



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

ICP 7 Corporate Governance

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Why is Governance important?

General Motors

HBOS

HP

LIBOR

ENRON

BCCI

Worldcom

Parmalat

Olympus

‘Capital opens the door – without it you can’t start the business. But to be successful you need governance and risk management’

Corporate Governance

Relevant Insurance Core Principles:

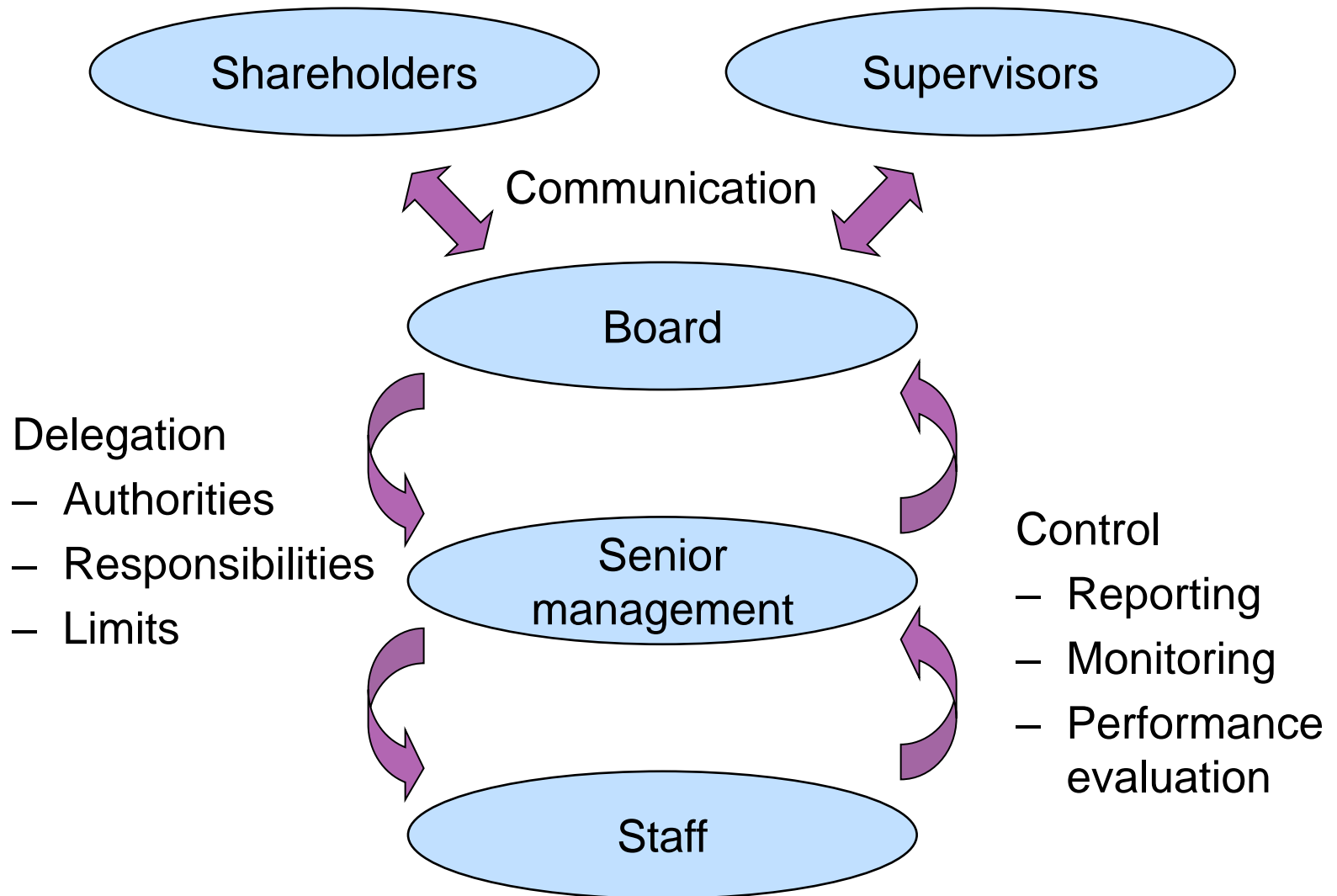
- Corporate Governance Principle (ICP 7)
 - Important system of check and balances
- Board, Persons, and Behavior (ICP 7 and 5)
 - People matter more than structures
- Risk Management and Internal Controls (ICP 8)
 - Importance of independent control functions
- Supervisory Review (ICP 7 and 11)

Corporate Governance Principle

ICP 7:

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.

Corporate Governance Framework



Responsibilities of the Board

- Setting objectives and strategies of the insurer (standard 7.1)
- Allocation of oversight and management responsibilities (st 7.2)
- Risk management & internal control systems & functions (st 7.5)
- Remuneration policy and practices (st 7.6)
- Reliable and transparent financial reporting (st 7.7)
- Transparency & communications (st 7.8)
- Duties of senior management (st 7.9)

Structure of the Board

- Structure and governance of the Board (Standard 7.3)
- Duties of individual Board members (7.4)

Board Composition:

- Sufficient number of members
- Collectively & individually maintain necessary skills, knowledge, competency & understanding of business
- But not so large to maintain efficiency

Suitability of Persons

ICP 5:

“The supervisor requires Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles”.

- Fit and Proper criteria
- Knowledge/experience (proper understanding of the business)
- Senior Management attitude and behaviour
- Financial soundness of significant owners

The Board and Senior Management

The Board shall ensure that Senior Management:

- carries out the day-to-day operations effectively and in accordance with the insurer's strategies, policies and procedures
- promotes a culture of sound risk management, compliance and fair treatment of customers
- provides the Board adequate and timely information
- provides to the relevant stakeholders and the supervisor the information required

Behavioral Factors

- Avoid commercial conflict of interest
 - Disclosure of potential conflict of interest
 - Requirement for arm's length transaction
 - Prior approval of transaction by board or shareholders
 - Decline to vote or take any decisions in related matters
- Separation of functions
 - Oversight responsibility (non-executive)
 - Day-to-day management (executive)
- Independence & objectivity
 - Especially sensitive in remuneration & audit areas

Remuneration

- Performance evaluation & remuneration affects behaviour
 - Promote business objectives & risk strategies if appropriately set
 - Ethics is important
- Remuneration policy should
 - Not encourage excessive or inappropriate risk taking
 - Be consistent with identified risk appetite & long term interests of insurer
- Should at least cover individuals who may have material impact on risk exposures & results

Remuneration

The Board shall have oversight of remuneration policies and practices (incentives for compensation and risk taking)

STAR TRIBUNE
S&P



Risk Management and Internal Controls

ICP8

The supervisor requires an insurer to 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 matters and internal audit.

Independent control functions

Control functions include:

- Risk Management
- Compliance
- Actuarial
- Internal Audit
- Oversight of outsourced functions

In order to function properly, the control functions need:

- Authority
- Independence
- Resources

Supervisory Review

- The Supervisor must have the power to require the insurer to demonstrate the adequacy and effectiveness of its corporate governance framework (Standard 7.10) and the power to impose corrective measures (ICP11)
- New challenges for Supervisors to supervise the governance culture within insurers