INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

# INSURANCE CORE PRINCIPLES, STANDARDS, GUIDANCE AND ASSESSMENT METHODOLOGY

## COMFRAME MATERIAL INTEGRATED INTO ICPS 5, 7 AND 8

## VERSION FOR PUBLIC CONSULTATION MARCH 2017

**ICP 5 Suitability of Persons**

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

***Introductory Guidance***

5.0.1 Suitability is an overarching term that means:

- for Board Members, Senior Management, and Key Persons in Control Functions, having the competence and integrity to fulfil their respective roles (also known as being “fit and proper”); and
- for Significant Owners, having the financial soundness and integrity to fulfil their roles.

5.1 **Legislation identifies which persons are required to meet suitability requirements. At a minimum, the legislation includes Board Members, Senior Management, Key Persons in Control Functions and Significant Owners.**

5.1.1 Suitability requirements may extend to other individuals (e.g. financial controllers and treasurers) to account for the roles of such individuals that may differ depending on the jurisdiction and the legal form and governance structure of the insurer.

5.2 **The supervisor requires that in order to be suitable to fulfil their roles:**

- **Board Members (individually and collectively), Senior Management and Key Persons in Control Functions possess competence and integrity; and**
- **Significant Owners possess the necessary financial soundness and integrity.**

*Suitability requirements for Board Members, Senior Management and Key Persons in Control Functions*

5.2.1 Competence is demonstrated generally through the level of an individual’s professional or formal qualifications and knowledge, skills and pertinent experience within the insurance and financial industries or other businesses. Competence also includes having the appropriate level of commitment to perform the role. Refer to ICP 7 (Corporate Governance) with regard to competence and commitment and to ICP 8 (Risk Management and Internal Controls) with regard to control functions.

5.2.2 Integrity is demonstrated generally through character, personal behaviour and business conduct.

5.2.3 The supervisor should require the insurer to take the necessary measures to ensure that these requirements are met by setting high internal standards of ethics and integrity, promoting sound corporate governance and requiring that these individuals have pertinent experience, and maintain a sufficient degree of knowledge and decision making ability.

5.2.4 To ensure an appropriate level of suitability, Board Members, Senior Management and Key Persons in Control Functions should acquire, maintain and enhance their knowledge and skills to fulfil their roles, for example, by participating in induction and ongoing training on relevant issues. Sufficient time, budget and other resources should be dedicated for this purpose, including external expertise drawn upon as needed. More extensive efforts should be made to train those with more limited financial, regulatory or risk-related experience.

**CF5.2a The group-wide supervisor requires the Head of the IAIG to ensure that the competence of the IAIG Board members, Senior Management and Key Persons in control functions includes possessing the knowledge necessary for fulfilling their role, taking into account the complexity and international nature of the IAIG, any specific features of the jurisdictions where the IAIG operates and the risks to which it is exposed**.

CF5.2a.1 The IAIG Board members (individually and collectively), Senior Management and Key Persons in control functions should have appropriate competences to manage the IAIG, such as knowledge and experience with international business and processes as well as different business models.

*Suitability requirements for Significant Owners*

5.2.5 At a minimum, the necessary qualities of a Significant Owner relate to:

- financial soundness demonstrated by sources of financing/funding and future access to capital; and
- integrity demonstrated in personal or corporate behaviour.

**5.3 The supervisor requires the insurer to demonstrate initially and on an ongoing basis, the suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners. The suitability requirements and the extent of review required by the supervisor depend on the person's role.**

5.3.1 The supervisor should assess the suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurance legal entity as part of the licensing procedure before the insurance legal entity is permitted to operate. See ICP 4 (Licensing).

5.3.2 The supervisor should assess the suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of insurers either prior to changes in the positions or as soon as possible after appointment. The supervisor should also require the insurer to perform internal suitability assessments of Board members, Senior Management and Key Persons in Control Functions on an ongoing basis, for example on an annual basis or when there are changes in the circumstances of the individuals. The supervisor may require the insurer to certify that it has conducted such assessments and demonstrate how it reached its conclusions.

5.3.3 With regard to Control Functions, the individual(s) to be assessed should be the Key Persons in Control Functions.

5.3.4 The supervisor should have sufficient and appropriate information to assess whether an individual meets suitability requirements. The information to be collected and the supervisor's assessment of such information may differ depending on the role.

