



IAIS 25
YEARS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Corporate and Risk Governance

ICPs 7 and 8



MEMBERS ONLY

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ICP 5: Suitability of Persons

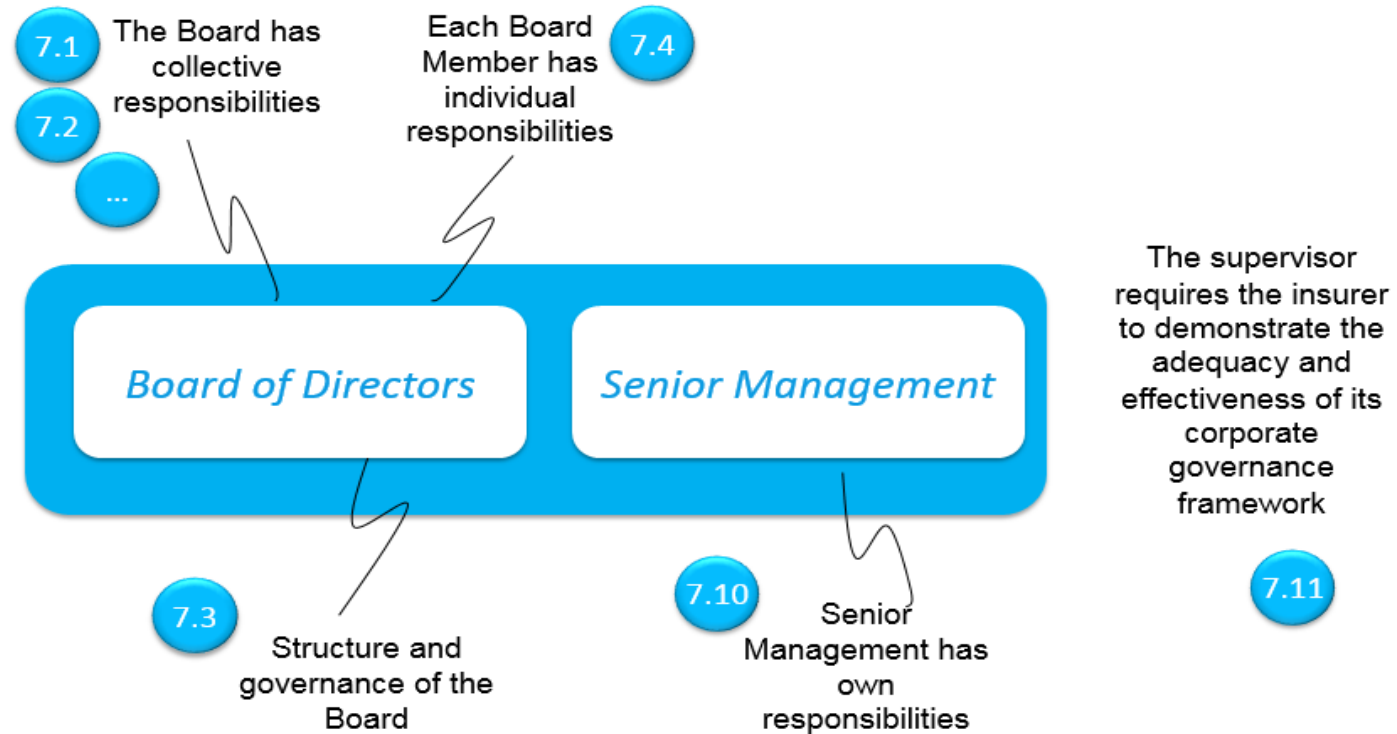
Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer - to be and remain suitable.

- Suitability:
 - A. **competence and integrity** - Board Members, Senior Management and Key Persons in Control Functions,
 - B. **financial soundness and integrity**- Significant Owners.
- The Supervisor to be **notified** by insurers **of any changes**:
 - A. in Board Members, Senior Management, Key Persons in Control Functions and Significant Owners, and
 - B. of any circumstances that may materially adversely affect their suitability.
- **Supervisory actions to rectify the situation** when the suitability requirements are no longer met: from additional education to withdrawing or imposing conditions on the business licence.

ICP 7: Corporate Governance

The supervisor requires insurers to establish and implement a corporate governance framework which:

- provides for sound and prudent management and oversight of the insurer's business, and
- adequately recognises and protects the interests of policyholders.



