

LEGAL NOTICE NO.....

**THE INSURANCE ACT**

*(Cap. 487)*

**THE RISK MANAGEMENT AND CONTROL FUNCTIONS GUIDELINES, 2018**

**IN EXERCISE** of the powers conferred by section 3A(a), (b) and (g) of the Insurance Act, the Insurance Regulatory Authority issues the following guidelines—

**THE RISK MANAGEMENT AND CONTROL FUNCTIONS GUIDELINES, 2018**

1. These guidelines may be cited as the Risk Management and Control Functions Guidelines, 2018. Citation.
2. An entity shall have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial and internal audit. Introduction.
3. These guidelines set the risk management requirements for an entity to provide a reasonable assurance to the Authority, policyholders, shareholders and other stakeholders that the risks to which they are exposed are being prudently managed.
4. The purpose of these guidelines is to ensure that entities are managed in a prudent manner by having in place systems for identifying, assessing, monitoring, and mitigating the risks that affect their ability to achieve their objectives. Objectives.
5. These guideline shall apply to all entities registered under the Act where appropriate Scope
6. An entity shall put in place control functions commensurate to the nature, scale, and complexity of its business. General Principles

7. The control functions shall be properly authorised and resourced to carry out specific activities relating to risk management, compliance, actuarial and internal audit.
8. Entities who are part of a group shall undertake risk management on a legal entity basis as well as on a group-wide basis.
9. The roles and responsibilities of the board with regard to an entity's risk management and control functions shall be to — Responsibility of the Board of Directors.
  - (1) Develop a risk management strategy and ensure it is implemented;
  - (2) Define the entity's risk appetite;
  - (3) Review and approve the risk management policies and procedures;
  - (4) Review the framework and risk appetite at least annually;
  - (5) Ensure that the risk management framework is regularly audited by appropriately trained and competent personnel that are operationally independent of the risk management activities;
  - (6) Ensure that there is an appropriate organisational structure, with an appropriate level of independence between staff responsible for risk management and those responsible for operations;
  - (7) Set authority levels and responsibilities of each control function and determine the frequency and depth of reporting;
  - (8) Ensure that the entity complies with all applicable laws, regulations, supervisory decisions, and internal policies; and
  - (9) Ensure that the entity conducts its business ethically and responsibly.
10. The roles and responsibilities of management with regard to the entity's risk management and control functions shall include — Responsibility of management.
  - (1) Implementation of the risk management framework approved by the Board;
  - (2) Developing procedures for identifying, assessing, monitoring and controlling or mitigating risks; and
  - (3) Translating the risk appetite set by the board into a system of risk

management strategies and controls;

11. An entity shall have a risk management framework to manage the risks arising from its business.

Risk  
Management  
Framework

12. The risk management framework shall, at a minimum, include the following:

(1) Documented risk management strategy, policies, procedures and controls and its review process;

(2) Well-resourced risk management and control functions

(3) Updated Risk Register

(4) Well defined risk governance and responsibilities

13. The risk management framework shall address all material risks and shall at a minimum cover the following risks;

(1) Operational risk

(2) Insurance risk

(3) Market Risk

(4) Credit Risk

(5) Strategic Risk

(6) Liquidity Risk

(7) Contagion and Related Party Risk

(8) Legal and Regulatory Risk

14. An entity shall have in place effective control functions consisting of:

Control  
Functions

(1) Risk Management

(2) Compliance

(3) Actuarial

(4) Internal Audit

15. The control functions shall be headed by persons at managerial level with relevant qualifications and experience.
16. The control functions shall be well positioned, resourced and empowered.
17. The control functions shall have access and report directly to the board.
18. The internal audit function shall be independent from management and shall not be involved in the operations of the business.
19. Where the Authority determines non-compliance with the provisions of these guidelines, it may take any intervention prescribed in the Act. Enforcement.
20. Where the Authority determines that the entity's non-compliance with the provisions of these guidelines impacts on the entity's ability to discharge its obligations, the Authority may issue such directives which it considers necessary to protect policyholders in accordance with the Act. Remedial measures.
21. Where the Authority determines that an entity has not met the provisions of these guidelines, the Authority may impose any or all of the administrative sanctions to correct the situation in accordance with the Act, including— Administrative sanctions.
  - (1) suspend, dismiss, disqualify or revoke the appointment of an individual in a position as board member, member of senior management or key person in a control function;
  - (2) Prohibition from declaring and/or paying dividends;
  - (3) impose additional reporting requirements;
  - (4) withdraw or impose conditions on the business license;
  - (5) Monetary penalties not exceeding Kenya shillings one million; and

(6) Take any other action as may be deemed necessary.

Issued on the ....., 2018.

**ABDIRAHIN H. ABDI**  
*Chairman,*  
*Insurance Regulatory Authority.*

**GODFREY K. KIPTUM**  
*Ag. CEO & Commissioner of Insurance*  
*Insurance Regulatory Authority.*