

**Order №77**  
**of the Head of Insurance State Supervision Service of Georgia**

**December 23, 2024**

**Tbilisi**

**On the approval of the rules of risk management**

Pursuant to paragraph 9 of Article 7 of the Organic Law of Georgia “On Normative Acts”, subparagraph “s” of paragraph 3 of Article 51 and paragraph “a” of Article 58 of the Law of Georgia “On Voluntary Private Pension”, subparagraph “k” of Article 3 and paragraph 3 of Article 4 of the Statute of LEPL Insurance State Supervision Service of Georgia approved by the Decree №102 of May 2, 2013, of the Government of Georgia, **I hereby order:**

**Article 1**

The “The rules of risk management” shall be approved as presented here.

**Article 2**

This Order shall enter into force from January 1, 2025.

**Head of LEPL**

**Insurance State Supervision Service of Georgia**

**David Onoprishvili**

**The rules of risk management**

**Article 1. General Provisions**

1. “The rules of risk management” (hereinafter - the Rule) establishes the rules of risk management of a pension company, insurer and asset management company (hereinafter – the founder of a pension scheme) in the conduct of voluntary private pension activities.

2. The purpose of establishing the rules of risk management is to ensure the implementation of an efficient risk management system that is properly integrated into the organizational structures of the founder of a pension scheme.

3. The founder of a pension scheme shall maintain a risk management function appropriate to the size, nature, scale and complexity of the pension schemes under its purview. For this purpose, it shall develop and constantly maintain risk management policies, processes and procedures in accordance with this Rule.

## **Article 2. Definition of terms**

1. For the purposes of this Rule, the terms used herein shall have the following meanings:

a) material risk – any risk, taking into account its probability of occurrence or its potential financial impact that could significantly impact the ability of the pension scheme to meet its obligations to the participants or beneficiaries of the pension scheme. These risks may affect the value of pension assets or the effectiveness of their investment or the operational stability and continuity of the pension scheme;

b) risk management system – a set of policies, procedures, systems and control mechanisms designed to identify, assess, manage, mitigate, monitor and report all internal and external sources of risks likely to be experienced or already experienced in the process of fulfillment of pension activities;

c) risk appetite – an aggregated degree of risk and the categories of material risks that the founder of a pension scheme is willing to take in order to achieve its strategic and investment objectives;

d) risk tolerance – the maximum aggregated amount of each material risk that the founder of a pension scheme can take, taking into account the available financial and operational resources;

e) the Service – Legal Entity under Public Law - Insurance State Supervision Service of Georgia.

2. Other terms used in this Rule have the meanings defined in the Law of Georgia “On Voluntary Private Pension” and the Law of Georgia “On Insurance”.

## **Article 3. Risk Management System**

1. The founder of a pension scheme shall establish a risk management system to effectively manage the risks associated with pension activities throughout all stages of their fulfillment.

2. The risk management system of the founder of a pension scheme shall consist of system(s), policies, procedures and control mechanisms, the purpose of which is to identify, assess, manage, mitigate and control all internal and external risk factors that may have a material impact on the pension activities or the interests of participants or beneficiaries.

3. Risk management shall, at a minimum, include:

a) the risk appetite statement;

b) the risk management strategy;

c) the risk management function;

d) all risk management policies, procedures and controls to identify, assess, monitor, report, mitigate and manage each material risk;

e) the roles, responsibilities and formal reporting structure for the management of material risks throughout the life of the pension activity;

f) the adequacy of management information systems, both under normal conditions and periods of stress, to assess and communicate all material risks throughout the life of the pension activity;

g) a review process to ensure that the risk management system remains effective and up to date.

4. The risk management system shall enable the founder of a pension scheme to properly manage the impact of various types of material risks on its pension activities and provide reasonable assurance that each material risk for operations carried out in the course of pension activities is managed reasonably and prudently, taking into account the size, scope and complexity of these operations.

5. The risk management system should also cover all risks that may arise from the outsourced function, if any.

6. The founder of a pension scheme shall regularly assess the adequacy of the system and update it in accordance with the existing or expected changes.

7. All policy documents included in the risk management system should be in written form.

#### **Article 4. Role of the Supervisory Board**

1. The Supervisory Board of the founder of a pension scheme (hereinafter - the Supervisory Board) shall bear full responsibility for the establishment of the risk management system by the founder of a pension scheme and its proper functioning.
2. The Supervisory Board shall be responsible for periodically reviewing all documents included in the risk management system and assessing their compliance with the objectives of the risk management system, which are based on the risk appetite of the founder of a pension scheme. The Supervisory Board shall also be responsible for developing and supporting an efficient risk management culture that fully considers and understands all existing and potential risks.
3. The responsibility for ensuring the solvency of the founder of a pension scheme rests with the Supervisory Board, which shall oversee the effective and prudent allocation of sufficient resources necessary for the operation of the scheme. For the purposes of this Rule, activities shall encompass those specified under the Law of Georgia 'On Voluntary Private Pension,' as well as any other activities permitted under Georgian law in which the founder of the pension scheme may engage, insofar as such activities may impact the operation of the voluntary private pension scheme.

