INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

INSURANCE CORE PRINCIPLES, STANDARDS, GUIDANCE AND ASSESSMENT METHODOLOGY

ICP 7

DRAFT REVISIONS FOR CONSULTATION
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Including amendments related to External Audit as agreed between GWG and AAWG (Standards 7.7 and 7.8) in May 2014

Version with track changes

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.

Introductory Guidance

7.0.1 Corporate governance refers to systems (such as structures, policies and processes) through which an entity is managed and controlled. Accordingly, the corporate governance framework of an insurer:

- promotes the development, implementation and effective oversight of policies that clearly define and support the objectives of the insurer;
- defines the roles and responsibilities of persons accountable for the management and oversight of an insurer by clarifying who possesses legal duties and powers to act on behalf of the insurer and under which circumstances;
- sets requirements relating to how decisions and actions are taken including documentation of significant or material decisions, along with their rationale;
- provides sound remuneration practices which promote the alignment of remuneration policies with the long term interests of insurers to avoid excessive risk taking;
- provides for communicating with the supervisor, as appropriate, matters relating to the management, conduct and oversight of the insurer ~~to stakeholders~~; and
- provides for corrective actions to be taken for non-compliance or weak oversight, controls or management.

7.0.2 Effective c~~C~~orporate governance enables ~~is often referred to as a system of "checks and balances". This recognises that~~ an insurer ~~has~~ to be flexible and transparent; to be ~~and~~ responsive to developments affecting its operations in making timely decisions and to ensure that powers are not unduly concentrated~~, while at the same time being transparent~~. ~~and having appropriate systems, controls and limits to ensure that powers are not unduly concentrated and are used in the best interest of the insurer as a whole and its stakeholders.~~ The corporate governance framework supports and enhances the ability of the key players responsible for an insurer's corporate governance; i.e. the insurer's Board of

Comment [TmA1]: Added here to replace part of previous 7.0.10

Comment [NM2]: GWG deleted all issues related to communication to stakeholders in Standard 7.9 and advise to move it to ICP 20.

Comment [TmA3]: Moved up from previous 7.0.3

Directors ("the Board"), Senior Management and Key Persons in Control Functions to manage the insurer's business soundly and prudently.

Organisational structures

7.0.3 ~~Effective corporate governance supports and enhances the ability of the key players responsible for an insurer's corporate governance; i.e. the insurer's Board of Directors ("the Board"), Senior Management and Key Persons in Control Functions to manage the insurer's business soundly and prudently. This allows the supervisor to place greater confidence in their work and judgment.~~

The insurer should establish a transparent organisational structure ~~of an insurer~~ which supports the strategic objectives and operations of ~~an~~the insurer. The board and senior management should know and understand the structure and the risks that it poses.

The ways in which an insurer chooses to organise and structure itself can vary depending on a number of factors such as:

- jurisdictional corporate law, which may require one-tier or two-tier Boards;
- organisational structure such as stock companies, mutuals or co-operatives; and
- group, branches, or solo legal entity operations.

These considerations can affect how an insurer establishes and implements its corporate governance framework and are explained in more detail below. It is important for supervisors to understand these different considerations in order to be able to adequately assess the effectiveness of an insurer's corporate governance framework.[1]

7.0.4 The standards on corporate governance ~~standards~~ are designed with sufficient flexibility to apply to supervision of insurers regardless of any differences in the corporate structures and legal systems ~~that prevail in the "jurisdiction of incorporation" or "domicile of operations" of insurers. The application of corporate governance standards in this document by both insurers and supervisors should reflect the nature, scale and complexity of the business of the insurer~~.

One-tier and two-tier Boards

Comment [RW4]: New subheading and new 7.0.5 to better connect and explain the material under introductory guidance.

Comment [TmA5]: Moved to new 7.0.2

Comment [TmA6]: Cf BCBS Principles (Principle 5)

Comment [TmA7]: Cf Issues Paper on approaches to group governance

7.0.5 While some jurisdictions adopt a one-tier ~~(unicameral)~~ board system, in other jurisdictions a two-tier ~~(bicameral)~~ board system is used. In a one-tier system, there is one board comprised of both executive ~~(internal)~~ and non-executive ~~(external or independent)~~ directors. In a two-tier system, there are two boards: ~~; i.e.~~ the supervisory ~~or external board (comprised of external independent or non-executive directors)~~ and the management ~~or internal~~ board~~(comprised of internal or executive directors)~~.

7.0.6 A reference to the Board ~~in these standards, unless otherwise specified,~~ should be taken as a reference to the entire Board. However, in a two-tier system, oversight responsibilities of the Board should generally be applied to the supervisory ~~or external~~ board, whereas the ~~internal~~ management board, to the extent it assumes day-to-day management functions of the insurer, shares the responsibilities allocated to the Senior Management. In a one-tier system, the references to the Board and Senior Management follows the oversight and management roles performed by these functions respectively.

Mutuals and co-operatives

7.0.7 Governance of insurers formed as mutuals or co-operatives is different from that of insurers formed as joint stock companies (i.e., bodies corporate). ~~In these mutuals and co-operative structures, the insurer is collectively owned (and/or controlled) by policyholders, thereby reducing the divergence of interests that arise in corporate structures between shareholders and policyholders.~~ These standards are nevertheless sufficiently flexible to be adapted to mutuals and co-operatives to promote the alignment of actions and interests of the Board and Senior Management with the broader interests of policyholders~~, consistent with sound corporate governance practices~~. Where there are references to shareholders or stakeholders, they should be generally treated as references to policyholders in mutuals, unless otherwise indicated.

Insurance Groups ~~structures~~

7.0.8 Insurance groups should ensure that the corporate governance framework is appropriate to the structure, business and risks of the insurance group and the legal entities. ~~have and implement group-wide governance policies for their subsidiaries. It is expected that where an insurer adopts group-wide corporate governance policies and practices, such group-wide policies and practices should meet the requirements and objectives of these standards at the legal entity level, taking into account the nature, scale and complexity of the operations of the legal entity and any group wide risks that affect the entity.~~ The corporate governance framework should include

Comment [NM8]: In 7.0.5. and other places GWG has deleted "external" and "independent". GWG suggests to use only 'executive' or 'non-executive' directors.

Comment [TmA9]: Deleted, because we deleted the specific references to two tier boards.

policies, processes and controls which address risks across the insurance group and legal entities

7.0.9 When setting up or evaluating their corporate governance framework, insurance groups should be aware of the specific challenges which might arise from the organisational model adopted by a group (e.g. centralised or decentralised model). The main factors underlying the challenges are:

- the division of authorities and responsibilities between the key players at the insurance group and legal entity level;
- effective group-wide direction and coordination;
- proper consideration of the risks, legal obligations and governance responsibilities both at the insurance group and legal entity level; and
- effective communication within the group and adequate information at all levels.[2]

7.0.10 The supervisor should take the organisational structure of the group into consideration in evaluating its governance. Particularly when the management structure differs from the legal entity structure, it is not sufficient to assess governance only at the legal entity level. In such a case, it is important that appropriate governance exists across the group and that the supervisor assesses this on a group-wide basis.

