



Proposed revised/new IAIS Glossary Definitions related to governance and group supervision for consultation June 2015

This document contains the proposed new or revised definitions to be included in the IAIS Glossary as drafted by the Insurance Groups Working Group and the Governance Working Group in connection with their review of ICPs 4, 5, 7, 8, 23 and 25.

The revised ICPs must be read in the context of these new proposed definitions.

As a guiding principle, definitions in the IAIS Glossary should be as concise as possible, should not include additional guidance, examples or explanations, and should be aligned with definitions of other standard setting bodies for consistency, where possible.

A final (clean) version of the glossary terms for consultation is provided below. Comments during consultation should be given on the final clean versions.

Comments or explanations as well as definitions from other standard setting bodies are provided for information purposes only in the attached version with track changes.

Glossary terms for consultation:

	Term	Proposed amendments or new definition
1	Board of Directors (Board)	A body of elected or appointed individuals ultimately responsible for the governance and oversight of the insurer.
2	Control functions	Those functions that have a responsibility distinct from management to provide objective assessment, reporting and/or assurance. This includes the risk management, compliance, actuarial and internal audit functions.
3	Corporate Culture	The set of norms, values, attitudes and behaviours of an insurer that characterises the way in which the insurer conducts its activities.
4	Corporate Governance	A set of relationships between an insurer's board, senior management, customers and other stakeholders; and a structure through which the objectives of the insurer are set, and the means of attaining those objectives and monitoring performance are determined.
5	Corporate Governance Framework	The means through which an insurer implements its corporate governance.

	Term	Proposed amendments or new definition
6	Financial Conglomerate	Two or more legal entities, at least one of which is an insurance legal entity and one a regulated entity in the field of securities or banking, where one has control over one or more insurance legal entities or one or more regulated entities in the field of securities or banking and possibly other non-regulated legal entities, whose exclusive or predominant activities consist of providing significant services in at least two different financial sectors (banking, securities, insurance).
7	Four eyes principle	Not needed – term not used in the ICPs. Suggest to delete term.
8	Head of the insurance group	The legal entity that controls the insurance group
9	Head of the financial conglomerate	The legal entity that controls the financial conglomerate.
10	Home jurisdiction	The jurisdiction in which either <ul style="list-style-type: none"> • the insurance legal entity is incorporated or its head office or principal place of management is located, as applicable (for solo entities), or • the head of the insurance group or (insurance-led) financial conglomerate is incorporated or its head office or principal place of management is located, as applicable.
11	Home supervisor	The supervisor from the jurisdiction in which either: <ul style="list-style-type: none"> • the insurance legal entity is incorporated or its head office or principal place of management is located, as applicable, or • the head of the insurance group or (insurance-led) financial conglomerate is incorporated or its head office or principal place of management is located, as applicable.
12	Host jurisdiction	Any jurisdiction other than the home jurisdiction in which the insurance legal entity has operations or the insurance group or (insurance-led) financial conglomerate has operations.
13	Host supervisor	The supervisor from any jurisdiction other than the home jurisdiction in which either the insurance legal entity has operations or the insurance group or (insurance-led) financial conglomerate has

	Term	Proposed amendments or new definition
		operations.
14	Insurance Group	Two or more legal entities, at least one of which is an insurance legal entity, where one has control over one or more insurance legal entities and possibly other non-regulated legal entities, and the primary function of those collectively is insurance
15	Insurance-led financial conglomerate	A financial conglomerate in which the identified head of the insurance group is also the head of the financial conglomerate
16	Insurance legal entity	A legal entity, which includes its branches, licensed to conduct insurance business in the home jurisdiction and, where relevant, in host jurisdiction through its branches or provision of services, that is regulated and subject to supervision.
17	Insurer	Insurance legal entities or insurance groups including insurance-led financial conglomerates.
18	Internal controls	A set of processes, policies and activities governing the insurers' organisational and operational structure, including reporting and the risk management, compliance, actuarial and internal audit functions.
19	Key functionaries	<u>Propose to delete term</u> This term is only used in ICP 18. This is not the term used in the ICP 7 and 8 and GWG proposes to delete the definition from the IAIS Glossary and recommend amending ICP 18 to reflect the correct terminology from ICP 7 and 8. (See definition in Glossary of key persons in control functions : Persons responsible for heading control functions.)
20	Non-regulated Entity	A legal entity which is not subject to any financial sector regulation and supervision.
21	Outsourcing	An arrangement between an insurer and a service provider for the latter to perform a process, service or activity which would otherwise be performed by the insurer itself. In the case of an insurance group, outsourcing could be either external or internal.
22	Risk Appetite	The aggregate level and types of risk an insurer is willing to assume within its risk capacity to achieve its strategic objectives and business plan.

