POLICYHOLDERS COMPENSATION FUND

EXPRESSION OF INTEREST NO. PCF/ 002/2023 -2024

CALL FOR EXPRESSION OF INTEREST FOR PROPOSED DEVELOPMENT OF RISK MANAGEMENT FRAMEWORK

NOTICE DATE: 21st August, 2023
CLOSING DATE: 29th August, 2023 at 11:00am

INVITATION TO EXPRESSION OF INTEREST

PROCURING ENTITY: POLICYHOLDERS COMPENSATION FUND

DESCRIPTION: EXPRESSION OF INTEREST FOR PROPOSED DEVELOPMENT OF RISK MANAGEMENT FRAMEWORK

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1.   The Policyholders Compensation Fund   (PCF) invites expression of interest for the proposed development of risk management framework.

2.   The Expression of Interest is open to all qualified and interested consultants.

3.   Qualified and interested consultants may obtain further information during office hours [0900 to 1500 hours] at the address given below.

4.   The Expression of interest document will be obtained electronically from the PCF and PPIP websites www.pcf.go.ke; and www.tenders.go.ke; .

5.   Completed expression of interest document must be delivered to the address below on or before 29th August, 2023 at 11:00am.

6.   Expression of Interest documents will be opened immediately after the deadline date and time specified above or any deadline date and time specified later. The EOI documents will be publicly opened in the presence of the consultant's designated representatives who choose to attend at the address below.

7.   Late EOI documents will be rejected.

8.   Application process:

   Interested and qualified candidates to submit their applications with the following:

   (a) Detailed company profile

   (b) Statutory documents

   (c) Detailed Curriculum vitae for the lead consultant

9.   The addresses referred to above are:

Address for obtaining further information on EOI document

Deputy Director, Supply Chain Management

Policyholders Compensation Fund

6th Floor, KWFT Center, Masaba Road, Upper Hill- Nairobi

P.O.BOX 24203 – 00100

NAIROBI, KENYA

Head of Procurement, Tel: +254 794 582 700 Email: procurements@pcf.go.ke

Address for Submission of EOI

Managing Trustee

Policyholders Compensation Fund

P.O Box 24203- 00100

Nairobi, Kenya

6th Floor, KWFT Center, Masaba Road, Upper Hill- Nairobi

Address for Opening of Tenders.

Boardroom

Policyholders Compensation Fund

6th Floor, KWFT Center, Masaba Road, Upper Hill- Nairobi

TERMS OF REFRENCE FOR THE PROPOSED DEVELOPMENT OF RISK MANAGEMENT FRAMEWORK

1. INTRODUCTION

1.1. Background

Policyholders Compensation Fund has a legislative mandate to protect its policyholders through compensation, resolution of troubled insurers and policy advisory. The Fund has set strategies that support its Mission and Vision and set Objectives at different levels. However, there are a myriad of challenges that impede service delivery. The Fund operates in a complex and uncertain environment as a result of changing technological, regulatory and policy framework, demographics, restructuring, changing service requirements, inaccurate or incomplete data and information and natural calamities.

In a dynamic and complex public sector context, risk management plays a significant role in strengthening the Fund's capacity to recognize, understand, accommodate and capitalize on new challenges and opportunities. Therefore, there is need to analyze uncertainties within decision-making arrangements to clarify accountabilities and demonstrate how the public interest is best served.

Effective risk management systems will improve the Fund's ability to deliver services to its citizens by focusing on performance, encouraging innovation and supporting the achievement of objectives. Consequently, there is need to create and protect value through continuous review of processes and systems; this promotes accountability in use of limited public resources. ISO 31000: 2018, Risk Management Guidelines, defines Risk Management as "the coordinated set of activities to direct and control an entity with regard to risk".

Risk management focuses on understanding the nature of risks and helps management to evaluate and treat risks to within risk tolerance limits thus reducing negative consequences and improving the probability of achieving entity objectives. Management responsibility in ERM include identification , analyzing, assessment, treatment, managing and monitoring of risks, one of the key roles of internal audit is to provide assurance that those risks have been properly managed.