Branch operations

~~7.0.10~~7.0.11 If an insurer is a branch ~~operation~~, these standards would generally apply to the legal entity in its home jurisdiction. However, the host supervisor may require designated oversight and/or management accountabilities and structures to be maintained at the branch, including in some cases a designated representative responsible for the management of the branch ~~operation~~. In such cases, these standards should also apply, as appropriate, to the oversight and management roles maintained within the branch ~~operation~~ taking due account of the governance structures and arrangements as determined by the host supervisor.

~~*Remuneration policy and practices*~~

~~7.0.11 Sound remuneration practices are part of sound corporate governance of an insurer. This standard and guidance are~~

Comment [NM10]: Cf BCBS para 95

Comment [TmA11]: Included some conclusions of the Issues Paper here. Original 7.0.9. moved down to 7.0.11

Comment [NM12]: Moved to new Guidance 7.9.1

Comment [IAIS13]: Previous 7.0.10. Not deleted – moved to new Guidance 7.9.1

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[2] See Issues Paper, Approaches to Group Corporate Governance; impact on control functions, October 2014.

~~neither intended to unduly restrict nor reduce an insurer's ability to attract and retain skilled talent by prescribing any particular form or level of individual remuneration. Rather, they aim to promote the alignment of remuneration policies with the long term interests of insurers to avoid excessive risk taking, thereby promoting sound overall governance of insurers and fair treatment of customers. The standard and guidance apply to the supervision of remuneration policies and practices of all insurers, especially where variable remuneration is used, taking into account the nature, scale and complexity of the business of the insurer.~~

Appropriate allocation of oversight and management responsibilities

Comment [TmA14]: Order of 7.1 and 7.2 changed, because it is more logic to talk first about the responsibilities in general and then about the specific responsibilities

7.1 The supervisor requires the insurer's Board to:

Comment [NM15]: Previous 7.2 with Guidance. Reversed order.

- **ensure that the roles and responsibilities allocated to the Board, Senior Management and Key Persons in Control Functions are clearly defined so as to promote an appropriate separation of the oversight function from the management responsibilities; and**
- **provide adequate oversight of the Senior Management.**

7.1.1 The Board should ensure that the insurer has a well-~~-~~defined governance structure which provides for the effective separation between oversight and management functions. ~~In some jurisdictions, notably those which adopt two-tier systems, such a separation is required by law~~. The Board is responsible for providing the overall strategy and direction for the insurer and overseeing its proper overall management, while leaving the day-to-day management of the insurer to ~~key executives and~~senior management. The separation of the roles of the Chair of the Board and the Chief Executive Officer (CEO) ~~is also commonly used as an effective means for~~ reinforc~~ing~~e a clear distinction between accountability for oversight and management.

Comment [TmA16]: Deleted. Two-tier structures already addressed in the introductory guidance

7.1.2 The Board should also ensure that there is a clear allocation of roles and responsibilities to the Board as a whole, to committees of the Board where they exist, and to the Senior Management and Key Persons in Control Functions to ensure proper oversight and sound~~of the~~ management of the insurer. The allocation of roles and responsibilities should ~~also~~ clearly identify the individual and collective accountabilities for the discharge of the respective roles and responsibilities. The organisational structure of the insurer and the assignment of responsibilities should enable the Board and Senior Management to carry out their roles in an adequate and objective manner and should facilitate effective decision making.

Comment [TmA17]: Cf para 21 BCBS

~~7.1.2 Where an insurer has a one-tier Board comprising both executive and non-executive directors, t~~The allocation of responsibilities to individual Board members (for example the membership of ~~certain~~

Board committees ~~of the Board~~ such as the audit or remuneration committee) should take due account of whether the relevant member has the degree of independence and objectivity required to carry out the functions of the particular committee. ~~As non-executive members of the Board are not involved in the day-to-day management of the insurer, they are more suited to perform~~ ~~t~~The effective oversight of the executive functions should be performed by the non-executive members of the Board, because they are not involved in the day-to-day management of the insurer. ~~In two-tier systems, the allocation of responsibilities to individuals should similarly reflect the roles played by such individuals as members of the supervisory or executive boards.~~

Comment [TmA18]: Made consistent with 7.1.2.

Comment [E19]: Deleted. Duplicates introductory guidance

7.1.3 Within a group the allocation and division of ~~–~~the oversight and management responsibilities at different levels should be transparent, appropriate for, and aligned with, the organisational model of the group.[3]

~~7.1.3~~7.1.4 In order to provide effective oversight of the Senior Management, the Board should:

- ensure that there are adequate policies and procedures relating to the appointment~~engagement~~, dismissal and succession of the Senior Management, and be actively involved in such processes;
- ensure that senior management's knowledge and expertise remain appropriate given the nature of the business and the insurer's risk profile;
- monitor whether the Senior Management is managing the affairs of the insurer in accordance with the strategies and policies set by the Board, ~~including~~ and the insurer's risk appetite, corporate values and corporate culture;
- set appropriate performance and remuneration standards for senior management consistent with the long-term strateg~~iy~~~~ve~~ and the financial soundness of the insurer and monitor whether the Senior Management is meeting the performance goals set by the Board; ~~and~~
- regularly meet with the Senior Management to discuss and review critically the decisions made, information provided and any explanations given by the Senior Management relating to the business and operations of the insurer~~.~~; and
- have regular interaction with any committee it establishes as well as with other key functions, proactively request

Comment [NM20]: Cf para 44 BCBS

Comment [NM21]: Para 43-44 BCBS

[3] See Issues Paper, Approaches to Group Corporate Governance; impact on control functions, October 2014, para 43-44.

information from them and challenge that information when necessary.

~~7.1.4~~7.1.5 As a part of its regular monitoring and review of the insurer's operations, the Board should review whether the relevant policies and procedures, as set by the Board, are being properly implemented by Senior Management and are operating as intended. Particular attention should be paid as to whether the responsibilities for managing and implementing the policies of the Board have been effectively discharged by those responsible. The Board should obtain reports at least annually for this purpose and such reports may include internal or external independent reports as appropriate.

Corporate culture, business ~~O~~ objectives and strategies ~~and corporate culture~~ of the insurer

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, ~~including its risk strategy and risk appetite~~, in line with the insurer's long term interests and viability.

7.2.1 The Board should adopt a rigorous process for setting (including approving), and overseeing the implementation of the insurer's overall business objectives and ~~risk~~ strategies, taking into account the long term financial safety and soundness of the insurer as a whole, ~~and~~ the ~~legitimate~~ interests of its policyholders and other stakeholders, ~~including~~ and the fair treatment of customers. These objectives and strategies should be adequately documented and properly communicated to its Senior Management, Key Persons in Control Functions and all other relevant staff ~~of the insurer~~.

~~7.2.1~~7.2.2 The effective implementation of objectives and strategies should be supported by the corporate culture and by clear and objective performance goals and measures, taking due account of, among other things, the insurer's long term interests and viability and the interests of policyholders and other stakeholders. The Board should review the appropriateness of the goals and measures set.