	Term	Proposed amendments or new definition
23	Risk Culture	The set of norms, values, attitudes and behaviours of an insurer that characterises the way in which the insurer conducts its activities related to risk awareness, risk taking and risk management and controls.
24	Risk Management	The processes established to ensure that all material risks of the insurer are identified, measured, limited, controlled, mitigated and reported on a timely and comprehensive basis.
25	Significant Owner	A person (legal or natural) that directly or indirectly, alone or with another person (legal or natural), exercises control over the insurer.
26	Suitability	GWG proposes to delete the term and its definition from the Glossary. Addressed in ICP 5.
27	Whistleblowing	GWG proposes to delete the term from the IAIS Glossary. No need to define – it is a known term and is only used once in ICP 7.



**Proposed revised or new IAIS Glossary Definitions related to governance and group supervision for consultation
June 2015
Version with track changes and explanations**

This version of the revised Glossary terms for consultation contains track changes, comments and explanations, as well as definitions from other standard setting bodies for context.

Glossary terms for consultation:

	Term	Current IAIS Glossary Definition (and references)	Proposed amendments or new definition
1	Board of Directors (Board)	A body of elected or appointed individuals ultimately responsible for the governance and oversight of the company.	A body of elected or appointed individuals ultimately responsible for the governance and oversight of the companyinsurer. <i>(Explanation: Suggestion to replace "company" by "insurer" to clarify that it may also be the Board of a <u>Group</u>. See definition of Insurer.)</i>
2	Control functions	Refers to properly authorised functions, whether in the form of a person, unit or department,	<u>Proposed new definition:</u> "Those functions that have a responsibility distinct

	Term	Current IAIS Glossary Definition (and references)	Proposed amendments or new definition
		<p>serving a control or checks and balances function from a governance standpoint and which carry out specific activities including risk management, compliance, actuarial matters, and internal audit.</p> <p><i><u>BCBS Definition for reference:</u></i> <i>"Those functions that have a responsibility independent from management to provide objective assessment, reporting and/or assurance. This includes the risk management function, the compliance function and the internal audit function."</i></p>	<p>from management to provide objective assessment, reporting and/or assurance. This includes the risk management, compliance, actuarial and internal audit functions."</p> <p><i><u>Explanation:</u></i> In order to align with other SSB's definitions and to provide greater specificity as to what control systems and various control functions are (e.g. risk management control function) and the types of activities they typically engage in.</p>
3	Corporate Culture	(No current definition in IAIS glossary)	The set of norms, values, attitudes and behaviours of an insurer that characterises the way in which the insurer conducts its activities.
4	Corporate Governance	<p>Refers to systems (such as strategies, policies, processes and controls) through which an entity is managed and controlled.</p> <p><i><u>BCBS definition for reference:</u></i> <i>A set of relationships between a company's management, its board, its shareholders and other stakeholders which provides the structure through which the objectives of the company are set, and the means of attaining those objectives</i></p>	A set of relationships between an insurer's board, senior management, customers and other stakeholders; and a structure through which the objectives of the insurer are set, and the means of attaining those objectives and monitoring performance are determined.

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		<p><i>and monitoring performance. It helps define the way authority is allocated and how corporate decisions are made.</i></p> <p><u>OECD definition:</u> <i>Corporate Governance (CG) is a set of relationships between a company's management, its board, its shareholders, and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good CG should provide proper incentives for the board and management to pursue objectives that are in the interest of the company and its shareholders and should facilitate effective monitoring.</i></p>	
5	Corporate Governance Framework		The means through which an insurer implements its corporate governance.
6	Financial conglomerate	Refers to any group of companies under common control whose exclusive or predominant activities consist of providing significant services in at least two different financial sectors (e.g. banking, securities, insurance).	Two or more legal entities, at least one of which is an insurance legal entity and one a regulated entity in the field of securities or banking, where one has control over one or more insurance legal entities or one or more regulated entities in the field of securities or banking and possibly other non-

