company as a whole	(5) Does the board of directors clearly articulate the degree of risk to be taken and the level of profits to be sought, and other similar strategic goals? Do the strategic goals of individual divisions place so much priority on securing profits that risk management is neglected? Do the strategic goals concerning asset management take into account the nature of liabilities? Are goals communicated and known throughout the organization?	
	(6) Directors' understanding and recognition of risk management	(6) Do directors understand the locus and type of risks to which the insurance company is exposed? Do they understand the techniques that are used to measure, monitor, and manage various risks, and do they recognize the importance of risk management? Do directors in charge of risk management and related areas have deep understandings and recognition of these issues?	

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	(7) Establishment of risk management policies	(7) Does the board of directors articulate clear risk management policies in light of the insurance company's strategic goals? Does the board of directors take appropriate steps to communicate its risk management policies throughout the organization? Does the board of directors regularly (at least once per year) review risk management policies? Does it review risk management policies at other times as required (for example, because of changes in strategic goals)?	
	(8) Establishment of organizations for risk management	(8) Has the board of directors established a risk management division to manage various risks? Does the risk management division have a structure that enables it to provide integrated management of risks? Does this structure provide for full functioning of mutual-checking and similar controls, for example, by segregating the profit divisions from the risk management division? Are organizations and structures reviewed as necessary? Are improvements made to keep pace with changes in strategic goals and advances in risk management techniques?	
	(9) Reporting on risk status to board of directors , etc. and use of risk information in decision-making for the organization as a whole	(9) Does the board of directors, etc. receive regular reports on the status of risk and make such decisions as are necessary? Does the board of directors, etc. make use of measured risk information in business execution and in enhancements to management structures?	
	(10) Establishment of policies regarding the training and assignment of personnel for appropriate risk management	(10) Does the board of directors, etc. articulate clear policies regarding personnel management designed to achieve appropriate risk management? This would include, but not be limited to the training of personnel versed in risk management operations, the assignment of full-time risk managers, and personnel management policies regarding the organization of risk managers and measures to prevent incidents.	
	(11) Use of actuaries	(11) Involvement of actuaries and securing effectiveness of confirmation operations concerning actuarial matters. Does the board of directors give actuaries the necessary authority to discharge their duties? Is the function of mutual checking ensured in light of the purpose of the structure, for example, by making the actuaries independent of the profit divisions, the profit management divisions and the product development divisions? When the actuaries are not independent of the profit management divisions, is a measure taken to ensure the function of mutual checking, for example, by having persons qualified to be actuaries and belonging to divisions not in conflict of interest, or persons outside of the company verify the appropriateness of the written opinions, etc. of the actuaries? Does the board of directors screen the content of opinions submitted by the actuaries? In particular, does the board of directors of life insurance companies review whether or not revenue and expenditure analyses by actuaries are in accordance with laws and ordinances? (Note that, in case of non-life insurance companies, if election of actuaries is mandatory, their work is specified.)	

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	(12) Functioning of the board of auditors	<p>(12) Are the auditors and the board of auditors assured of their independence and do they perform effective operational audits of the directors and accounting audits? Does at least one auditor attend meetings of the board of directors when risk management issues are on the agenda? It is desirable that a full-time auditor attends such meetings. Is the board of auditors assured of its independence as intended by the law? Does the board of auditors appropriately exercise the wide-ranging authority granted to it to perform operational audits in addition to accounting audits? Does the board of auditors have necessary and appropriate adjunct staff? Are external auditors and actuaries used to complement the functions of the board of auditors? Does the insurance company use the firms when necessary? Do auditors understand that they are still independent even when there is a board of auditors, and do they actively perform audits on their own personal responsibility? Are there structures in place to enable the board of auditors to check that the findings of external audits by accounting auditors, etc. are themselves appropriate and, if necessary, to take measures such as replacing external auditors, etc.?</p>	
2. Recognition and roles of manager	(1) Manager's understanding and recognition of risk management	(1) Does manager understand the locus and type of risks to which the insurance company is exposed? Does it understand the techniques that are used to measure, monitor, and manage various risks, and recognize the importance of risk management? Does it take appropriate measures to cause relevant personnel within their divisions to understand and be aware of these issues? Does it take appropriate measures to improve risk management policies and risk management rules?	Note: "Manager" refers to branch office managers and persons in senior managerial positions (including directors) with equivalent levels of responsibility, and so throughout.
(2) Establishment of rules for risk management	(2) Does manager establish techniques for measurement, monitoring, and managements in accordance with the type of risk and the insurance company's risk management policies? Does it establish rules for appropriate risk management with the approval of the board of directors, etc.?		
(3) Establishment of organizations for risk management	(3) Does manager establish organizations for appropriate risk management in conformity with risk management policies and risk management rules?		
(4) Appropriate risk management practice	(4) Is manager responsible for appropriately assessing, monitoring, and managing risks in conformity with risk management policies and risk management rules? Does it verify the effectiveness of risk management techniques and organizations at appropriate times and in appropriate manners? Does it review risk management techniques and organizations as warranted by changes in markets, increase in risk volume, and improvements of management measures?		
(5) Appropriate assignment of staff for risk management	(5) Does manager make appropriate personnel assignments so that organizations are able to function effectively in risk management , such as only assigning the manager in charge of risk control based on policies articulated by the board of directors, etc.? In assigning personnel, does manager select personnel with practical experience or other expertise?		
(6) Establishment of training structures for personnel development	(6) Does manager provide personnel training aim to bring up the experts based on the policies articulated by the board of directors, etc? Does it establish training structures to improve the manager's skills of risk management in individual divisions?		