~~7.2.2~~7.2.3 ~~The Board should promote~~ ~~A~~a ~~sound~~ corporate culture ~~by setting~~reflects the fundamental corporate values~~,~~ and includes ~~which~~ norms for responsible and ethical behaviour applicable to~~, for~~ all employees of the insurer. The Board should ~~ensure its effectiveness by~~ tak~~e~~ing ~~a~~the lead in setting the appropriate "tone at the top"~~, including by setting the fundamental corporate values for the insurer~~. This i~~e~~ncludes adherence to the corporate values by the Board and a strong risk culture avoiding excessive risk taking ~~[add sentence about interests of policyholdes and other relevant stakeholders]~~. The~~se~~ corporate values, norms and supporting policies should be communicated throughout the insurer. These are also ~~and~~ reflected in the insurer's business objectives and strategies,

Comment [IAIS22]: See comment with standard 7.1.

Comment [NM23]: Previous 7.1/reversed order

Comment [NM24]: Moved to standard on risk management

Comment [TmA25]: Not only related to risk. Consistent use

Comment [NM26]: Parts of original 7.1.4

Comment [TmA27]: Cf BCBS para 27-28

and ~~be~~ supported by professional standards and codes of ethics that set out what the insurer considers to be acceptable and unacceptable conduct. In this regard, the Board should take account of the interests of policyholders and other relevant stakeholders. In setting t~~T~~he ‘tone at the top’ the Board should~~of the Board includes~~ ensur~~ing~~e that employees are aware~~ness throughout the insurer of~~that appropriate disciplinary or other actions will follow ~~enforcement and sanctioning in case of~~ unacceptable behaviours ~~and non-adheranceto the corporate values~~. ~~In this regard, the Board should take account of the nature of the insurer's businessinterests of depositors, shareholders and relevant stakeholders and the role it plays in the wider financial system.~~

7.2.4 The Board should ensure that the corporate ~~values~~culture promotes timely and frank discussion and escalation of problems to senior management or itself. The Board should set and oversee the implementation of transparent policies and processes which promote and facilitate that employees can communicate concerns or information about illegal or unethical behaviour confidentially and without reprisal directly or indirectly to the Board (e.g. whistle blower policy). The Board should determine how and by whom legitimate concerns shall be investigated and addressed (senior management, Board or an external party).

7.2.5 The Board should define and oversee the implementation of norms for responsible and ethical behaviour. It should not allow behaviour that would be incompatible with the protection of policyholders and that could lead to reputational risks or improper or illegal activity, such as financial misreporting, fraud, money laundering, bribery and corruption. The norms for responsible and ethical behaviour should also make clear that employees are expected to conduct themselves ethically in addition to complying with laws, regulations and the insurer's policies.

~~7.2.3~~7.2.6 The Board should ensure that the insurer's corporate governance framework and overall business objectives and strategies are reviewed at least annually to ensure that they have been properly implemented and that they remain appropriate in light of any material changes in ~~internal or external business and operating conditions~~the organisational structure, activities, strategy, and regulatory and other external factors. The Board should ensure more frequent reviews, for instance when an insurer embarks on a significant new business initiative (e.g. a merger or acquisition, or a material change in the direction with respect to the insurer's product portfolio, risk or marketing strategies), upon the introduction of a new type or class of risk or product or a decision to market products to a new class or category of clients, or following the occurrence of significant external or internal events which may potentially have a material impact on the insurer (including its~~the~~ financial condition, objectives and strategies ~~of the insurer~~) or the interests of its policyholders or other stakeholders.

Comment [TmA28]: Cf BCBS para 30

Comment [RW29]: Cf BCBS para 25

Comment [TmA30]: ICP 7 is about the protection of policyholders. We use stakeholders in combination with policyholders in this ICP. So added here as well for consistency.

~~7.2.4~~7.2.7 ~~The Board should establish clear and objective performance goals and measures, both for the insurer and its Senior Management, to promote the effective implementation of the insurer's business objectives and risk strategies, taking due account of, among other things, the insurer's long term interests and viability. Where performance goals and measures are developed by the internal or management board in a two-tier system, the external or supervisory board should review the appropriateness of the goals and measures set. The Board as a whole (i.e. including the external or supervisory board in a two-tier system) should also assess, at suitable intervals, whether those performance goals are achieved against the set performance measures for the Senior Management.~~

Comment [NM31]: Original 7.1.4. Parts included in new 7.2.2.

Structure and governance of the Board

7.3 The supervisor requires the insurer's Board to have, on an on-going basis:

- **an appropriate number and mix of individuals to ensure that there is an overall adequate level of ~~knowledge, skills and expertise~~competence at the Board level commensurate with the governance structure~~ and the nature, scale and complexity of the insurer's business~~;**
- **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; and**
- **adequate powers and resources to be able to discharge its duties fully and effectively.**

Board composition

7.3.1 The Board of an insurer should have a sufficient number of members who have relevant expertise among them as necessary to provide effective leadership, direction and oversight of the insurer's business to ensure it is conducted in a sound and prudent manner. For this purpose, the Board should collectively and individually have, and continue to maintain, including through training, necessary skills, knowledge and understanding of the insurer's business to be able to fulfil their roles. In particular, the Board should have, or have access to, knowledge and understanding of areas such as the lines of insurance underwritten by the insurer, actuarial and underwriting risks, finance, accounting, the role of control functions, investment analysis and portfolio management and obligations relating to fair treatment of customers. While certain areas of expertise may lie in some, but not all, members, the collective Board should have an adequate spread and level of relevant competencies and understanding as appropriate to the insurer's business.

7.3.2 Board members ~~should meet the suitability requirements set out in ICP 5 Suitability of Persons. In addition, they~~ should have the commitment necessary to fulfil their roles, demonstrated by, for example, a sufficient allocation of time to the affairs of the insurer and reasonable limits on the number of ~~external~~ Board memberships held within or outside the insurance group.

7.3.3 Board members should avoid commercial or business interests which conflict with that of the insurer. Where it is not reasonably possible to avoid conflicts of interests, such conflicts should be effectively managed. Procedures and written policies should be in place to identify and address conflicts of interests which could include disclosure of potential conflicts of interests, requirements for arm's length transactions and, where appropriate, prior approval by the Board or shareholders of such transactions.

Board effectiveness

7.3.4 The Board should review, at least annually, its own performance to ascertain whether members collectively and individually remain effective in discharging the respective roles and responsibilities assigned to them and identify opportunities to improve the performance of the Board as a whole. The Board should implement appropriate measures to address any identified inadequacies, including any training programmes for Board members. The Board may also consider the use of external expertise from time to time to undertake its performance assessment where appropriate in order to enhance the objectivity and integrity of that assessment process.

Internal governance

7.3.5 The Board should have appropriate practices and procedures for its own internal governance, and ensure that these are followed and periodically reviewed to assess their effectiveness and adequacy. These may be included in organisational rules or by-laws, and should set out how the Board will carry out its roles and responsibilities. They should also cover a formal and documented process for nomination, selection and removal of Board members, and a specified term of office as appropriate to the roles and responsibilities of the Board member, particularly to ensure the objectivity of decision making and judgment. Appropriate succession planning should also form part of the Board's internal governance practices.

