ICP 7: Corporate Governance

U.S. Supervisory Practices

2019 ASSAL Annual Conference

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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

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I. Key Elements of Corporate Governance

* Key elements of effective corporate governance include the following:
  * **Clearly defined roles and responsibilities**
  * **Independent and active board members**
  * **Individuals suitable for their roles**
  * **Directors act in good faith and exercise a duty of care, loyalty and candor**
    * Sufficient oversight provided to significant company activities

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II. Existing U.S. Requirements

* Requirements Outside of State Insurance Regulation:
  * **General Corporate Law**
  * **Case Law**
  * **SEC Requirements**
  * **Stock Exchange Listing Requirements**
  * **18 U.S.C. § 1033-1034**

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II. Existing U.S. Requirements

* State Insurance Regulatory Requirements:
  * **Model Audit Rule (NAIC #205)**
    * Audit Committee Independence
    * Internal Control over Financial Reporting
  * **Holding Company Models (#440 & #450)**
    * Governance attestation
  * **Hazardous Financial Condition Model (#385)**
    * Authority to take corrective action
  * **Required Reporting and Disclosures**
    * Annual Statement and Supplemental Filings
    * Audit Report and Actuarial Report

II. Existing U.S. Requirements

* Regulatory Review Practices:
  * **Company Licensing**
    * Biographical Affidavits & background checks
  * **Offsite Financial Analysis**
    * Review of new officers & directors or changes in governance practices
  * **Onsite Financial Examination**
    * Detailed review and assessment of governance practices, including interviews with key individuals

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III. Recent Enhancements

* Corporate Governance Annual Disclosure (CGAD)
  * **Annual filing of additional information on company governance practices**

* Internal Audit Function Requirement
  * **Requires large insurers to maintain an effective internal audit function**

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III. Recent Enhancements - CGAD

* Annual collection of information on company CG practices
  * **In 2014 the NAIC adopted the Corporate Governance Annual Disclosure Model Act and supporting Model Regulation**
  * **The models are scheduled to become required for NAIC accreditation at 1/1/2020 and have been adopted by 26 states so far**
  * **The models require confidential annual disclosure to regulators on a wide-range of corporate governance practices**
    * First states began collecting disclosures in 2016

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III. Recent Enhancements - CGAD

* Corporate Governance Annual Disclosure Contents
  * **Disclosure filed annually to support financial analysis process and highlight changes in governance**
  * **Requires insurers to provide a description of their governance processes in the following areas:**
    * Corporate Governance Framework & Structure
    * Board of Directors Policies & Practices
    * Management Policies & Practices
    * Oversight of Critical Risk Areas

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CGAD Excerpts

* Clearly defined roles and responsibilities:

The Board of Directors oversees management's enterprise-wide risk management activities. Risk management activities include assessing and taking actions necessary to manage risk incurred in connection with the long-term strategic direction and operation of our business. In addition, the Board of Directors maintains overall responsibility for oversight of the work of its various committees by receiving regular reports from the Committee Chairs regarding their work.

The Board is ultimately responsible for risk oversight as it regularly reviews the formal enterprise risk appetite framework annually, including the risk appetite, risk preferences, risk tolerances, enterprise and business risks. The Board conducts this risk oversight through each of its standing committees.

CGAD Excerpts

* Independent and active board members:

As part of selecting members to the Board, the Board does a thorough assessment of independence. The corporate governance listing standards established by the NYSE are considered. Annual reviews of Director independence are also conducted pursuant to the Group's Corporate Governance Guidelines as well as the listing standards of the NYSE. If the Chairman & CEO is combined, then an independent "Lead Director" is elected and conferred responsibilities over determining agenda and key issues to consider.

In 2017, the Board had seven (7) meetings. The standard committees also met as follows: Audit – ten (10), Compensation and Management Development – Six (6), Finance, Investment and Risk Management – Five (5), and Nominating and Corporate Governance – Five (5). Additionally, it's stated that each of the Directors attended 75% or more of the aggregate number of meetings of the Board and the committees on which he or she served.

CGAD Excerpts

* Individuals are suitable for their roles (Directors and Officers):

The Nominating Committee developed and maintains a skills matrix to assist them in considering the appropriate balance of experience, skills and attributes for the Board. The skills matrix contains a list of core criteria that every member of the Board should meet and a list of skills and attributes to be presented collectively on the Board.

Management and employee suitability is addressed through various methods, including, but not limited to, the following:

* Annual CEO reviews for all critical jobs by business segment and function;
* Leadership Development courses;
* Training programs;
* Compliance certification programs;
* Extensive business practice policies and guidelines; and
* Periodic meetings with business heads to discuss critical job openings, top employee development needs, and strategies to enhance current talent skill base.

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CGAD Excerpts

* Oversight of critical business functions (Reserving, Reinsurance):

A Quarterly Reserve Review meeting takes place in the last month of each quarter with participation from the CFO, Corporate Actuary, Chief Accounting Officer and representatives from senior management and Accounting Policy. The process allows the CFO and Corporate Actuary to investigate the impact across the various business segments from any recent major events or trends. Any variance from previous expectations is probed to determine if previously set reserves should be changed, and if so, by how much. Corporate Actuarial evaluates the reasonableness of the current carried reserves and shares those findings quarterly with the Audit Committee of the Board.

The Risk Committee assists the Board in exercising its oversight of the Group's operational activities and the identification and review of those risks that could have a material impact. Two of the duties and responsibilities of the Risk Committee include oversight of management's risk management activities in the retention of insured risk and appropriate levels and types of reinsurance, and credit risk in insurance operations and ceded reinsurance program.

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CGAD Excerpts

* Other items (Succession, Compensation):

New in 2017, the Group implemented a formal CEO succession plan as discussed further on pg. 10. Succession plans for all other senior officers are reviewed annually through a process that is facilitated by Human Capital working under the oversight of the CEO.

There is a Recoupment Policy in place which allows for the recoupment of any incentive compensation (cash or equity) paid or payable at any time to the extent such recoupment either (i) is required by applicable law or listing standards or (ii) is determined by the Company to be necessary or appropriate in light of business circumstances or employee misconduct.

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III. Recent Enhancements – IA Function

* Internal audit function requirement for large insurers
  * **In 2014, the existing Model Audit Rule was revised to incorporate requirement**
    * Scheduled to be required for NAIC Accreditation 1/1/2020
    * Adopted by 22 different states to date
  * **Impacts insurers with more than $500 million in annual premium or groups with more than $1 billion in annual premium**
  * **Must provide independent assurance regarding:**
    * Corporate governance
    * Risk management
    * Internal controls

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Conclusion

* Review and assessment of an insurer's corporate governance practices is an essential element of effective solvency monitoring

* Significant enhancements have been made to the U.S. system of corporate governance standards/requirements

* Regulators are expected to utilize these enhancements to more effectively monitor the current and prospective solvency of insurers

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Questions

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