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	(7) Personnel management designed to prevent scandals	<p>(7) Does manager, in accordance with the policies articulated by the board of directors, etc., have programs in place to require employees (including manager and insurance agents) to stay away from their jobs for a minimum of one week a year for the purpose of preventing scandals? It is desirable that this period be more than two weeks.</p> <p>If, in independent business offices, etc., a program to require employees to stay away from their jobs cannot be adopted for an unavoidable reason, or if such a program is not effective in preventing incidents, does the insurance company have other effective measures to prevent incidents from occurring?</p> <p>Does manager manage the status of these programs and ensure that they are carried out effectively?</p> <p>Does manager engage in appropriate personnel rotation so that specific employees are not engaged in the same jobs in the same divisions for prolonged periods of time? If specific employees must be engaged in the same jobs in the same divisions for prolonged periods of time, does manager have other appropriate measures to prevent scandals from occurring?</p>	
3. Company culture	Cultivation of company culture emphasizing the importance of risk management	<p>Are the representative directors and board of directors fully recognize that neglect of the risk management division will have serious consequences to corporate profitability, and do they emphasize the risk management division as well as profit divisions? In particular, do they avoid providing undue emphasis on short-term, profit-oriented goals that ignore appropriate risk management or long-term risks, and do they avoid establishing compensation schemes that overly depend on the achievement of these short-term goals?</p> <p>Is the board of directors fully aware that insurance products may cause moral hazard and does it take appropriate measures?</p> <p>And, does manager take appropriate measure to penetrate these concepts in individual division in light of risk management.</p>	
II. Establishment of appropriate risk management systems 1. Risk recognition and assessment	Identification of locus and type of risk management	<p>Does the insurance company identify on an on-going, consolidated basis what types of business individual divisions are engaged in to meet their strategic goals, what kinds of financial products they are handling, and what kinds of risk management must be practiced in these circumstances? In particular, when engaging in new businesses or handling new products, are risks identified, developed its necessary infrastructure, and full preparations made for appropriate risk management?</p> <p>Should the risk identified be uncontrollable, does the insurance company decide whether or not to withdraw from or reduce the level of business activity? Does it follow through on that decision?</p>	Note: "Financial products" include insurance products, and so throughout
2. Control activities	(1) Appropriate risk management techniques and rules	(1) Are risk management techniques and rules appropriate in light of the strategic goals of individual profit divisions of the insurance company, or in light of the nature of the businesses and financial products handled? Does risk management form an integral part of the daily activities of the insurance company?	Note: "Business divisions" includes the risk management divisions for individual businesses, and so throughout.
	(2) Establishment and review of rules in individual business divisions	(2) Do risk management rules specify the procedures, authority, required documentation, contingency planning, and other aspects of business execution for individual types of business? Does manager review that employees follow the rules and comply with procedures? Does manager regularly review these rules?	