Chair of the Board

7.3.6 While the Board as a whole remains collectively responsible for the stewardship of the insurer, the Chair of the Board has the pivotal

Comment [NM32]: To align paragraph to 5.2.2. and 5.3.3. (cf FSB SA)

Comment [TmA33]: Deleted for clarity. (Referts to Board memberships in other companies/organisations, or elsewhere in the Group).

Comment [TmA34]: Cf BCBS 81

role of providing leadership to the Board for its proper and effective functioning. The role of the Chair of the Board should generally encompass responsibilities such as setting the Board's agenda, ensuring that there is adequate time allocated for the discussion of agenda items, especially if they involve strategic or policy decisions of significant importance, and promoting a culture of openness and debate by facilitating effective participation of non-executive and executive members and communication between them and also with the Senior Management and Key Persons in Control Functions. To promote checks and balances, the Chair of the Board should be a non-executive Board member and should not serve as chair of any Board committee.

Board Committees

7.3.7 To support the effective discharge of the responsibilities of the Board, the Board should assess whether the establishment of committees of the Board is appropriate. Committees that a Board may commonly establish ~~, depending on the nature, scale and complexity of operations of the insurer,~~ include ~~the~~ audit, remuneration, ethics/compliance, nominations and risk management committees. Where committees are appointed, they should have clearly defined mandates and working procedures (including reporting to the Board), authority to carry out their respective functions, and ~~the~~ a degree of independence and objectivity as appropriate to the role of the committee. The Board should consider occasional rotation of members and of the chairs of committees, or tenure limits to serve on a committee, as this can help to avoid undue concentration of power and promote fresh perspectives. If the functions of any committees are combined, the Board should ensure such a combination does not compromise the integrity or effectiveness of the functions combined. In all cases, the Board remains ultimately responsible for matters delegated to any such committees.

Independence and objectivity

7.3.8 The Board should establish clear and objective independence criteria which should be met by a sufficient number of members of the Board to promote objectivity in decision making by the Board (i.e. non-executive Board members). For this purpose, the independence criteria should also take account of group structures and other applicable factors. Meeting such criteria is particularly important for those Board members undertaking specific roles (such as members of the remuneration and audit committees) in which conflicts of interests are more likely to arise. Board members should also bear in mind the duties of good faith and loyalty applicable to them at the individual level, as set out in Standard 7.4.

Comment [TmA35]: Cf BCBS 63

Board powers

7.3.9 To be able to discharge its role and responsibilities properly, the Board should have well-defined powers, which are clearly set out either in ~~the~~ legislation and/or as part of the constituent documents of the insurer (such as the constitution, articles of incorporation or organisational rules). These should, at a minimum, include the power to obtain timely and comprehensive information relating to the management of the insurer, including direct access to relevant persons within the organisation for obtaining information, such as the Senior Management and Key Persons in Control Functions.

Access to resources

7.3.10 ~~Funding and other resources~~ Resources, such as adequate funding, staff and facilities, should be allocated to the Board to enable the Board members to carry out their respective roles and responsibilities efficiently and effectively. The Board should have access to services of external consultants or specialists where necessary or appropriate, subject to due procedures for appointment and dismissal of such consultants or specialists.

Delegations

7.3.11 The Board may~~, as appropriate to the nature, scale and complexity of the insurer's business,~~ delegate some of the activities or tasks associated with its own roles and responsibilities. (Delegations in this context are distinguished from outsourcing of business activities by the insurer, which is dealt with in ICP 8 Risk Management and Internal Controls.) Notwithstanding such delegations, the Board as a whole retains the ultimate responsibility for the activities or tasks delegated, and the decisions made in reliance on any advice or recommendations made by the persons or committees to whom the tasks were delegated.

~~7.3.11~~7.3.12 Where the Board makes any delegations, it should ensure that:

Comment [RW36]: No change in text – just split into 2 paragraphs for easier reading.

- the delegation is appropriate. Any delegation that results in the Board not being able to discharge its own roles and responsibilities effectively would be an undue or inappropriate delegation. For example, the duty to oversee the Senior Management should not be delegated to a Board committee comprised mostly or solely of executive members of the Board who are involved in the day-to-day management of the insurer;
- the delegation is made under a clear mandate with well-defined terms such as those relating to the powers, accountabilities and procedures relating to the delegation,

and is supported by adequate resources to effectively carry out the delegated functions;

- there is no undue concentration of powers giving any one person or group of individuals an unfettered and inappropriate level of powers capable of influencing the insurer's business or management decisions;
- it has the ability to monitor and require reports on whether the delegated tasks are properly carried out; and
- it retains the ability to withdraw the delegation if it is not discharged properly and for due purposes by the delegate, and, for this purpose, have appropriate contingency arrangements in place.

Duties of individual Board members

7.4 The supervisor requires ~~the~~ that individual members of the Board ~~to~~:

- **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.**

7.4.1 The specific duties identified above are designed to address conflicts of interests that arise between the interests of the individual members of the Board and those of the insurer and policyholders. The insurer should include these duties as part of the Board charter or mandate containing the terms of engagement of the individual Board members.

7.4.2 The supervisor should be satisfied that individual Board members understand the nature and scope of their duties and how they impact on the way in which the member discharges his/her respective roles and responsibilities. A Board member should consider his/her ability to discharge the roles and responsibilities in a manner as would be expected of a reasonably prudent person placed in a similar position. He/she should act on a fully informed basis, and for this purpose continually seek and acquire information as necessary.

7.4.3 Where a member of the Board of an insurer has common membership on the Board of any other entity within or outside the insurer's group, there should be clear and well defined procedures that require the member of the insurer's Board to act in the best interests of the insurer, putting the insurer's and policyholders interests ahead of that of any other entity or that of his/her own. These may include appropriate disclosure and in some instances shareholder approval of such overlapping roles. In the event of a material conflict with the interests of the insurer, the member should disclose such conflicts promptly to the Board of the insurer and its stakeholders as appropriate, and be required to decline to vote or take any decisions in any matters in which he/she has an interest.

Duties related to r~~R~~isk management and internal controls ~~systems and functions~~

7.5 The supervisor requires the insurer's Board to provide oversight in respect of the design and implementation of ~~sound~~ risk management and internal controls ~~systems and functions~~.

7.5.1 It is the Board's responsibility to ensure that the insurer has appropriate systems and functions for risk management and ~~overall~~ internal controls and to provide oversight to ensure that these systems and the functions that oversee them are operating effectively and as intended. The responsibilities of the Board are described further in ICP 8 (Risk Management and Internal Controls).

7.5.2 ~~ICP 8 Risk Management and Internal Controls sets out the elements of these systems and functions. These systems and functions should cover not only prudential risks but also conduct of business risks, which are described in ICP 19 Conduct of Business.~~

Comment [NM37]: Deleted because it only states what is in ICP 8.