Collective Duties of the Board

- Allocation of roles and responsibilities of the Board, Senior Management and Key Persons in Control Functions (ICP 7.1)
- Oversight of Senior Management (ICP 7.1)
- Adoption and/or oversight of (or ensure there is in place):
 - Corporate culture, business objectives and strategies (ICP 7.2)
 - Sound risk management and internal controls (ICP 7.5)
 - Remuneration policy (ICP 7.6)
 - Financial reporting for both public and supervisory processes (ICP 7.7)
 - Adequate governance and oversight of external audit process (ICP 7.8)
 - Systems and controls for timely and effective communication of governance issues with the supervisor and relevant stakeholders (ICP 7.9)

Other requirements related to the Board

- Responsibilities of individual Board members (ICP 7.4)
 - Act in good faith, honestly and reasonably;
 - Exercise due care and diligence;
 - Act in the best interests of the insurer and policyholders, putting those interests of the insurer and policyholders ahead of his/her own interests;
 - Exercise independent judgment and objectivity in his/her decision making, taking due account of the interests of the insurer and policyholders; and
 - Not use his/her position to gain undue personal advantage or cause any detriment to the insurer.
- Structure and Governance of the Board (ICP 7.3)
 - Appropriate number and mix of individuals to ensure an overall adequate level of knowledge, skills and expertise;
 - Appropriate internal governance practices and procedures to support the work of the Board in a manner that promotes the efficient, objective and independent judgment and decision making by the Board;
 - Adequate powers and resources to be able to discharge its duties fully and effectively

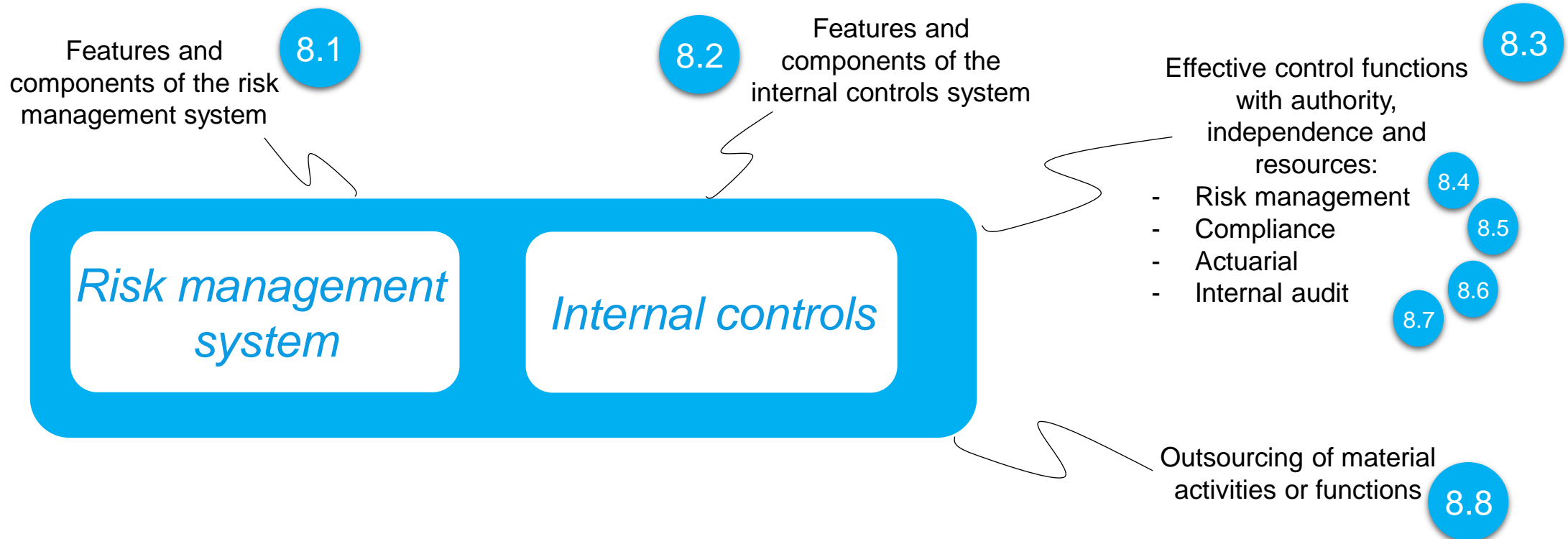
Duties of Senior Management (ICP 7.10)

- Carries out day-to-day operations
 - in accordance with the insurer's corporate culture, business objectives and strategies for achieving those objectives
 - in line with the Insurer's long term interests and viability.
- Promotes sound risk management, compliance and fair treatment of customers.
- Provides the Board adequate and timely information to enable the Board to carry out its duties and functions.
- Maintains adequate and orderly records of the internal organisation.