#### **Article 5. Material Risk**

1. The founder of a pension scheme shall, at a minimum, ensure that its risk management system covers all material risks, both financial and non-financial, related to its activities, in proportion to the size, nature, scale and complexity of the pension schemes.
2. The founder of a pension scheme shall assess the materiality of each risk with reference to its activities as a whole and its impact or potential impact on the obligations assumed towards participants and beneficiaries.
3. The risk management system shall, at a minimum, cover:
  - a) governance risk;
  - b) investment management risk;
  - c) liquidity (including the liquidity characteristics of the investment options offered or to be offered) and concentration risk management;

- d) underwriting and reserving;
- e) managing assets and liabilities;
- f) operational risk management;
- g) risk mitigation methods;
- h) risks that may arise from strategic and operational plans;
- i) any other risks that may have a material impact on pension activities.

4. If the founder of a pension scheme carries out other activities permitted by the legislation, in addition to the pension activities, its risk management system shall cover all material risks arising from these other activities and may have an impact on the voluntary private pension activities.

#### **Article 6. Strategic and operational plans**

The founder of a pension scheme shall identify and consider the material risks related to its strategic objectives and operational plan and effectively manage them through a risk management system, including, in case of changes to operational plans, determining in advance how such a change will affect the risk profile of the pension activity.

#### **Article 7. Risk appetite statement**

1. The founder of the pension scheme shall ensure the development of a risk appetite statement and its constant updating. The risk appetite statement shall cover the pension activity in general and each of the categories of material risks referred to in Article 5 of this Rule.

2. The risk appetite statement shall be approved by the supervisory board and shall, at a minimum, include:

a) the degree of risk that the pension scheme founder is prepared to accept in order to achieve its strategic objectives and operational plan, taking into account the interests of participants and beneficiaries of the pension scheme;

b) the risk tolerance shall be expressed in terms of a risk volume, and, where applicable, shall be based on the measurable residual risk remaining after the implementation of risk mitigation measures.

- c) the process for determining the appropriate degree of risk tolerance, which shall take into account the impact (expected impact) on participants and beneficiaries if the risk tolerance is breached and each material risk is expected to occur;
- d) the process that ensures the implementation of appropriate measures upon the detection of a breach within the framework of monitoring compliance with each risk tolerance;
- e) the timing and process for assessing risk appetite and risk tolerance.

### **Article 8. Risk management strategy**

1. The founder of a pension scheme shall ensure the development of a risk management strategy and its constant update. The risk management strategy shall cover pension activities in general and each of the categories of material risks referred to in Article 5 of these Rules.

2. The risk management strategy shall be approved by the Supervisory Board and shall define the key elements of the risk management system that affect the strategy and, at a minimum, shall describe:

a) each material risk identified in accordance with Article 5 of this Rule and the approaches to managing them;

b) policies and procedures covering the following risk management issues (including the date when each policy and procedure document was last reviewed, the date that it is next due for review and the person responsible for its review):

b.a) the process for identifying and assessing material risks and their control;

b.b) the process for establishing, implementing and testing risk mitigation strategies and control mechanisms for material risks;

b.c) the process for monitoring, communicating and reporting risk-related issues, including the reporting/notification procedure for subsequent response to material events and incidents;

b.d) the appropriate mechanisms for ensuring and monitoring ongoing compliance with the requirements under this Rule;

b.e) the process for ensuring ongoing compliance between the risk management system and the operational plan;

c) the roles and responsibilities in performing the risk management function;

d) the relationship between the Supervisory Board, the governing body and other key management bodies with respect to the risk management system;

- e) the governing bodies responsible for the risk management system, their roles and responsibilities;
  - f) the approach that ensures that all relevant persons involved in pension activities are informed about the risk management system and instills appropriate risk-aware culture;
  - g) the process for reviewing the risk management system, including its scope and timing.
3. The Service is authorized to require the founder of a pension scheme to amend its risk management policy if it considers that this policy does not adequately cover the risks related to its pension activities.