Duties related to r~~R~~emuneration policy and practices

7.6 The supervisor requires the insurer's Board to:

- **adopt and oversee the effective implementation of a written remuneration policy for the insurer, which does not induce excessive or inappropriate risk taking, is in line with the corporate culture, objectives, strategies, ~~corporate culture,~~ identified risk appetite, ~~the desired corporate culture~~ and long term interests of the insurer, and has proper regard to the interests of its policyholders and other stakeholders; and**
- **ensure that such a remuneration policy, at a minimum, covers those individuals who are members of the Board, Senior Management, Key Persons in Control Functions and other employees whose actions may have a material impact on the risk exposure of the insurer (major risk–taking staff).**

Comment [NM38]: Added for clarification and facilitate review by supervisor

Comment [TmA39]: Added to clarify that this applies also at group and entity level

7.6.1 Sound remuneration policy and practices are part of ~~sound~~ the corporate governance of an insurer. This standard and guidance are

Comment [NM40]: Original Guidance 7.0.10.

neither intended to unduly restrict nor reduce an insurer's ability to attract and retain skilled talent by prescribing any particular form or level of individual remuneration. Rather, they aim to promote the alignment of remuneration policies with the long term interests of insurers to avoid excessive risk taking, thereby promoting sound overall governance of insurers and fair treatment of customers. The standard and guidance apply to the supervision of remuneration policies and practices of all insurers, especially where variable remuneration is used, taking into account the nature, scale and complexity of the business of the insurer.

Overall remuneration strategy and oversight

~~7.6.1~~7.6.2 As a part of effective risk management, an insurer should adopt and implement a prudent and effective remuneration policy. Such a policy should not encourage individuals, particularly members of the Board and Senior Management, Key Persons in Control Functions and major risk-taking staff, to take inappropriate or excessive risks, especially where performance~~-~~ based variable remuneration is used.

~~7.6.2~~7.6.3 The Board, particularly members of the remuneration committee where one exists, should collectively have the requisite competencies to make informed and independent judgments on the suitability of an insurer's remuneration policy. Such competencies include skills, such as a sufficient understanding of the relationship between risk and remuneration practices. The remuneration committee, where established, should have an adequate representation of ~~independent~~ non-executive members to promote objectivity in decision-making.

~~7.6.3~~7.6.4 The Board should ultimately be satisfied that the overall remuneration policy and practices are consistent with the identified risk appetite, the ~~corporate~~ risk culture and the long term interests of the insurer and its policyholders and other stakeholders. For this purpose, appropriate consideration should be given by the Board to relevant elements of the remuneration policy and structure, such as:

- the components of the overall remuneration policy, particularly the use and balance of fixed and variable components ~~and the provision of other benefits;~~
- the performance criteria and their application for the purposes of determining remuneration payments;
- the ~~individual~~ remuneration of the members of the Board and Senior Management, including the CEO and~~,~~ ~~the structure of remuneration~~ of major risk-taking staff; and
- any reports or disclosures on the insurer's remuneration practices provided to the supervisor or the public.

Comment [TmA41]: Added for consistency: see standard 7.6. To be considered by ICP Review Task Force.

Comment [TmA42]: Deleted as benefits are included in fixed or variable remuneration.

Comment [TmA43]: Simplified to clarify the guidance. Difference between the individual remuneration and the structure of the remuneration was unclear.

~~7.6.4~~7.6.5 The Board should ensure that in structuring, implementing and reviewing the insurer's remuneration policy, the decision-making process identifies and manages conflicts of interests and is properly documented. Any member of the Board should not be placed in a position of actual or perceived conflicts of interests in respect of remuneration decisions.

~~7.6.5~~7.6.6 The Board should also ensure that the relevant Key Persons in Control Functions are involved in the remuneration policy-setting and monitoring process to ensure that remuneration practices do not create incentives for excessive or inappropriate risk taking, are carried out consistently with established policies and promote alignment of risks and rewards across the organisation. Similarly, the remuneration and risk management committees of the Board, if such committees exist, should interact closely with each other and provide input to the Board on the incentives created by the remuneration system and their effect on risk-taking behaviour.

~~7.6.6~~7.6.7 The potential for conflicts of interests that may compromise the integrity and objectivity of the staff involved in control functions should be mitigated. This can be achieved by a variety of means, such as making their remuneration:

- predominantly based on the effective achievement of the objectives appropriate to such control functions. Performance measures for staff in control functions should represent the right balance between objective assessments of the control environment (e.g. the conduct of the relationship between the control functions and executive management) and outputs delivered by the control functions, including their impact, quality and efficiency in supporting the oversight of risks. Such output measures may include recommendations made and implemented to reduce risks, reduction in number of compliance breaches and measures adopted to promptly rectify identified breaches, results of external quality reviews and losses recovered or avoided through audits of high risk areas;
- not linked to the performance of any business units which are subject to their control or oversight. For example, where risk and compliance functions are embedded in a business unit, a clear distinction should be drawn between the remuneration policy applicable to staff undertaking control functions and other staff in the business unit, such as through the separation of the pools from which remuneration is paid to the two groups of staff; and
- adequate as an overall package to attract and retain staff with the requisite skills, knowledge and expertise to discharge those control functions effectively and to increase their competence and performance.

~~7.6.7~~7.6.8 Where any control function is outsourced, the remuneration terms under the agreement with the service provider should be consistent with the objectives and approved parameters of the insurer's remuneration policy.

Variable remuneration

~~7.6.8~~7.6.9 Variable remuneration should be performance-based using measures of individual, unit or group performance that do not create incentives for inappropriate risk taking.

~~7.6.9~~7.6.10 To better align performance-based incentives with the long term value creation and the time horizon of risks to which the insurer may be exposed, due consideration should be given to the following:

- There should be an appropriate mix of fixed and variable components, with adequate parameters set for allocating cash versus other forms of remuneration, such as shares. A variable component linked to performance that is too high relative to the fixed component may make it difficult for an insurer to reduce or eliminate ~~bonuses~~ variable remuneration in a poor financial year;
- The reward for performance should include an adjustment for the material current and future risks associated with performance. Since the time horizon of performance and associated risks can vary, the measurement of performance should, where practicable, be set in a multi-year framework to ensure that the measurement process is based on longer term performance;
- If the variable component of remuneration is significant, the major part of it should be deferred for an appropriate specified period. The deferral period should take account of the time frame within which risks associated with the relevant performance (such as the cost of capital required to support risks taken and associated uncertainties in the timing and the likelihood of future revenues and expenses) may materialise. The deferral period applied may vary depending on the level of seniority or responsibility of the relevant individuals and the nature of risks to which the insurer is exposed;
- The award of ~~bonuses~~variable remuneration should contain provisions that enable the insurer, under certain circumstances, to apply malus or claw back arrangements in the case of subdued or negative financial performance of the insurer which is attributed to the excessive risk taking of the staff concerned and when risks of such ~~the individual~~ performance ~~(or activities?)~~ have manifested after the award of variable remuneration; and

- Guaranteed variable remuneration ~~bonuses~~ should generally not be offered, as they are not consistent with sound risk management and performance-based rewards.

~~7.6.10~~7.6.11 The variable component should be subject to prudent limits set under the remuneration policy that are consistent with the insurer's capital management strategy and its ability to maintain a sound capital base taking account of the internal capital targets or regulatory capital requirements of the insurer.