1.2. Legal Basis

The Government has undertaken several reforms to promote performance and accountable governance in Public Sector. As part of the public financial management agenda, the government has over the years set out requirements for managing risk throughout the public sector. These include:

- Article 201 of the Constitution of Kenya (2010) outlines the Principles of Public Finance that shall guide all the aspects of public finance in the Republic.

- Regulation 158 (1) of the Public Finance Management Regulations, 2015 states that the Accounting Officer is required to ensure that: (a) The Organization develops Enterprise Risk Management strategies, which include fraud prevention mechanism and (b) develops a system of Enterprise Risk Management and internal control that builds robust business operations.

- The National Treasury Circular No. 3/2009 on Institutional Risk Management Policy Framework (IRMPF) requires public sector institutions to put in place institutional Enterprise Risk Management framework.

- Guidelines on risk management for National and County Government entities July 2020.

- Guidelines on risk management from Mwongozo (Chapter 3) provides that the Board should ensure development and approval of a policy on risk management and ERM framework into account sustainability, ethics and compliance.

Other drivers of best practices of Enterprise Risk Management in public sector institutions include: International Professional Practices Framework (IPPF); Committee of Sponsoring Organizations of Treadway Commission (COSO) Framework; ISO 9001:2015 Quality Management Systems; ISO 31000: 2018 Risk Management Standard; Mwongozo Code of Governance for State Corporations, 2015 etc.

1.3. Purpose of the Assignment

(a) To Promote effective risk management in the Fund

(b) To create risk management awareness in the Fund through capacity building.

(c) To develop and implement the Risk Management Policy

(d) To develop and implement the ERM framework

(e) To develop risk registers

(f) To ensure risk identification process is conducted in an effective and objective method.

(g) To improve the ability to deliver our strategic goals in an effective and efficient manner by managing risks, enhancing risk awareness, and entrenching a culture of risk awareness and management.

(h) To create an environment where surprises are minimized, adds value to operational activities and communicates results and progress to our stakeholders.

1.4. Benefits of Implementing Enterprise Risk Management Framework

Benefits accruing from effective enterprise risk management systems include:

(a) Improved accountability and better governance;

(b) Improved performance and resilience in implementation of PCF mandate;

(a) Improved ability to identify, evaluate, and manage major threats;

(b) Improved recognition and seizing of opportunities;

(c) Enabling risk-based decision-making and strategy-setting;

(d) Optimized resource allocation to match risk exposure;

(e) Decreased potential for unacceptable or undesired behaviors such as fraud and other unethical practices;

(f) Improved financial management;

(g) Improved communication and consultation within the entity and parties sharing risks;

(h) Foster risk-informed culture;

(i) Improved compliance with laws and regulations; and

(j) Creation and protection of stakeholders' value and confidence in the Fund.

1.5. Components of Risk Management Framework

The Funds risk management framework shall have 5 components and it shall define the structures accountabilities , reporting lines ,roles and responsibilities for managing risks at the Fund.

These five components include,

1. Culture and Capability
2. Reporting and Communication
3. Tools and Technology
4. Risk Governance and Organization
5. Risk Management Strategy

1.6. Methodology of undertaking the risk management establishment

Development of the Risk Policy , ERM framework and Business Continuity Plans, will be undertaken by management with the help of technical consultancy services. The consultant will be procured through a competitive process through supply Chain management processes.

To ensure that the Fund's expectations are fully met, the consultant will employ a co-development approach in the ERM and Business Continuity systems methodology, a close collaboration will be forged with board, management , process owners. Interviews(both structured and informal), risk assessment workshops, surveys and questionnaires will be conducted and administered. High level participation will be undertaken as a basis for collaboration throughout the cycle of ERM Engagement. The approach undertaken will seek to ensure that risk management is embedded withinthe Fund.

The assignments to be undertaken will include development of the Risk Policy and development of the ERM framework. The exercise will commence by;

1) Capacity building of risk function on coordination of the ERM framework and Audit function on providing assurance,

2) Capacity building for management and risk champions, as the risk champions and management are trained, they will be expected to deliver the risk registers

3) Capacity Building for the Board of Trustee, this will culminate at approval of the risk policy and ERM framework.