ICP 8: Risk Management and Internal Controls

An insurer to have, as part of its corporate governance framework:

- effective systems of risk management, and
- internal controls, including effective functions for: risk management, compliance, actuarial matters and internal audit.



System of risk management (8.1)

The supervisor requires the insurer to establish, and operate within, an effective and documented risk management system, which includes, at a minimum:

- a risk management strategy that defines the insurer's risk appetite;
- a risk management policy outlining how all material risks are managed within the risk appetite; and
- the ability to respond to changes in the insurer's risk profile in a timely manner.

System of internal controls (8.2)

Insurer establishes, and operate within, an effective and documented system of internal controls

- Appropriate segregation of duties and controls (sufficient distance)
- Policies regarding who can sign for or commit the insurer, and for what amounts, with corresponding controls
- Appropriate controls for all key business processes and policies
- Information and communication: appropriate controls of the accuracy and completeness of the insurer's books, records etc
- Processes for regularly checking that the totality of all controls forms a coherent system, working as intended
- The Board has an overall understanding of the control environment and ensures clear allocation of responsibilities.
- Reporting on internal control matters

Control functions (8.3)

- Authority and independence
 - The appointment, performance assessment, remuneration, disciplining and dismissal of the head of control with the approval of, or after consultation with, the Board or the relevant Board committee (in case of internal audit function – directly by the Board)
 - The authority and responsibilities of each control function set in writing.
 - Direct access to the Board or the relevant Board committee.
 - Control function sufficiently independent from Senior Management and from other functions.
 - Regular reporting to the Board or one of its committees.
 - Possibility to report to Senior Management or the Board on any irregularities or possible breaches disclosed by its investigations.
- Resources
 - Qualified staff and appropriate IT/management information systems.
 - Resources reviewed regularly by the head of the control function together with Senior Management
 - Necessary experience, skills and knowledge, applicable professional qualifications.

Key control functions (ICP 8.4 – 8.7)

- **Risk management function** - to identify, assess, monitor, manage and report on its key risks.
- **Compliance function** - to meet insurer's legal and regulatory obligations and to promote and sustain a corporate culture of compliance and integrity.
- **Actuarial function** – to evaluate and advise on technical provisions, premium and pricing activities, and compliance with related statutory and regulatory requirements.
- **Internal audit function** - to provide the Board with independent assurance in respect of the insurer's governance.

Outsourcing (8.8)

To retain at least the same degree of oversight of, and accountability for, any outsourced material activity or function (such as a control function) as applies to non-outsourced activities or functions.

- Approval by the Board
- Careful choosing of a service provider
- Appropriate policy in place
- Written contract
- The responsibility remains within the insurer (Board and Senior Management remain responsible)

RECENT GOVERNANCE-RELATED WORK ON IAIS SUPPORTING MATERIAL

Application Paper on Proactive Supervision of Corporate Governance

- There are various ways to improve the supervisory organisation, culture and processes, such as: avoiding supervisory “blind spot”; making sure that the staff are willing to act when potential problems begin to appear; removing organisational impediments.
- Gathering relevant information from different sources
- Yellow and red flags
 - Early warning system of mainly non-financial (but also financial) indicators of corporate governance problems
 - Proposed flags structured in several categories
- Effective communication with insurers and the wider public
 - Includes sharing with insurers and the wider public the objectives and strategy of supervision and principles guiding the supervisory approach
 - Possible forms of communication:
 - Verbal or written
 - Directed to the entire industry or selected insurers facing the same issues

Application Paper on the Composition and the Role of the Board

- Formal aspects
 - Competence of individual Board members and diversity of competencies of the Board
 - Allocation of the roles and responsibilities and delegation of activities and tasks of the Board
 - Combining the roles of the Chair and CEO
 - Being a Board member of multiple entities within the same group
 - Access to information
- Behavioural aspects
 - Dominating personality of the Chair or CEO
 - Involvement of the Chair or CEO in the Board Committee functioning
 - Interference by the owner or founder of the Board's responsibilities
 - “Groupthink” tendency
 - Trust deficit at the Board level

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