5.3.5 For the purpose of the assessment, the supervisor should require the submission of a résumé or similar indicating the professional qualifications as well as previous and current positions and experience of the individual and any information necessary to assist in the assessment, such as:

- evidence that the individual has sufficient relevant knowledge and pertinent experience within the insurance and financial industries or other businesses; and
- evidence that the individual has the appropriate level of commitment to perform the role.

5.3.6 The application of suitability requirements relating to competence for Board Members, Senior Management and Key Persons in Control Functions of an insurer may vary depending on the degree of their influence and on their roles. It is recognised that an individual considered competent for a particular position within an insurer may not be considered competent for another position with different responsibilities or for a similar position within another insurer. When assessing the competence of the Board Members, regard should be given to respective duties allocated to individual members to ensure appropriate diversity of qualities and to the effective functioning of the Board as a whole.

5.3.7 In assessing the integrity of an individual Board Member, Senior Management, Key Person in Control Functions and Significant Owner, the supervisor should consider a variety of indicators such as:

- Legal indicators: These provide information on possible legal misconduct. Such indicators could include civil liability, criminal convictions or pending proceedings:
    - for breaches of law designed to protect members of the public from financial loss, e.g. dishonesty, or misappropriation of assets, embezzlement and other fraud or other criminal offences (including anti-money laundering and the combating of the financing of terrorism.
    - against the individual in his/her personal capacity;
    - against an entity in which the individual is or was a Board Member, a member of the Senior Management, a Key Person in Control Functions or a Significant Owner; or
    - incurred by the individual as a consequence of unpaid debts.
- Financial indicators: These provide information on possible financial misconduct, improper conduct in financial accounting, or negligence in decision-making. Such indicators could include:
    - financial problems or bankruptcy in his/her private capacity; or
    - financial problems, bankruptcy or insolvency proceedings of an entity in which the individual is or was a Board Member, a member of the Senior Management or a Key Person in Control Functions.
- Supervisory indicators: These provide information gathered by or that comes to the attention of supervisors in the performance of their supervisory duties. These supervisors could also be authorities with supervisory responsibility in sectors other than insurance. Such indicators could include:
    - the withholding of information from public authorities or submission of incorrect financial or other statements;

    - conduct of business transgressions;
    - prior refusal of regulatory approval for key positions;
    - preventive or corrective measures imposed (or pending) on entities in which the individual is or was a Board Member, a member of the Senior Management, or a Key Person in Control Functions; or
    - outcome of previous assessments of suitability of an individual, or sanctions or disciplinary actions taken (or pending) against that individual by another supervisor.
- Other indicators: These may provide other information that could reasonably be considered material for the assessment of the suitability of an individual. Examples include:
    - suspension, dismissal or disqualification of the individual from a position as a Board Member or a member of the Senior Management of any company or organisation;
    - disputes with previous employers concerning incorrect fulfilment of responsibilities or non-compliance with internal policies, including code of conduct, employment law or contract law;
    - disciplinary action or measures taken against an individual by a professional organisation in which the individual is or was a member (e.g., actuaries, accountants or lawyers); or
    - strength of character, such as the ability and willingness to challenge, as an indicator of a person's integrity as well as competence to perform the respective role.

The presence of any one indicator may, but need not in and of itself, determine a person's suitability. All relevant indicators, such as the pattern of behaviour, should be considered in a suitability assessment. Consideration should also be taken to the lapse of time since a particular indicator occurred and its severity, as well as the person's subsequent conduct.

5.3.8 For Significant Owners, the supervisor sets out minimum standards of financial soundness. If the Significant Owner that is to be assessed is a legal person or a corporate entity, the supervisor should collect sufficient and appropriate information such as:

- the nature and scope of its business;
- its ownership structure, where relevant;
- its source of finance/funding and future access to capital;
- the group structure, if applicable, and organisation chart; and
- other relevant factors.

5.3.9 In determining the financial soundness of Significant Owners, the supervisor should assess their source of financing/funding and future access to capital. To do so, the supervisor may consider financial indicators such as:

- Financial statements and exhibits. If the Significant Owner is a legal person, financial statements may include annual financial statements; for a natural person, it may include financial information (such as tax accounts or personal wealth statements) that are reviewed by an independent public accountant; and
- Transactions and agreements such as: loans; investments; purchase, sale or exchange of securities or other assets; dividends and other distributions to shareholders; management agreements and service contracts; and tax allocation agreements.

