

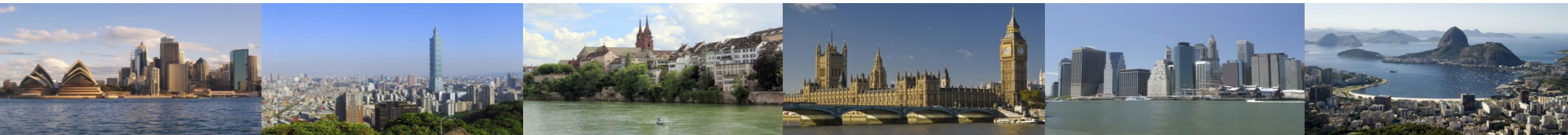


IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Public Session on Activities of the Governance Working Group

10 February 2021, 12:30 – 14:00 CET



OVERVIEW OF THE PUBLIC SESSION

Overview of the public session

- **Introduction**

- Introductory information on material developed by the IAIS

- **Issues Paper on Insurer Culture**

- Presentation of the project aimed at development of the Issues Paper

- **Application Paper on Supervision of Control Functions**

- Presentation of the draft Application Paper under public consultation (public background session)

- **Other projects and activities of the Governance Working Group**

INTRODUCTION

Introduction

- The IAIS, as the global standard-setting body for insurance supervision, develops supervisory material and supporting material
- **Supervisory material** consists of principles, standards and guidance that are developed for the supervision of the insurance sector:
 - **Insurance Core Principles** (ICPs), which apply to the supervision of insurance legal entities and, unless otherwise specified, to insurance groups
 - **ComFrame**, which focuses on the effective group-wide supervision of Internationally Active Insurance Groups (IAIGs)
- **Supporting material** helps with the practical application of supervisory material, provides background on particular topics or identifies related regulatory and supervisory issues (it does not create new standards):
 - **Issues Papers**
 - **Application Papers**
- Role of the proportionality principle

ISSUES PAPER ON INSURER CULTURE*

Responsibility: Market Conduct Working Group and Governance Working Group

Oversight: Policy Development Committee

* Previously referred to as Issues Paper on Prudential and Conduct Drivers of Culture. This is a new working title, subject to potential further changes, based on the final content and focus of the Issues Paper

Background

Issues Paper on Insurer Culture

- Conduct and culture identified in 2020-2024 IAIS Strategic Plan as a key trend in insurance markets and insurance supervision in the upcoming years
- Increasing importance of issues relating to conduct and culture to supervisors, particularly in light of rapidly changing financial markets driven by innovation, shifts in consumer expectations and broader societal challenges, also reinforced as an important theme during the current Covid-19 crisis
- Sequential approach has been adopted:
 - First phase: development of an Issues Paper with a scope limited to exploratory observations on the importance of insurer culture
 - Second phase: advancing these observations through further engagement and the possible development of additional IAIS material

Objective and focus of the Issues Paper

Issues Paper on Insurer Culture

- To explore the concept of insurer culture as a key intersection point for managing prudential and conduct risks against the backdrop of the ICPs
- To highlight that the insurer culture helps provide the supervisor with important insights into the driving forces behind certain decisions and practices within the insurer
- To investigate the role of culture in mitigating misconduct
- To provide illustrations of selected cultural drivers highlighted in the ICPs, with relevant supervisory examples and case studies:
 - Insurer's values, business objectives and strategies
 - Leadership accountability
 - Communication within the insurer
 - Internal remuneration and performance management structures

How does the IAIS understand culture?