During the process of development and framework implementation the outputs custody and maintenance will be spearheaded by Research, Strategy and Planning.

The consultant should address the following key risk management phases:

The overall Enterprise Risk Management processes will be categorized into 5 Phases

1.6.1. Phase 1: Mandate and Commitment

This phase will focus on the management approval and preference for the ERM state at the Fund. Management approval will include the review of the following:

- The Fund organizational structure, roles, accountabilities, policies, objectives and the strategies that will be put in place to achieve them.
- Capabilities-understanding the terms of resources and knowledge. (e.g funding, time, people, processes, systems and technologies)
- Information systems, information flows and decision-making processes (both formal and informal) -relationship with and perceptions and values of external/internal stakeholders and organizations culture; and
- Standards, guidelines and models that will be adopted by the Fund

Specific Activities to be Undertaken

- ➢ Understanding the Fund-Mandate, functions & Commitment, Regulatory/Compliance requirements, stakeholders, etc.
- ➢ Reviewing of the Code of Conduct, Board and Board Committees Charters as well as the Organizational Charts.

Outputs

- ➢ The Risk Management Policy
- ➢ The Risk Management Cycle

1.6.2. Phase 2: Designing, Developing and Documentation of the Enterprise risk Management framework

The Enterprise Risk Management Frameworks ultimate objective will be to assist the management to elevate risk management accountabilities within the Fund. This will ensure that the risk management is entrenched in the strategic planning, budgeting and review levels within the Fund. Designing of the framework will be achieved through ascertaining that appropriate competence and structural capabilities will be put in place to provide reasonable assurance regarding the adequacy, effectiveness and efficiency of the existing as well as future controls. The structural capability assessment will include;

- Identifying the risk owners that will have the accountability and authority to manage risk;
- Identifying who will be accountable for the development, implementation and maintenance of the framework for managing risk;
- Identifying other responsibilities of people at all levels within the Fund for the risk management process;
- Establishing performance measurement and external and /or internal reporting and escalation processes; and
- Establishing internal communication and reporting mechanisms.

Specific Activities in this Phase will include

- Designing/refining and customizing the ERM framework. ERM policies & Procedures
- Defining, designing and building training solutions.
- Conducting a workshop and training of Board of Trustees, senior management ,departmental heads, and risk champions.
- Developing Corporate Risk Profile , Risk Categories, Risk Assessment Criteria and identifies the Funds' top risk.
- Establishing the Risk Management Committee and developing Terms of Reference for the Committee
- Introducing the role of Risk and Compliance

- ➢ Obtaining approval to form the Risk Champions network.

Outputs

- ➢ Terms of reference for the Risk Management Committee
- ➢ Terms of the reference for the Risk Champions
- ➢ Job descriptions for the Head of Risk and Compliance
- ➢ Fund Corporate Risk Profile
- ➢ Risk Assessment Criteria
- ➢ Risk Reporting Template
- ➢ Training and workshops

1.6.3. Phase 3: Implement Risk Management Process

Management understands that sustained implementation of the Risk Management Process involves scheduling of ERM process reviews so that its continuing suitability, adequacy and effectiveness can remain relevant. In implementing of the ERM process, primary efforts will be directed to make certain that the implementation and review of the risk management process will be a continuous and an integral part of the Funds operation, rooted in the culture and the practice of the Fund in a sustained way, and that will be tailored to the Funds processes, context and nature of business. This will be achieved by ensuring that the ERM implementation process focuses on the plan that is;

- ➢ Linking the internal and the external context of the Fund;
- ➢ Responsiveness to the culture of the Fund;
- ➢ Relevant to the Fund in that it shall be integrated into business cycles;
- ➢ Capability to communicate and build on the success achieved.
- ➢ Capability to communicate that the risks associated with implementation are identified and treated timely.
- ➢ Capability to foster a consultative approach; and
- ➢ Capability to enhance competence and capacity so that initial implementation and continuous improvements are sustained.