~~7.6.11~~7.6.12 The performance criteria applicable to the variable components of remuneration should promote a complete assessment of risk-adjusted performance. For this purpose, due consideration should be given to the need for performance criteria to:

- be clearly defined and be objectively measurable;
- be based not only on financial but also on non-financial criteria as appropriate (such as compliance with regulation and internal rules, achievement of risk management goals, adequate and timely follow up of internal audit recommendations as well as compliance with market conduct standards and fair treatment of customers~~policyholders and claimants~~);
- take account of not only the individual's performance, but also the performance of the business unit concerned where relevant and the overall results of the insurer and the group; and
- not treat growth or volume as a criterion in isolation from other performance criteria.

Share-based components

~~7.6.12~~7.6.13 Where share-based components of variable remuneration (such as shares, share options or similar instruments) are used, appropriate safeguards should be implemented to align incentives and the longer-term interests of the insurer. Such safeguards may include that:

- shares do not vest for a minimum specified period after their award ("vesting restrictions");
- share options or other similar rights are not exercisable for a minimum specified period after their award ("holding restrictions"); and
- individuals are required to retain an appropriate proportion of the shares awarded until the end of their employment or other specified period beyond their employment ("retention restrictions").

Comment [TmA44]: Should we not use 'customers' here instead of policyholders? Everywhere else where we talk about 'fair treatment' we use the word 'customer' (see also 7.3.1 and 7.6.1.)
Claimants are included in the definition of 'policyholders' as well as 'customers'
See Glossary and Para 1 of the ICP Introduction.

~~7.6.13~~7.6.14 Subject to any applicable legal restrictions, it is appropriate that future vesting and holding restrictions for share-based remuneration remain operative even upon cessation of employment (i.e. there should be no undue acceleration of the vesting of share-based payments or curtailing of any holding restrictions).

Severance payments

~~7.6.14~~7.6.15 Where an insurer provides discretionary payouts on termination of employment ("severance payments", sometimes also referred to as "golden parachutes"), such payment should ~~generally~~ be subject to appropriate governance controls and limits. In any case, such payouts should be aligned with the insurer's overall financial condition and performance over an appropriate time horizon. Severance payments should be related to performance over time; should not reward failure and should ~~generally~~ not be payable in the case of failure or threatened failure of the insurer, particularly to an individual whose actions have contributed to the failure or potential failure of the insurer.

Comment [TmA45]: See FSB principles on sound remuneration practices (which apply also to insurers) standard 12: designed in a way that does not reward failure

Reliable and transparent financial reporting [revised/shortened/moved some content to new 7.8 – following revisions related to external audit agreed with AAWG in 2014]

Comment [NM46]: All edits below agreed with AAWG in 2014

7.7 The supervisor requires the insurer's Board to ensure there is a reliable financial reporting process for both public and supervisory purposes ~~which~~ that is supported by clearly defined roles and responsibilities of the Board, Senior Management and the external auditor.

7.7.1 The Board is responsible for having adequate systems and controls to ensure that the financial reports of the insurer present a balanced and accurate assessment of the insurer's business and its general financial health and viability as a going concern.

~~In discharging this responsibility, the Board should carry out specific oversight functions. To increase its effectiveness, many insurers have an Audit Committee of the Board for this purpose. Where this is not practicable, t~~The Board, or the Audit Committee, ~~as a whole,~~ carries out ~~these~~ functions~~. These functions should~~ includ~~e~~inge:

- overseeing the financial statements, financial reporting and disclosure processes;
- monitoring whether accounting policies and practices of the insurer are operating as intended;
- overseeing the internal audit process (~~encompassing external audit and~~ reviews by internal audit of the insurer's

financial reporting controls) and reviewing the internal auditor's plans and material findings;

- reporting to ~~the Board (by the Audit Committee where one is established) and~~ the supervisor on significant issues concerning the financial reporting process, including ~~the circumstances relating to the resignation or removal of the external auditor and the~~ actions taken to address or mitigate identified financial reporting risks.

7.7.2 The Board should ensure that significant findings and observations regarding weaknesses in the financial reporting process are promptly rectified. This should be supported by a formal process for reviewing and monitoring the implementation of recommendations by the external auditor.

External Audit ***[New standard/moved and revised content from 7.7]***

Comment [NM47]: All edits below agreed with AAWG in 2014 following BCBS guidance on external audit

7.8 **The supervisor requires the insurer's Board to ensure that there is adequate governance and oversight of the external audit process.**

7.8.1 ~~The Board is responsible for having adequate systems and controls to ensure that the financial reports of the insurer present a balanced and accurate assessment of the insurer's business and its general financial health and viability as a going concern. In discharging this responsibility, the Board should carry out specific oversight functions. To increase its effectiveness, many insurers have an Audit Committee of the Board for this purpose. Where this is not practicable, the Board, as a whole, carries out these functions. These functions should include~~To ensure adequate governance and oversight, the Board, or the Audit Committee where one exists, should:

- apply~~ing~~ robust processes for approving, or recommending for approval, the appointment, reappointment, removal and remuneration of the external auditor;
- apply~~ing~~ robust processes for monitoring and assessing the independence of the external auditor and to ensure that the appointed external auditor has the necessary knowledge, skills, expertise, integrity and resources to conduct the audit and ~~properly~~ meet any additional regulatory requirements;
- monitor~~ing~~ and assess~~ing~~ the effectiveness of the external audit process throughout the audit cycle; ~~and~~
- investigate~~ing the~~ circumstances relating to the resignation or removal of an external auditor, and ensuring prompt actions are taken to mitigate any identified risks to the integrity of the financial reporting process, and

- report~~ing~~ to ~~the Board (by the Audit Committee where one is established) and~~ the supervisor on ~~significant issues concerning the financial reporting process, including the~~ circumstances relating to the resignation or removal of the external auditor~~ and the actions taken to address or mitigate identified financial reporting risks~~.

7.8.2 The Board should oversee the external audit process and safeguard and promote an effective relationship with the external auditor. For this purpose the Board should ensure that:

- the terms of engagement of the external auditor are clear and appropriate to the scope of the audit and resources required to conduct the audit and specify the level of audit fees to be paid;
- the auditor undertakes a specific responsibility under the terms of engagement to perform the audit in accordance with relevant international and local audit standards;
- there are adequate policies and a process to ensure the independence of the external auditor, including policies and processes that address:
  - ~~the auditor's compliance with~~ internationally accepted ethical and professional standards~~,~~ and, where applicable, the more stringent requirements applicable to audits of listed entities and public interest entities~~ in internationally accepted ethical and professional standards and with the more stringent requirements on quality control applicable to audits of listed entities in internationally accepted quality control standards~~;
  - restrictions and conditions for the provision of non-audit services which are subject to approval by the Board;
  - periodic rotation of members of the audit team and/or audit firm as appropriate; and
  - safeguards to eliminate or reduce to an acceptable level identified threats to the independence of the external auditor.
- there is adequate dialogue with the external auditor on the scope and timing of the audit to understand the issues of risk, information on the insurer's operating environment which is relevant to the audit, and any areas in which the Board may request for specific procedures to be carried out by the external auditor, whether as a part or an extension of the audit engagement;

- there is unrestricted access by the external auditor to information and persons within the insurer as necessary to conduct the audit.