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	(3) Total risk management	(3) Does the risk management structure manage the various risks to which branch offices, insurance agents, and consolidated subsidiaries are exposed to the extent permitted under applicable laws and ordinances? Does the risk management division manage risks in a comprehensive manner? Is there integrated management of the risks managed by individual risk management divisions?	
3. Division of duties	Establishment of structure of mutual checking	Are managers and employees in the risk management division involved in other work that would constitute a conflict of interest (i.e., are they involved in the work of division of earning)? Do internal audits and external audits continually review that there are no conflicts?	
4. communication	(1) Reports to the board of directors, etc. from the risk management division	(1) Is the risk management division able to design and execute risk management structures for the organization as a whole without being influenced by division of earning? Is it able to report directly to the board of directors, etc. whenever necessary?	
	(2) Content of reports to the board of directors, etc.	(2) Does the risk management division report in an accurate and easily understood manner to the board of directors, etc. so as to provide the board of directors, etc. with comprehensive information on risk that would have a significant impact on the management of the insurance company?	
	(3) Availability of computer systems	(3) Does the institution maintain and operate computer systems of management information that cover all major businesses? Does it build and operate highly reliable computer systems? Has it formulated effective contingency plans to prepare for failures of these computer systems?	
III. Internal audit 1. Recognition of, and policies for internal audit functions, by representative directors and the board of directors	(1) Recognition of the importance of an internal audit	(1) Are appropriate objectives of internal audit established through internal audit rules by representative directors and the board of directors with a full recognition that the establishment of an effective internal audit function in accordance with the type and degree of risks involved is essential for ensuring corporate profits and appropriate risk management?	<p>Note: An internal audit refers to the function for the purpose of verifying the appropriateness and effectiveness of the internal control system (including the risk management system) of each business division belonging to the headquarters and branch offices, etc. (here in after "auditees") by the internal audit divisions (the inspection section, the operations audit section, etc.) which is independent of auditees.</p> <p>This process is not confined to discovery and reporting of problems associated with internal business processing etc.</p>
	(2) Establishment of an organizational system for performing internal audit functions	<p>(2) (i) Is it recognized by the board of directors that the internal audit division is responsible for verifying the appropriateness and effectiveness of the internal control system (including the risk management system) and is a system built fully conducive to the performance of this function?</p> <p>(ii) It is desirable for the board of directors to have appointed the director who is exclusively in charge of internal audit. In cases where the board of directors allows the director in charge of internal audit to be concurrently in charge of sections to be audited, whether measures necessary for ensuring the independence of the internal audit division are taken.</p> <p>(iii) Whether the board of directors has established a system in which the internal audit division can perform special audits of business operations, sections or systems. which are exposed to significant risks, in addition to the normal audit.</p> <p>(iv) Does the board of directors continue to be responsible for the content and results of an audit in the event that external professionals are utilized to strengthen and complement the internal audit functions with respect to the business operations against which the board of directors has judged that the current internal audit system can not perform an sufficient audit?</p>	

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	(3) Management of the internal audit division	(3) (i) Are enough number of personnel who are fully conversant with each of applicable business operations allocated to the internal audit division by the board of directors and other competent bodies, so as to ensure the appropriate functioning of internal audit? (ii) Are internal audit personnel (internal auditor) who are independent of branch managers and report directly to the internal audit division, are assigned to overseas branches which the board of directors and other competent bodies has judged to be exposed to risks above certain levels? (iii) Does the board of directors periodically check whether an internal audit is effectively functioning?	within auditees, but encompasses the evaluation of the internal management system and recommendations for correcting issues. In principle, however, an internal audit does not include self-inspections conducted by auditees as part of their internal management efforts.
2.Independence of the internal audit	(1) Independence of the internal audit division	(1) (i) Is the internal audit division structured be independent so that it can exert ample checking functions to its auditees.? (ii) Does the internal audit division perform audit works without being unduly restrained by its auditees.? (iii) Is internal auditors engaged in operations to be performed by the sections to be audited such as business operations per se or the preparation of financial information and other operational information?	Note: "The head of the internal audit division" refers to a senior manager who is responsible for overseeing the internal audit division . (inspection general manager, operations audit general manager, etc.)
	(2) Extent of authority and responsibility of the internal audit division	(2) (i) Do representative directors and the board of directors clearly communicate the extent of operations, authorization and responsibility of the internal audit division to every officer and employee of the institution? (ii) Does an internal audit cover every aspect of the operations of the inspection companies? Also, with respect to the operations of consolidated subsidiaries and companies accounted for under the equity method, is an audit performed to the extent not in contravention of statutes and regulations? With respect to the operations of consolidated subsidiaries and companies accounted for under the equity method which can not be internally audited as well as the operations contracted out to third parties, is such items as the status of control by applicable sections in charge of these operations, are included within the scope of an audit?	
	(3) Establishment of system conducive to obtaining information	(3) (i) Are internal auditors authorized to obtain every material as deemed necessary for their auditing? Also, are they authorized to interview and ask questions to every officer and employee as deemed necessary for their auditing ? (ii) Does the head of the internal audit division attend meetings (such as various types of risk management committees) related to internal control issues (including risk management) as necessary? (iii) Do officers or staffs of auditees promptly report to the head of the internal audit division in the event that problems associated with internal control and/or defects related to risk management have been identified as a result of self-inspections conducted by auditees?	