	Term	Current IAIS Glossary Definition (and references)	Proposed amendments or new definition
			regulated legal entities, whose exclusive or predominant activities consist of providing significant services in at least two different financial sectors (banking, securities, insurance).
7	Four eyes principle	The principle describing the involvement of more than one person in decision-making or other material activities for reasons such as validation, good governance, transparency and control.	Not needed – term not used in the ICPs. <u>Suggest to DELETE</u>
8	Head of the insurance group	Not presently defined	The legal entity that controls the insurance group
9	Head of the financial conglomerate	The head of the group or parent, whether regulated or non-regulated, is typically the legal entity that is at the top of the group structure and has a significant influence over the activities of the group as a whole. Often this would be a non-operating holding company but it could also be an insurance legal entity, among others.	The legal entity that controls the financial conglomerate.
10	Home jurisdiction	The jurisdiction in which an insurer is incorporated or its head office is located, as applicable.	The jurisdiction in which either <ul style="list-style-type: none"> the insurance legal entity is incorporated or its head office or principal place of management is located, as applicable (for solo entities), or the head of the insurance group or (insurance-led) financial conglomerate is incorporated or its head office or principal place of management is located, as applicable.

	Term	Current IAIS Glossary Definition (and references)	Proposed amendments or new definition
11	Home supervisor	The supervisor from the home jurisdiction. (see: home jurisdiction).	<p>The supervisor from the jurisdiction in which either:</p> <ul style="list-style-type: none"> the insurance legal entity is incorporated or its head office or principal place of management is located, as applicable, or the head of the insurance group or (insurance-led) financial conglomerate is incorporated or its head office or principal place of management is located, as applicable.
12	Host jurisdiction	Any jurisdiction other than the home jurisdiction in which an insurer conducts insurance activities.	Any jurisdiction other than the home jurisdiction in which the insurance legal entity has operations or the insurance group or (insurance-led) financial conglomerate has operations.
13	Host supervisor	Any supervisor from a jurisdiction other than the home jurisdiction. (see: host jurisdiction)	The supervisor from any jurisdiction other than the home jurisdiction in which either the insurance legal entity has operations or the insurance group or (insurance-led) financial conglomerate has operations.
14	Insurance Group	A group is considered to be an insurance group for the purpose of group-wide supervision if there are two or more entities of which at least one is an insurer and one has significant influence on the insurer. The significance of influence is determined based on criteria such as (direct or indirect) participation, influence and/or other contractual obligations; interconnectedness; risk exposure; risk concentration; risk transfer; and/or	Two or more legal entities, at least one of which is an insurance legal entity, where one has control over one or more insurance legal entities and possibly other non-regulated legal entities, and the primary function of those collectively is insurance.

	Term	Current IAIS Glossary Definition (and references)	Proposed amendments or new definition
		intra-group transactions and exposures.	
15	Insurance-led financial conglomerate	Not presently defined	A financial conglomerate in which the identified head of the insurance group is also the head of the financial conglomerate
16	Insurance legal entity	Denotes either a stand-alone insurer or an insurer which is member of an insurance group.	A legal entity, which includes its branches, licensed to conduct insurance business in the home jurisdiction and where relevant in host jurisdiction through its branches or provision of services, that is regulated and subject to supervision.
17	Insurer	Not currently defined (insurance co or group etc.)	Insurance legal entities or insurance groups including insurance-led financial conglomerates.
18	Internal controls	<p>The various operational procedures by which an insurer maintains compliance with Board and management policies. Such procedures include the regular reporting of key financial statistics, the adherence to tolerance limits, and the use of feedback loops. The internal controls should address checks and balances such as cross checking, dual control of assets and double signatures.</p> <p><u>For reference:</u> <u>BCBS – internal control:</u> <i>"Internal control is a process effected by the board of directors, senior management and all</i></p>	A set of processes, policies and activities governing the insurers' organisational and operational structure, including reporting and the risk management, compliance, actuarial and internal audit functions.

	Term	Current IAIS Glossary Definition (and references)	Proposed amendments or new definition
		<p><i>levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the bank"</i></p> <p><u>BCBS - Internal control system:</u> <i>"A set of rules and controls governing the bank's organisational and operational structure including reporting processes, and functions for risk management, compliance and internal audit."</i></p>	
19	Key functionaries	Individuals defined by legislation, such as board members and senior management, who must meet suitability requirements. The key functionaries identified may differ depending on the legal form and governance structure.	<p><u>GWG proposes to delete this term.</u> This term is only used in ICP 18. This is not the term used in the ICP 7 and 8 and GWG proposes to delete the definition from the IAIS Glossary and recommend amending ICP 18 to reflect the correct terminology from ICP 7 and 8. (See definition in Glossary of key persons in control functions: Persons responsible for heading control functions.)</p>
20	Non-regulated Entity	Either non-operating holding companies (NOHCs) or operating entities which are not subject to any form of direct prudential supervision (non-regulated operating entities or NROEs).	A legal entity which is not subject to any financial sector regulation and supervision
21	Outsourcing	An arrangement of any form between an entity and a service provider by which that service provider performs a process, a service or an	An arrangement of any form between an <u>entity insurer</u> and a service provider by which that <u>for the latter to service provider</u> performs a process, a