Issues Paper on Insurer Culture

- Corporate culture defined in the IAIS Glossary as “[t]he set of norms, values, attitudes and behaviours of an insurer that characterises the way in which the insurer conducts its activities”
- Relevant ICP standards:
 - ICP 7.2: “The supervisor requires the insurer’s Board to set and oversee the implementation of the insurer’s corporate culture, business objectives and strategies for achieving those objectives, in line with the insurer’s long term interests and viability”
 - ICP 8.4: “The supervisor requires the insurer to have an effective risk management function capable of assisting the insurer to: identify, assess, monitor, mitigate and report on its key risks in a timely way; and promote and sustain a sound risk culture”
 - ICP 19.2: “The supervisor requires insurers and intermediaries to establish and implement policies and procedures on the fair treatment of customers, as an integral part of their business culture”
- Two layers of corporate culture:
 - One visible and working on a conscious or surface level
 - Another existing on a much deeper or subliminal level
- Embedding the cultural tone across the insurer – goes deeper than the tone at the top set by the Board and Senior Management and filters down through middle management to the staff level

Polling

Issues Paper on Insurer Culture

- **At which level within the insurer's structure can it be hardest to embed culture?**
 - ☐ Board (tone at the top)
 - ☐ Middle management (mood in the middle)
 - ☐ Staff

- **Which of the following cultural drivers may be the most relevant in the context of culture being an interlinkage between prudential and conduct risks:**
 - ☐ Insurer's values, business objectives and strategies
 - ☐ Leadership accountability
 - ☐ Communication within the insurer
 - ☐ Internal remuneration and performance management structures
 - ☐ All equally relevant
 - ☐ None of the above

Why is culture important in insurance supervision?

Issues Paper on Insurer Culture

- Important for insurers and supervisors to understand the key components that make up corporate culture as factors that can significantly influence the achievement of various outcomes for insurers, policyholders and other stakeholders
- The collective set of norms, practices, decision-making and behavioural elements that make up an insurer's culture directly influences how the insurer manages conduct and prudential risks
- Critical to help prudential and conduct supervisors gain a more integrated view of vulnerabilities across an insurer's business

Polling

Issues Paper on Insurer Culture

- **Which statement do you agree with:**

- ☐ Culture does not matter when considering the prudential and conduct risks of an insurer
- ☐ Culture may be an important factor, but is not fundamental, to ensuring the proper management of prudential and conduct risks of an insurer
- ☐ Culture is a critical intersection point in getting a more integrated view of prudential and conduct vulnerabilities across an insurer's business

- **In the context of the role played by insurer culture in responding to the Covid-19 pandemic, which of the following statements do you agree with:**

- ☐ Culture did not play any role in helping insurers respond effectively to challenges posed by the Covid-19 pandemic, and it is not anticipated that its role will increase in the future
- ☐ Culture was one of many elements that helped insurers respond to challenges posed by the Covid-19 pandemic
- ☐ Culture was a fundamental factor in enabling insurers to adapt to challenges posed by the Covid-19 pandemic and its role will be even more important in the future
- ☐ It is too early to draw conclusions on this issue

Information on the process

Issues Paper on Insurer Culture

Current stage of the process

Development of the draft Issues Paper

Next steps

Activities	Timing
Public consultation (60 days)	July – August 2021
Public background session to present the draft Issues Paper released for public consultation	Early July 2021
Adoption of the Issues Paper	November 2021
Public discussion session to present the final Issues Paper, resolution of the public consultation comments and potential follow up work	November 2021

QUESTIONS?

Issues Paper on Insurer Culture

APPLICATION PAPER ON SUPERVISION OF CONTROL FUNCTIONS (PUBLIC BACKGROUND SESSION)

Responsibility: Governance Working Group

Oversight: Implementation and Assessment Committee

Background

Application Paper on Supervision of Control Functions

- **Rationale of the project:** recognition of control functions as a crucial element of the effective systems of risk management and internal controls:
 - Effective control functions with necessary independence, stature and resources help insurers identify and manage risks
 - Work performed by controls functions can assist supervisors in identifying specific areas of concern or patterns of weakness within an insurer
 - Ineffective control functions may weaken an insurer and require heightened supervisory attention
- **Objective of the Paper:**
 - To describe practices aimed at helping supervisors address issues related to the supervision of control functions as described in mainly ICP 8 (Risk Management and Control Functions) and ComFrame, as well as in ICP 5 (Suitability of Persons) and ICP 7 (Corporate Governance)
- **Input to the Paper:**
 - Mainly results of a survey among IAIS Members regarding challenges in supervision of control functions and effective supervisory practices for addressing these challenges
 - Takes into consideration the outcome of the Peer Review of Corporate and Risk-Governance relative to the standards set out in ICPs 4, 5, 7 and 8 (the report published on the [IAIS website](#) in June 2020)