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3. Professional competence of internal auditors	Professional competence of internal auditors	(i) Does each internal auditor maintain professional competence capable of performing a sufficient audit of each operation? (ii) Has the internal audit division been taking various measures such as the utilization of training both inside and outside of the company taken for enhancing the professional competence of internal auditors? In this connection, it is desirable to establish an on-going training system within the internal audit division and to have internal auditors participate in such training on a periodic basis.	
4. Internal audit rules	Internal audit rules	(i) Are provisions relating to the following items contained in the internal audit rules? a. Objective of internal audit b. Organizational independence of the internal audit division c. Extent of operations, authorization and responsibility of the internal audit division d. Structure conducive for gathering information by the internal audit division e. Structure of execution for internal audit f. Reporting system applicable to the internal audit division (ii) Are internal audit rules approved by the board of directors? (iii) Are internal audit rules reviewed and updated in accordance with changes in business environments? (iv) Are guidelines for conducting an internal audit prepared by the internal audit division and approved by the board of directors and other competent bodies? Also, have such internal audit rules been reviewed and updated from time to time as deemed necessary?	
5. Internal audit planning	Internal audit planning	(i) Are sufficient and effective internal audit plans established by the internal audit division, taking into consideration the frequency and depth of their audit in accordance with the type and degree of risks after understanding the status of risk control at auditees? (ii) Does the board of directors approve the fundamental items related to internal audit plans, such as audit policies and items to be emphasized, after understanding the status of risk control at auditees and the type and degree of risks? (iii) In the event that significant business management issues have arisen or business environments have changed, does the board of directors direct the head of the internal audit division to alter audit policies as deemed necessary?	
6. Implementation of an internal audit	Implementation of an internal audit	(i) Does the internal audit division implement an efficient and effective internal audit of each auditee in accordance with internal audit plans, taking the frequency and depth into consideration? (ii) Does the internal audit division make efforts to ensure a fair internal audit, for example, by avoiding the same internal auditor from engaging in the audit of the same operation of the same auditees? (iii) Does the internal audit division utilize the results of self-inspections conducted by auditees when performing internal audit? (iv) Do internal auditors maintain an accurate record of the procedures performed and the problems identified in the course of internal audit?	

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7. Reporting of internal audit results and correction of problems	(1) Reporting of internal audit results	(1) (i) Does the internal auditors promptly prepare an internal audit report which accurately reflects the problems identified and pointed out in the course of the internal audit? (ii) Does the head of the internal audit division report without delay to representative directors and the board of directors about the important problems pointed out in the internal audit reports after confirming the content thereof? Also, do they promptly report to representative directors and the board of directors about the problems deemed to significantly affect business among the problems identified in the course of the internal audit and daily checking activities?	
	(2) Correction of problems	(2) (i) Are the problems identified in the internal audit reports corrected without delay by internal auditors, taking in consideration of the degree of importance of the problems identified? Also, does the internal audit division appropriately oversee how improvements are made by the auditees. and have them reflected in future internal audit plans? (ii) Are appropriate measures taken by representative directors and the board of directors with respect to the problems deemed to significantly affect business and the problems which are deemed impossible to be dealt with solely within a business unit?	

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IV. External audit	(1) External audits	<p>(1) (i) Is it fully recognized by representative directors and the board of directors that effective external audits conducted by such bodies as accounting firms are indispensable for gaining corporate profits and for a proper risk management?</p> <p>(ii) Are such items as the effectiveness of the internal control system (including the risk management system) subject to external audit performed by accounting auditors at least once a year? (incidentally, as cooperative-form inspection companies are obligated to appoint (an) accounting auditor(s) only in limited circumstances, it is necessary to take this point into consideration). Also, with respect to the inspection companies calculating their capital adequacy ratios on the basis of the Basle Capital Accord, is an external audit conducted at each overseas office in accordance with the circumstances of respective countries?</p> <p>Furthermore, are the results of an external audit reported directly and accurately to the board of directors or the board of auditors in accordance with contents of audit, so that it can contribute to ensuring the effectiveness of the audit by statutory auditors?</p> <p>(iii) Does the board of directors verify on a periodic basis whether an external audit is effectively functioning?</p>	<p>Note: Hereinafter "external audit" does not necessarily limit itself as "accounting audit" by accounting firms. However, it must be noted that it is not compulsory to undergo an external audit except for an accounting audit that is required by laws and regulations and reviews regarding the effectiveness of the firms' internal control structure conducted within the limit of such accounting audit.</p> <p>On the other hand, effectiveness of each inspection company's internal control structure together with the results of accounting audits will comprehensively be inspected in the case that a inspection company undergoes additional external audit, apart from an accounting audit, so as to ensure the effectiveness of its internal control structure.</p>
	(2) Relationship between external auditors and the internal audit division	(2) Does the board of directors pay due attention to the cooperative relationship between the internal audit division and external auditors including accounting auditors as necessary?	
	(3) Correction of problems	(3) Are the problems identified by external audits including accounting firms, corrected within a certain period of time by the auditees? Also, does the internal audit division appropriately oversee how improvements are made within the sections to be audited?	