5.3.10 Additionally the supervisor should also consider matters such as, but not limited to, whether:

- Significant Owners understand their role as potential future sources of capital, if needed;
- there are any indicators that Significant Owners will not be able to meet their debts as they fall due;
- appropriate prudential solvency requirements are met if the Significant Owner is a financial institution;
- Significant Owners have been subject to any legally valid judgment, debt or order that remains outstanding or has not been satisfied within a reasonable period;
- Significant Owners have made arrangements with creditors, filed for bankruptcy or been adjudged bankrupt or had assets sequestered; and
- Significant Owners have been able to provide the supervisor with a satisfactory credit reference.

The presence of any one indicator may, but need not in and of itself, determine a person's suitability. All relevant indicators, such as the pattern of behaviour, should be considered in a suitability assessment. If the Significant Owner is regulated by another supervisor, the suitability assessment done by the latter may be relied upon to the extent that this assessment reasonably meets the requirements of this standard.

5.4 **The supervisor requires notification by insurers of any changes in Board Members, Senior Management, Key persons in Control Functions and Significant Owners, and of any circumstances that may materially adversely affect the suitability of its Board Members, Senior Management, Key Persons in Control Functions and Significant Owners.**

5.4.1 Insurers should be required to report promptly any information gained about these persons that may materially affect their suitability, for example, if a Board Member is convicted of a financial crime. See guidance under Standard 5.3 for additional examples of indicators of circumstances that may materially affect the suitability of an individual.

5.5 **The supervisor takes appropriate action to rectify the situation when Board Members, Senior Management and Key Persons in Control Functions or Significant Owners no longer meet suitability requirements.**

5.5.1 The supervisor should impose measures in respect of Board Members, Senior Management and Key Persons in Control Functions who do not meet the suitability requirements. Examples of such measures include:

- requesting the insurer to provide additional education, coaching or the use of external resources in order to achieve compliance with suitability requirements by an individual in a position as Board Member, member of the Senior Management or Key Person in Control Functions;
- preventing, delaying or revoking appointment of an individual in a position as Board Member, member of the Senior Management or Key Person in Control Functions;
- suspending, dismissing or disqualifying an individual in a position as a Board Member, Senior Management or Key Person in Control Function, either directly or by ordering the insurer to take these measures;

- requiring the insurer to appoint a different person for the position in question who does meet the suitability requirements, to reinforce the sound and proper management and control of the insurer;
- imposing additional reporting requirements and increasing solvency monitoring activities; or
- withdrawing or imposing conditions on the business licence, especially in the case of a major breach of suitability requirements, taking into account the impact of the breach or the number of members of the Board, Senior Management or Key Persons in Control Functions involved.

5.5.2 The supervisor should impose measures of a preventive and corrective nature in respect of Significant Owners who do not meet suitability requirements. Examples of such measures include:

- requiring the Significant Owners to dispose of their interests in the insurer within a prescribed period of time;
- the suspension of the exercise of their corresponding voting rights; or
- the nullification or annulment of any votes cast by the Significant Owners.

5.5.3 There can be circumstances where a Board Member, a member of the Senior Management or a Key Person in Control Functions is unable to carry out his/her role and a replacement needs to be appointed on short notice. In jurisdictions where the supervisor approves the post-licensing appointment of Board Members, Senior Management or Key Persons in Control Functions, it may be appropriate for the supervisor to permit the post to be filled temporarily until the successor's suitability assessment is affirmed. In such circumstances, a supervisor may require that these temporary replacements meet certain suitability requirements, depending on his/her position or responsibilities within the insurer. However, such assessment should be conducted and concluded in a timely manner.

5.6 **The supervisor exchanges information with other authorities inside and outside its jurisdiction where necessary to check the suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer.**

5.6.1 Supervisors should use the modes available for supervisory cooperation, in particular, the ability to exchange information relevant to check suitability with domestic or foreign authorities. Having such arrangements in place is important so as to not unduly delay relevant supervisory processes and/or affect the insurers' ability to satisfy composition requirements for the Board or make necessary changes to its management team. For additional information, see ICP 3 (Information Exchange and Confidentiality Requirements).

5.6.2 The supervisor may use this information as an additional tool to assess effectively the suitability of, or to obtain information about, a Board Member, a member of the Senior Management or a Key Person in Control Functions.

5.6.3 If a Significant Owner that is to be assessed is a legal person or a corporate entity regulated in another jurisdiction, the supervisor should seek confirmation from the relevant authority that the entity is in good standing in that other jurisdiction.

## ICP 7 Corporate Governance[1]

**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 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 and oversight of the insurer; and
- provides for corrective actions to be taken for non-compliance or weak oversight, controls or management.