Specific Activities to be completed

- Conduct technical ERM workshop and training of selected Risk Champions from each department, key result areas or processes at the Fund.
- Designing and Developing customized ERM tools i.e. ERM templates
- Completing Business Process Flowcharting
- Developing risk Escalation triggers and reporting mechanisms (Key Risk Indicators)
- Concurring and procurement of a Risk Management Software that will be evaluated after every 3 years into the ERM Maturity Continuum.

Outputs

- Key Risk Indicators
- Risk Reporting Templates
- Business Process flowcharts
- Risk Registers
- Risk Assessment results
- Training workshops

1.6.4. Phase 4: Monitor and Review

The Key output in this phase will be the development of the Management and Reporting Mechanism. The Risk Management Monitoring and Reporting Mechanism will be used to monitor Risk Management efforts as will be enforced by management. In monitoring and review, the role of Internal Audit section will be elevated. The Internal Audit section, the Risk Champions Network, the head of Risk and Compliance-under the oversight provided by the Risk Management Committee, will collectively ensure that the risk management framework will be effective and will continue to support the Funds' core mandate. These key trends of the Risk Monitoring and Reporting Mechanism will enable management to;

- Measure risk management performance against indicators, which periodically reviewed appropriateness.
- Measure progress against, and deviation from , the risk management plan
- Periodically review whether the risk management framework, policy and plan are still appropriate; and

> ➢ Review the effectiveness of the risk management framework.

Specific Activities to be Completed

➢ Developing capacity building on Risk based Audits for the Internal Audit and head of risk

➢ Developing a Risk Monitoring and Reporting Mechanism

➢ Conducting training for the Internal Audit Section.

Outputs

➢ Risk based audit plans-Competence development

➢ Risk monitoring and reporting mechanism

➢ Erm training workshop

1.6.5. Phase 5: Continuous Improvement

The Board and management will ensure that they review and sustain growth of the Risk Management Framework including an assessment of opportunities as well as continuous improvement of policy, support activities and plans. Consequently, this will lead to sustained transition that shall entail a shift of approach from crisis management to risk management from reactive response to proactive management of risk and to capturing and leveraging lessons learned in managing risks.

For improvement in the management of risk and risk management culture a proprietary *ERM Maturity Continuum* that is suitable for the Funds' business needs, culture of business and organizational maturity will be developed. The maturity Continuum once achieved as outlined, will provide a road map towards ERM automation at the Fund.

Specific Objectives to be Completed

➢ ERM Maturity Continuum development

Outputs

1. The Risk Maturity Continuum

2. TERMS OF REFERENCE FOR THE PROVISION OF RISK MANAGEMENT SERVICES

The Fund will procure consultancies services that will guide management in the risk management process, the terms of reference that will guide the consultant include;

2.1. Development of a risk management policy and framework

The Risk Management Policy and framework will include, inter alia the following risk management components:

(a) **Risk introductory awareness**- Clearly explain what risk and risk management is.

(b) **Purpose**- Outline the purpose of the risk management policy.

(c) **Scope**- Specify who this policy applies to.

(d) **Risk Governance**- Provide an overview of the risk governance structure of the organization. Indicate who is involved in risk management and what their responsibilities are, from the Board and its committees to the Managing Trustee, the Management, and the staff

(e) **Risk Management Process**- Outline the steps involved in the risk management process.

(f) **Integration with other systems and processes**- Describe how risk management is integrated and embedded into organizational processes.

(g) **Risk Categories**- Specify risk categories to be included in the risk register and in risk reporting.

(h) **Risk registers**- Include details on the types of risks to be included on the risk register (e.g. operational or strategic), the criterion for adding and removing risks from the register, who will review the risk register and how often it will be reviewed.

(i) **Risk Reporting**- Outline the risk reporting requirements. The purpose of risk reporting is to create awareness of key risks, improve accountability for the management of risk and the timely completion of risk treatment plans. Details as to who prepares reports, who reviews reports and how often reports are reviewed should be included.

(j) **Risk Management Performance**- Outline how the performance of risk management will be measured. Measuring performance is a key monitoring

activity to assess how effective risk management is at supporting corporate objectives.