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		<p>activity which would otherwise be undertaken by the entity itself.</p> <p><i>Joint Forum - Outsourcing in Financial Services, Feb 2005:</i> <i>Outsourcing:</i> <i>"A regulated entity's use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the regulated entity, now or in the future."</i></p>	<p>service or an activity which would otherwise be undertaken <u>performed</u> by the entity<u>insurer</u> itself. <u>In the case of an insurance group, outsourcing could be either external or internal.</u></p> <p><u>Clean version:</u> An arrangement between an insurer and a service provider for the latter to perform a process, service or activity which would otherwise be performed by the insurer itself. In the case of an insurance group, outsourcing could be either external or internal.</p>
22	Risk appetite	<p>The amount of risk an insurer is willing to accept in the aggregate, relative to financial capacity to assume losses, and to align with and support its strategic and financial objectives. [Related definition: Risk tolerance]</p> <p><i>FSB definition:</i> <i>"The aggregate level and types of risk a financial institution is willing to assume within its risk capacity to achieve its strategic objectives and business plan."</i></p> <p><i>BCBS definition of risk appetite:</i> <i>The aggregate level and types of risk a bank is</i></p>	<p>The amount of<u>aggregate level and types of</u> risk an insurer is willing to accept <u>assume within the aggregate, relative to financial</u>its risk capacity to assume losses, and to align with and support<u>achieve</u> its strategic and financial objectives and business plan.</p> <p><u>Clean:</u> The aggregate level and types of risk an insurer is willing to assume within its risk capacity to achieve its strategic objectives and business plan.</p>

	Term	Current IAIS Glossary Definition (and references)	Proposed amendments or new definition
		<i>willing to assume, decided in advance and within its risk capacity, to achieve its strategic objectives and business plan.</i>	
23	Risk Culture	<p>(None)</p> <p><i><u>BCBS definition of Risk Culture:</u> A bank's norm, attitudes and behaviours related to risk awareness, risk taking and risk management and controls that shape decisions on risks. Risk culture influences the decisions on management and employees during the day-to-day activities and has impact on the risks they assume.</i></p>	<p>Risk Culture The set of norms, values, attitudes and behaviours of an insurer that characterises the way in which the insurer conducts its activities related to risk awareness, risk taking and risk management and controls.</p>
24	Risk Management	<p>Risk management is the process whereby the insurer's management takes action to assess and control the impact of past and potential future events that could be detrimental to the insurer. These events can impact both the asset and liability sides of the insurer's balance sheet, and the insurer's cash flow.</p> <p><i><u>BCBS definition of Risk management:</u> The processes established to ensure that all material risks and associated risk concentrations are identified, measured, limited, controlled, mitigated and reported on a timely and comprehensive basis.</i></p>	<p>The processes established to ensure that all material risks of the insurer are identified, measured, limited, controlled, mitigated and reported on a timely and comprehensive basis.</p>

	Term	Current IAIS Glossary Definition (and references)	Proposed amendments or new definition
25	Significant owner	A significant owner is defined as a person (legal or natural) that directly or indirectly, alone or with an associate, exercises control over the entity.	<p><u>Proposed amendment:</u> A person (legal or natural) that directly or indirectly, alone or with an associate<u>another person (legal or natural)</u>, exercises control over the insurer.</p> <p><u>Clean version:</u> A person (legal or natural) that directly or indirectly, alone or with another person (legal or natural), exercises control over the insurer.</p>
26	Suitability	Necessary qualities that must be exhibited by a person performing the duties and carrying out the responsibilities of his/her position with an insurer. Depending on his or her position or legal form these qualities could relate to a proper degree of integrity in attitude, personal behaviour and business conduct, soundness of judgment, degree of knowledge, experience and professional qualifications and financial soundness.	GWG proposes to delete the definition from the Glossary. The issue is addressed in ICP 5.
27	Whistleblowing	The exposure and reporting of misconduct carried out by a member of the public or within an insurer by a Board Member, Senior Manager or other member of staff.	GWG proposes to delete the term from the IAIS Glossary. No need to define – it is a known term and is only used once in ICP 7.