Relevant standards in IAIS supervisory material

Application Paper on Supervision of Control Functions

- The supervisor requires the insurer to have effective control functions with the necessary authority, independence and resources (ICP 8.3)
- The supervisor requires the insurer to have the following effective control functions, capable of performing responsibilities described in the IAIS standards:
 - Risk management function (ICP 8.4)
 - Compliance function (ICP 8.5)
 - Actuarial function (ICP 8.6)
 - Internal audit function (ICP 8.7)
- The supervisor requires the insurer 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 (ICP 8.8)
- In addition, ComFrame standards, applicable to supervision of IAIGs, included in the above-mentioned ICP standards

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Application Paper on Supervision of Control Functions

- **Ensuring effectiveness of which control function may pose a challenge to insurers:**
 - ☐ Risk management function
 - ☐ Compliance function
 - ☐ Actuarial function
 - ☐ Internal audit function
 - ☐ All of the above
 - ☐ Difficult to say

Structure and content of the Application Paper (1)

Application Paper on Supervision of Control Functions

- **Role of control functions**

- Mapping control functions to the three lines of defence (Three Lines Model)
- Role of control functions when business activities are outsourced

- **Independence of control functions**

- Positioning control functions in the internal structure of the insurer
- Remuneration of Key Persons in Control Functions

- **Stature of control functions**

- Skills and experience (quality of resources) and resource stretch (quantity of resources)
- Ability to challenge and raise concerns
- Board engagement and reporting

- **Specific challenges related to supervision of the internal audit function**

- Combination of the internal audit function with second line of defence control functions
- Supervisory use of the work of the internal audit function

Structure and content of the Application Paper (2)

Application Paper on Supervision of Control Functions

- **Combination of control functions**
 - Combination of second line of defence control functions
 - Combination of a control function and an operational function
 - Combination of a control function and a Senior Management function
- **Outsourcing of control functions**
- **Specific challenges related to supervision of group-wide control functions**
 - The role of control functions in case of inadequate or inconsistently applied group policies
 - Specific challenges in cross-sectoral and international groups
 - Inadequate communication between the group-wide control functions and the insurance legal entities' control functions
 - Outsourcing of control functions within the group

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Application Paper on Supervision of Control Functions

- **Which of the following areas may pose a significant challenge to insurers in ensuring the effectiveness of control functions:**
 - ☐ Independence of control functions
 - ☐ Stature of control functions
 - ☐ Combination of control functions
 - ☐ Outsourcing of control functions
 - ☐ All of the above
 - ☐ Difficult to say

Information on the process

Application Paper on Supervision of Control Functions

Current stage of the process

Public consultation (25 January – 26 March 2021)

Consultation document and further details available on IAIS website ([link](#))

Next steps

Activities	Timing
Public background session to present the draft Application Paper released for public consultation	10 February 2021
Deadline for public consultation comments	26 March 2021
Adoption of the Application Paper	June 2021
Public discussion session to present the final Paper and resolution of the public consultation comments	Early July 2021

QUESTIONS?

Application Paper on Supervision of Control Functions

OTHER PROJECTS AND ACTIVITIES OF THE GOVERNANCE WORKING GROUP

Other projects and activities of the Governance Working Group

- **Exploratory work on remuneration issues in the insurance sector**

- Objective: to identify outstanding issues for supervisors and/or insurers with respect to remuneration and to analyse current trends and challenges in the context of existing IAIS material and work by other standard-setting bodies
- Outcome: Presentation of the outcome of the analysis to the IAIS Parent Committees, with a recommendation for next steps
- Timeline: Q3 2021 – Q2 2022

- **Consistent approach to governance-related issues in IAIS materials**

- Description: ongoing involvement and contributing by the GWG to relevant activities of the IAIS
- Objective: to facilitate a comprehensive and consistent approach to supervision of corporate governance-related issues in relevant IAIS material

QUESTIONS?

Other projects of the Governance Working Group

THANK YOU