(k) **Risk Appetite**- Articulate level of risk that the Fund's is willing to accept while pursuing its objectives, and before any action is determined to be necessary to reduce the risk

(l) **Risk Tolerance-** Articulate level of risk that the Fund is willing to endure given the volatility of the activities, processes and procedure. The levels of risk tolerance include, conservative, moderate and aggressive. Risk tolerance is related to the acceptance of the outcomes of a risk should they occur, and having the right resources and controls in place to absorb or "tolerate" the given risk, expressed in qualitative and/or quantitative risk criteria.

(m) **Inter-agency and State Significant Risks**-- State the entities approach to identifying and managing inter-agency and state significant risks.

(n) **Maturity Continuum -** provide support during the processes of moving ERM from dependency to interdependency for a period of one year after approval of the Framework.

(o) **Review and approval**- State how often and who will review the risk management policy. Review of the risk management policy should take into account progress made against the risk management improvement plan, which is a blueprint for how the risk management policy is implemented across the organization.

(p) **Risk management committee**- This is the committee formed at the Board level to oversee risk management policy and the framework. Risk Management Committee will assist the Board of Trustees in fulfilling its oversight responsibilities about the risk appetite of the Fund, the risk management and compliance framework, and the governance structure that supports ERM

2.2. Capacity Development in Risk Management

Train PCF Board, Management and Risk Management Champions on Enterprise Risk Management and Mainstreaming Effective Risk Management at the Fund.

2.2.1. Specific Objectives;

- Build capacity on the Risk Management process
- Create an understanding of the Risk Management process
- Review of statutory requirements on risk management
- Operationalization of the Risk Management framework
- Effective risk identification, risk analysis, risk evaluation and risk treatment practices
- Promoting continuous improvement of the risk management process.

2.2.2. Capacity Building for the Board and the Risk Committee of the Board.

This training will educate the Board and the risk committee of the Board on their role towards effective risk management implementation at the Fund. The training curriculum at the Board level should be designed with the emphasis that truly effective Boards look unto management to institute a process that is embedded throughout the organization to identify analyze , manage and report all significant risk and to do so continuously and aggressively . The training curriculum should also focus on acknowledging that , ultimately, management's success is grossly embedded into the activities and support obtained from the Board and Risk Management Committee of the Board.

2.2.3. Capacity Building for Heads of departments

Training of management/heads of department should be designed on the understanding that the primary role of management is to execute the set objectives as outlined in the strategic plan. Management needs to understand what can potentially impede achievement of the set objective through establishment of an acceptable risk appetite at planning levels

and risk tolerance for each set objective. The training should focus primarily on assisting management to put in place a risk management culture and integrate risk management components in day-to-day activities in the Fund.

2.2.4. Capacity Building for Risk Champions and Key Staff

The consultant should customize ERM training for risk champions and key staff to support the viewpoint that the Funds management that its those staff closest to the daily transactions such as procurement, compensation, contract management, financial reporting who are in the best position to know what risk can cause major damage. The training curriculum and its delivery at this level should be very detailed and technical . It should provide reasonable assurance that when staff say a risk management process is in place, that process can be independently verified. Great focus should also be directed in identifying transactional level risks

2.3. Risk Identification

The objective of risk management is to identify all the possible risk and analyzing them to minimize their occurrence or effects to ensure continuity of the Funds. The Consultant will be expected to facilitate the Fund's Management during a Risk Identification Process

Deliverables including;

(a) Creation of an understanding of ERM framework among Fund's Board of Trustees, Management and Staff, and Risk Management Committee

(b) Risk Management policy

(c) Facilitate a risk identification process by all functions during a Management Retreat

(d) Training of 30 officers made of the Board, Management and Champions.

(e) Trainer is expected to provide training materials/manuals

(f) Risk registers

3. EXPECTED DELIVERABLES

The key deliverables for the consultancy engagement include;

3.1. Reporting

(a) Development of the Funds Business Process Flow Charts.

(b) Creation of risk management awareness and understanding in the Fund;

(c) Provide ERM policy and

(d) Provide the ERM framework.

(e) Development of risk registers;

(f) Develop Risk escalation trigger and reporting mechanisms (key risk indicators).

(g) Provide a report on the risk appetite and tolerance levels; and

(h) Provide technical support during the maturity continuum for a period of oneyear