7.8.3 In order to establish the degree of assurance that the Board can draw from the external auditor's report, the Board should also understand the external auditor's approach to the audit. This includes the assessment of the external auditor's ability to:

- identify and assess the risks of material misstatement in the insurer's financial statements, taking into consideration the complexities of insurance activities and the need for insurers to have a strong control environment;
- respond appropriately to the significant risks of material misstatement in the insurer's financial statements; and
- develop appropriate relationships with the internal audit function and the actuarial function.

The Board should take appropriate actions where doubts arise as to the reliability of the external audit~~or's opinion~~ process.

7.8.4 In order to enable the Board to carry out its oversight responsibilities and to enhance the quality of the audit, the Board should have an effective communication with the external auditor. This should include:

- regular meetings between the Board and the external auditor during the audit cycle, including meetings without management present; and
- prompt communication of any information regarding internal control weaknesses or deficiencies of which the external auditor becomes aware.

The Board should require the external auditor to report to it on all relevant matters.

7.8.5 The supervisor and the external auditor should have an effective relationship that includes appropriate communication channels for the exchange of information relevant to carrying out their respective statutory responsibilities.

7.8.6 The supervisor should require the external auditor to report matters that are likely to be of material significance. This would include material fraud, suspicion of material fraud and regulatory breaches or other significant audit findings identified in the course of the audit. Reports prepared by the external auditor for the insurer (e.g. such as management letters) should be made available to the supervisor. Such information should be provided to the supervisor without the need for prior consent of the insurer and the external auditor should be duly protected from liability for any information disclosed to the supervisor in good faith.

7.8.7 The supervisor should ~~have and exercise the power to~~ require a further audit by a different external auditor ~~or to have the auditor replaced~~ where necessary.

Comment [NM48]: Note that power to remove auditor is addressed in ICP 11, Standard 11.4

Transparency and communications

7.9 The supervisor requires the insurer's Board to have systems and controls to ensure the promotion of appropriate, timely and effective communications with the supervisor ~~and relevant stakeholders~~ on the governance of the insurer.

Comment [NM49]: Original Standard 7.8 with Guidance

Comment [RW50]: In order to retain the need for the Board to have appropriate mechanisms to communicate to the supervisor, suggest focusing this standard on that. **GWG is suggesting to move all guidance on disclosures to ICP 20.**

7.9.1 Communications with the supervisor ~~and other stakeholders~~ should promote effective engagement of the supervisor ~~and stakeholders~~ on the governance of the insurer to enable informed judgments about the effectiveness of the Board and Senior Management in governing the insurer.

7.9.2 Subject to any reasonable commercial sensitivities and applicable privacy or confidentiality obligations, the insurer's communication policies and strategies should include providing to the insurer's stakeholders information such as the following:

Comment [RW51]: **GWG suggests to move this guidance under ICP 20, Standard 20.9. Not deleted from ICP 7 until moved.**

- the insurer's overall strategic objectives, covering existing or prospective lines of business and how they are being or will be achieved;
- the insurer's governance structures, such as allocation of oversight and management responsibilities between the Board and the Senior Management, and organisational structures, including reporting lines;
- members of the Board and any Board committees, including their respective expertise, qualifications, track-record, other positions held by such members, and whether such members are regarded as independent;
- processes in place for the Board to evaluate its own performance and any measures taken to improve the Board's performance;
- the general design, implementation and operation of the remuneration policy;
- major ownership and group structures, and any significant affiliations and alliances; and
- material related-party transactions.

7.9.3 The supervisor may require more detailed and additional information relating to the insurer's corporate governance for supervisory purposes, which may include commercially sensitive information, such as assessments by the Board of the effectiveness of the insurer's governance system, internal audit reports and more detailed information on the remuneration structures adopted by the insurer for the Board, Senior Management, Key Persons in Control Functions and major risk-taking staff. The insurer's communication policies and strategies should enable such information to be provided to the supervisor in a timely and efficient manner. Supervisors should safeguard such information having due regard to the confidentiality of commercially sensitive information and applicable laws.

7.9.4 Disclosures of information on remuneration should be sufficient to enable stakeholders to evaluate how the remuneration system relates to risk and whether it is operating as intended. Relevant information may include:

- the operation of risk adjustments, including examples of how the policy results in adjustments to remuneration for employees at different levels;
- how remuneration is related to performance (both financial and personal business conduct) over time; and
- valuation principles in respect of remuneration instruments.

Comment [RW52]: See Comment above. GWG suggests moving this to guidance under ICP 20, Standard 20.9.

7.9.5 Appropriate quantitative information should also be made available to enable supervisors and stakeholders to evaluate the financial impact of the remuneration policy. Such information may include:

- the total cost of remuneration awarded in the period, analysed according to the main components such as basic salary, variable bonus and long-term awards;
- the total amount set aside in respect of deferred remuneration;
- adjustment to net income for the period in respect of remuneration awarded in previous periods;
- the total costs of all sign-on payments in the period and number of individuals to whom these relate; and
- the total costs of all severance payments in the period and number of individuals to whom these relate.

These amounts should be analysed by type of instrument (e.g. cash, shares, share options etc.) as applicable, and in a manner consistent with the key elements of the remuneration policy.

7.9.6 Disclosure of information on governance should be made on a regular (for instance, at least annually) and timely basis.

Duties of Senior Management

7.10 The supervisor requires the insurer~~'s Board~~ to ~~have appropriate policies and procedures to~~ ensure that Senior Management:

- **carries out the day-to-day operations of the insurer effectively and 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, ~~risk appetite and internal~~ ~~policies and procedures, risk appetite,~~ and ~~corporate culture, policies and procedures~~;**
- **promotes ~~a culture of~~ 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 including the monitoring and review of the performance and risk exposures of the insurer, and the performance of Senior Management; and**
- **~~provides to the relevant stakeholders and the supervisor the information required to satisfy the legal and other obligations applicable to the insurer or Senior Management;and.~~**
- **maintains adequate and orderly records of the internal organis~~z~~ation.**

7.10.1 Senior Management should implement appropriate systems and controls, ~~to ensure that they can effectively carry out the day-to-day management of the business of the insurer in order to achieve the insurer's business objectives and strategies, and in particular,~~ in accordance with the established ~~levels~~ risk appetite, ~~risk tolerance~~ and ~~the~~ corporate values and consistent with internal policies and procedures. ~~It should provide adequate oversight of those they manage.~~

~~7.10.1~~7.10.2 Such systems and controls should provide for organisation and decision-making in a clear and transparent manner that promotes effective management of the insurer. Senior Management's systems and controls should encompass:

- ~~clear and transparent~~ processes for engaging persons with appropriate competencies and integrity to discharge the functions ~~of~~ under ~~the~~ Senior Management, which include succession planning, on-going training and procedures for termination;
- clear lines of accountability and channels of communication between persons in Senior Management and Key Persons in Control Functions;
- proper procedures for the delegation of Senior Management functions and monitoring whether delegated functions are carried out effectively and properly, in accordance with the same principles that apply to delegations by the Board (see Guidance 7.3.11 and 7.3.12);

Comment [NM53]: Original Standard 7.9

Comment [TmA54]: For consistency with 7.1 and reinforce important risk appetite as highlighted in other standard-setting work.

