OCC INSURANCE HANDBOOK

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Risk Monitoring

Risk monitoring is necessary to evaluate the performance of the bank's risk strategies and control processes over insurance activities. Bank management responsible for risk monitoring should perform frequent, independent reviews of compliance with risk policies, procedures, and control systems. Noncompliance with established policies and procedures should be addressed through fully documented corrective action plans and communicated to affected persons. The frequency of monitoring should be determined based on the nature, complexity, and diversity of insurance activities and operations.

Ongoing Oversight of Third-Party Relationships

After entering into an arrangement with a third party (bank subsidiary, bank affiliate and unaffiliated entities), management should monitor the third party's activities and performance. Management's oversight program should be documented properly to facilitate the monitoring and management of the risks associated with third-party relationships. Management should dedicate sufficient staff with the necessary expertise to oversee the third party. The extent of a bank's oversight activities will vary depending on the nature of the arrangement. At a minimum, the bank should monitor the third party's financial condition, its controls, and the quality of its service and support.

The monitoring of these areas may include:

- *Evaluation of the third party's financial condition*. Perform a comprehensive financial analysis at least annually, and more often depending upon the complexity of the third-party arrangement. Significant relationships with third parties should require audited financial statements.
- *Financial obligations to subcontractors*. Ensure that the third party's obligations are met in a timely manner.
- *Insurance coverage*. Review adequacy of the third party's coverage.
- *Review audit reports*. Review audit (e.g., internal audits, external audits, security reviews) and examination reports, if available, and follow up on any deficiencies noted.

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- *Policies relating to internal controls and security*. Ensure that these policies continue to meet the bank's minimum guidelines and contract requirements.
- *On-site quality assurance reviews*. Perform reviews, targeting adherence to specified policies and procedures, when practicable and necessary.
- *Coordinated audits and reviews*. Coordinate with user groups.
- *Compliance*. Review compliance with applicable banking laws, including consumer protection legal requirements.
- *Third party's business resumption contingency planning and testing*.

Review to ensure that all bank services can be restored within an acceptable time. For many critical services, annual or more frequent tests of the contingency plan are typical. Review any results of those tests and ensure that recovery times meet bank requirements.

• *Third-party personnel*. Monitor changes in key personnel allocated to the bank.

• *Reports documenting the third party's performance*. Review service level agreements regularly. Determine whether contractual terms and conditions are being met, and whether any revisions to service-level agreements or other terms are needed.

• *Performance problems*. Document and follow up on performance problems in a timely manner.

• *Bank's strategic plan and goals*. Evaluate the third party's ongoing ability to support and enhance its strategic plan and goals.

• *Training*. Ensure that adequate training is provided to bank employees.

• *Customer complaints on the products and services*. Review those provided by the third party and any complaint information available from the OCC, and the resolution of those complaints.

• *Customer satisfaction*. Consider using mystery shopper, customer callback, or other customer satisfaction programs.

• *Periodic meetings with contract parties*. Discuss performance and operational issues.

• *Documentation and records maintenance*. Document and maintain records on contract compliance, revision, and dispute resolution.

Customer Complaints

Even the most well-managed insurance program can be subject to customer complaints. Both customers and the bank will benefit, if the bank has an orderly process for assessing and addressing customer complaints and resolving compliance issues. A process that keeps track of customer complaints also helps the bank to identify and monitor any systemic problems in its sales program that could harm its franchise. This process should include maintaining records on the number, nature, and disposition of customer complaints received by a bank, subsidiary, or affiliated or unaffiliated third party.

Management should also ensure that an effective process exist through which it receives information about complaints or other concerns about the bank's insurance sales, so that it may implement corrective measures. The bank's systems must be sufficient to monitor compliance with its policies, applicable federal and state laws, and OCC guidance.

Compliance and Audit Programs

Banks should develop and implement policies and procedures that ensure that insurance activities are conducted in compliance with applicable laws and regulations, internal policies and procedures, and guidelines. Compliance procedures should also provide for a system to monitor customer complaints and their resolution. When applicable, compliance procedures should call for verification that third-party sales are being conducted in a manner consistent with the governing agreement with the bank. Personnel performing the audit or compliance review of the bank's insurance activities should be qualified and should have the necessary expertise to perform the assigned tasks. Audit and compliance personnel should also engage in ongoing training to keep abreast of emerging developments in banking, securities, and insurance laws and regulations.

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There should be an independent review of the insurance program. Independence may be established, if the audit or compliance personnel: determine the scope, frequency, and depth of their own reviews; report their findings directly to the board of directors or an appropriate committee of the board; have their performance evaluated by persons independent of the insurance activity; and receive compensation that is not connected to the success of insurance product sales.

An audit and compliance function is essential to effective risk management and internal control monitoring. Any deficiencies in internal controls and risk management processes should be addressed through written corrective action plans and monitored effectively for adequate follow-up and resolution.