#### **Article 9. Risk management function**

1. The founder of a pension scheme shall have an effective risk management function, proportionate to the size, nature, scale and complexity of the pension scheme, which shall, at a minimum:
- a) support the supervisory board and the governing body in developing and maintaining a streamlined risk management system;
  - b) be independent from other key functions;
  - c) ensure that there are employees with clearly defined functions and responsibilities who have the appropriate experience and qualifications to perform the function objectively, fairly and independently;
  - d) ensure access to all aspects of the activities of a pension scheme that have the potential to generate material risks, including information technology systems;
  - e) ensure that the supervisory board and the governing body have the necessary authority and appropriate accountability to effectively and independently manage risk;
  - f) ensure that the Supervisory Board is informed in a timely manner of any material breach identified within the risk management system.
2. The founder of a pension scheme is entitled to outsource the risk management function in whole or in part, if it demonstrates to the Service that the service provider meets all the conditions specified in paragraph 1 of this Article.

## **Article 10. Review of the risk management system**

1. The founder of a pension scheme shall ensure a comprehensive review of the appropriateness, effectiveness and adequacy of the risk management system, at least once every three years or immediately in the event of significant changes to the pension scheme or risk profile by independent and competent people with appropriate qualifications.

2. In addition to the comprehensive review specified in paragraph 1 of this Article, the founder of a pension scheme shall ensure a verification of the appropriateness, effectiveness and adequacy of the risk management system at least once a year.

3. The comprehensive review of the risk management system referred to in paragraph 1 of this Article shall take into account the size, nature, scope and complexity of the pension activity, change of the risk appetite and any internal and external factors.

4. The comprehensive review of the risk management system shall include, at a minimum, the following issues:

- a) whether the risk management system is still appropriate for the pension activity;
- b) the specific resources utilized, which, at a minimum, are necessary to undertake the risk management activities required by this Rule, including to what extent they are supported by adequate resources;
- c) the risk appetite statement;
- d) the risk management strategy;
- e) all policies and procedures of risk management;
- f) the risk management and internal control systems.

5. The founder of a pension scheme shall implement an effective internal audit function and external audit arrangements to ensure compliance with the risk management system and to attest the ability of the founder of a pension scheme to review the effective and proper functioning of the existing risk management and internal control system.

6. If circumstances that materially affect the size, nature, scope and complexity of the founder of a pension scheme are identified outside the comprehensive review, the founder of a pension scheme shall assess the necessity to amend the risk management system before the due date for such review.

## **Article 11. Risk management declaration**

1. A risk management declaration, approved by the Supervisory Board, shall be submitted to the Service on an annual basis, confirming that all requirements set forth in Annex No. 1 to this Rule have been fully satisfied."
2. The risk management declaration shall be submitted to the Service together with the annual activity report.
3. Together with the declaration, the Service shall submit to the Service an assessment/conclusion of the Supervisory Board (if any) on any material breach of the risk management system, measures taken in connection with the above or measures proposed to remedy the breach.

#### **Article 12. Obligation to notify the Service**

1. The founder of a pension scheme shall notify the Service within 10 (ten) business days if:
  - a) it becomes aware of a significant breach or material breach of the risk management system;
  - b) it discovers that the risk management system cannot adequately address a material risk.
2. The founder of a pension scheme shall notify the Service as soon as possible when he/she becomes aware of any material change in the size, nature, scope and complexity of the pension activities.

#### **Article 13. Consequences of failure to comply with the requirements established by this Rule**

Upon failure by a pension company and an insurer to comply with the requirements set forth in this Rule, the Service is hereby authorized to impose sanctions in accordance with the Law of Georgia "On Voluntary Private Pension".

**Annex №1**

#### **Risk Management Declaration**

For the purposes of paragraph 1 of Article 9 of the "The rules of risk management", the risk management declaration shall confirm that:

- a) the founder of a pension scheme has in place an appropriate risk management system to ensure compliance with all the requirements of this Rule;

- b) the systems and resources presented for managing and monitoring risks are appropriate to the activities of the founder of a pension scheme;
- c) the founder of a pension scheme has assessed the risks of outsourcing services for any activity and is satisfied that the risks and the appropriate control measures related to them are appropriate to the size, nature, scope and complexity of the pension activity;
- d) the existing risk management and internal control systems are operating effectively and are adequate to the risks they control;
- e) the founder of a pension scheme has a risk management strategy in accordance with this Rule;
- f) the founder of a pension scheme has appropriate reporting and internal control systems to prepare accurate financial and statistical information;
- g) the information submitted to the Service accurately reflects the real financial situation of its activities, which is in accordance with the Law of Georgia “On Voluntary Private Pension” and the by-laws adopted on its basis.