Comment [NM55]: Or Policyholder? For the ICP Review Task Force to ensure consistency in use of terminology

Comment [TmA56]: Given suggested change to the standard on disclosure, this could be a point made under guidance in ICP 20, Standard 20.9.

Comment [TmA57]: Repeats standard

Comment [TmA58]: Cf BCBS 90

Comment [U159]: Cf BCBS para 87

- standards of conduct and codes of ethics for the Senior Management and other staff to promote a sound corporate culture, ~~,~~ and the effective implementation on an on-going basis of standards and codes (see ICP 8 Risk Management and Internal Controls for conflicts of interest provisions);
- proper channels of communications, including clear lines of reporting, as between the individuals performing the functions of the Senior Management and the Board, including provisions dealing with whistleblower protection, and their effective implementation; and
- effective communication strategies with supervisors and stakeholders that include the identification of matters that should be disclosed, and to whom such disclosure should be made.

~~7.10.2~~7.10.3 ~~Senior Management should also ensure that there are~~ ~~A~~Adequate procedures should be in place for assessing the effectiveness of Senior Management's ~~their~~ performance against the performance objectives set by the Board. For this purpose, annual assessments of their performance against set goals should be carried out at least annually, preferably by an independent party, a control function, or the Board itself. Any identified inadequacies or gaps should be addressed promptly and reported to the Board.

~~7.10.3~~7.10.4 Senior Management should also promote strong risk management and internal controls through personal conduct and transparent policies. Senior management should communicate throughout the insurer the responsibility of all employees in this respect~~.~~. It should not interfere with the activities that control functions carry out in the rightful exercise of their responsibilities, including that of providing an independent view of governance, risk, compliance and control related matters.

Supervisory review

7.11 The supervisor ~~has the power to~~ requires the insurer to demonstrate the adequacy and effectiveness of its corporate governance framework.

7.11.1 The supervisor plays an important role by requiring the Board and Senior Management of the insurer to demonstrate that they are meeting the applicable corporate governance requirements, consistent with these standards, on an on-going basis. The onus for demonstrating, to the satisfaction of the supervisor, that the corporate governance framework is effective and operates as intended rests with the insurer. ~~The supervisor should provide any guidance and rulings as appropriate to facilitate this process.~~

Comment [NM60]: Consider changing the title?

Comment [NM61]: Previous 7.10

Comment [NM62]: Original 7.10.1 split into two parts

Comment [NM63]: Moved up from previous 7.10.2 for better flow.

7.11.2 ~~For this purpose,~~ ~~the~~ The supervisor should assess through its supervisory review and reporting processes whether the insurer's overall corporate governance framework ~~, including remuneration policies and practices,~~ is effectively implemented and remains adequate~~. by undertaking periodic~~ Off-site monitoring and on-site inspections ~~and/or other (including off-site) reviews~~ should ~~address~~assess the insurer's corporate governance framework in a manner~~as~~ appropriate to the nature, scale and complexity of the insurer's business and its risk profile. The supervisor should provide ~~any~~ guidance and rulings as appropriate to facilitate this process. ~~Where significant changes in the insurer's corporate governance framework are identified, including through information provided by the insurer, the supervisor should update its assessment.~~See Standards 9.7 and 9.8 as well as Guidance 9.7.7 and 9.8.11 for additional guidance, details and examples of how the insurer's corporate governance framework may be assessed under supervisory review and reporting processes.

7.11.3 ~~The onus for demonstrating, to the satisfaction of the supervisor, that the corporate governance framework is effective and operates as intended rests with the insurer. The supervisor should provide any guidance and rulings as appropriate to facilitate this process.~~ To help facilitate the supervisory review and reporting ~~purposes~~processes, ~~he supervisor should provide any guidance and rulings as appropriate to facilitate this process. T~~the supervisor should~~, for the purposes of monitoring due compliance,~~ establish effective channels of communication with the insurer, and have access to relevant information concerning the governance of the insurer. This may be obtained through periodic reports to the supervisor and any information obtained on an ad-hoc basis (see also Standard 7.7~~8~~). Communication may also be facilitated by the supervisor having regular interaction with the Board, Senior Management and Key Persons in Control Functions.

~~7.11.1~~7.11.4 The supervisor should assess the governance effectiveness of the Board and Senior Management~~,~~ and determine the extent to which their actions and behaviours contribute to good governance. This includes the extent to which the board and senior management contribute to setting and following the "tone at the top;" how the corporate culture of the insurer is communicated and put into practice; how information flows to and from the Board and Senior Management; and how potential material problems are identified and addressed throughout the insurer. ~~particularly whether the Board members have the relevant expertise, ability and commitment among them to provide effective leadership, direction and oversight of the insurer, taking into due account of the nature, scale and complexity of the operations of the insurer. The supervisory review should encompass the expertise and qualifications of Board members, their continuous training, the frequency of their participation and proactive involvement in Board proceedings as evidenced by the minutes or records of such~~

Comment [NM64]: Suggestion to partly moving to ICP 9. Included reference to ICP 9

Comment [TmA65]: Moved here from old 7.11.3

Comment [NM66]: Original 7.10.2

Comment [NM67]: Parts of original 7.10.2 moved up.

Comment [U168]: Adding an idea included in ICP 9 as well as the BCBS principles.

Comment [NM69]: Original 7.10.3

Comment [RW70]: Cf BCBS paragraph 163

~~meetings and the quality and timeliness of the information made available to Board members relating to the affairs of the insurer, including for the purposes of the Board or committee meetings.~~

~~7.11.2~~7.11.5 To ascertain the on-going effectiveness of the Board and Senior Management ~~in light of the nature, scale and complexity of the insurer's operations~~, the supervisor may also consider the use of measures such as the following, where appropriate:

- on-going mandatory training ~~for Board members~~ that is commensurate with their respective duties, roles and responsibilities within the insurer;
- a review of the periodic self-evaluation undertaken by the Board as referred to in Guidance 7.3.4 and 7.11.1;
- meetings and/or interviews with the ~~full~~ Board and ~~its individual members~~Senior Management, both collectively and individually as appropriate, particularly to reinforce ~~the~~ expectations ~~placed on Board members~~ relating to their performance and to get a sense of how informed and proactive they are; and
- attending and observing Board proceedings.

~~7.11.3~~7.11.6 Where remuneration policies of an insurer contain more high risk elements, closer supervisory scrutiny of those policy and practices may also be warranted, including requests for additional information as appropriate to assess whether those practices are having an adverse impact on the on-going viability of the insurer or commissioning an independent assessment of the insurer's remuneration policy and practices.

Comment [NM71]: Deleted as overlaps with ICP 5.

Comment [NM72]: Previous 7.10.4

Comment [NM73]: Original 7.10.5. No change.