7.0.2 An effective corporate governance framework enables an insurer to be flexible and transparent; to be responsive to developments affecting its operations in making timely decisions and to ensure that powers are not unduly concentrated. The corporate governance framework supports and enhances the ability of the key players responsible for an insurer's corporate governance; i.e. the Board, Senior Management and Key Persons in Control Functions to manage the insurer's business soundly and prudently.

*Organisational structures*

7.0.3 The insurer should establish a transparent organisational structure which supports the strategic objectives and operations of 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:

[1] Amended November 2015

- jurisdictional corporate law, which may allow or require different board structures (such as 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.

**CF7.0a The group-wide supervisor requires the Head of the IAIG to have a written outline of the legal and management structures of, and inter-relationships within, the IAIG to enable an understanding of its structure to help identify and manage risks.**

CF7.0a.1 The outline covers entities within the IAIG and, where relevant, the wider group and includes items such as:

- the jurisdictions of legal entities within the IAIG, including branches;
- home jurisdiction of the Head of the IAIG;
- off-balance sheet entities;
- materiality of legal entities or business lines within the IAIG financial and non-financial ties, such as common directors or commercial ties;
- details of the shareholding structure and significant shareholdings, including controlling shareholders;
- governance structure, including boards and their committee structure and key responsibilities; and
- management structure, including the division of authority and decision making between business line management, local management, and Board oversight.

7.0.4 The standards on corporate governance are designed with sufficient flexibility to apply to supervision of insurers regardless of any differences in the corporate structures and legal systems.

7.0.5 The term Board includes its management and oversight roles, regardless of Board structure.

*Mutuals and co-operatives*

7.0.6 Governance of insurers formed as mutuals or co-operatives is different from that of insurers formed as joint stock companies (i.e., bodies corporate). 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. Where there are references to shareholders or stakeholders, they should be generally treated as references to policyholders in mutuals, unless otherwise indicated.

*Insurance Groups*

7.0.7 Insurance groups should ensure that the corporate governance framework is appropriate to the structure, business and risks of the insurance group and its legal entities. The corporate governance framework should include policies, processes and controls which address risks across the insurance group and legal entities.

**CF7.0b The group-wide supervisor requires the Head of the IAIG to ensure that the corporate governance framework of the IAIG is appropriate to the structure, business and risks of the IAIG and its legal entities and includes policies, processes and controls which address risks across the IAIG and its legal entities.**

CF7.0b.1 The IAIG should monitor that its corporate governance framework allows for the supervisory and legal obligations of its legal entities to be effectively met. The ultimate responsibility for the sound and prudent management of the IAIG rests with the IAIG Board.

7.0.8 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 legal obligations, governance responsibilities and risks both at the insurance group and legal entity level; and
- effective communication within the group and adequate information at all levels.[2]

7.0.9 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 it on a group-wide basis.

*Branch operations*

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

7.0.10 If an insurer is a branch, 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. In such cases, these standards should also apply, as appropriate, to the oversight and management roles maintained within the branch taking due account of the governance structures and arrangements as determined by the host supervisor.

***Appropriate allocation of oversight and management responsibilities***

**7.1 The supervisor requires the insurer's Board to:**

- **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 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. 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 Senior Management. The separation of the roles of the Chair of the Board and the Chief Executive Officer (CEO) reinforces a clear distinction between accountability for oversight and management.

**CF7.1a The group-wide supervisor requires the IAIG Board to establish a well-defined group-wide governance structure which includes clear reporting lines and promotes effective oversight of the IAIG's group-wide operations independent of day-to-day management.**

CF7.1a.1 Clear reporting lines should exist between the IAIG Board, Senior Management and Key Persons in Control Functions, and the Boards, Senior Management and Key Persons in Control Functions of legal entities within the IAIG.

CF7.1a.2 Where individuals undertake similar functions for more than one legal entity within the IAIG, the IAIG Board should adopt appropriate measures so that there is no conflict between the different roles to be performed by such individuals.

**CF7.1b The group-wide supervisor requires the IAIG Board to ensure that the Head of the IAIG reports – through regularly scheduled or ad hoc reporting – material changes related to the following, at a minimum:**

- **domicile of legal entities;**
- **legal structures;**
- **management structures;**

- **governance structure and processes of the IAIG Board to evaluate its effectiveness;**
- **affiliations with other groups;**
- **strategy;**
- **risk appetite; and**
- **business activities.**

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 management of the insurer. The allocation of roles and responsibilities should 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.

7.1.3 The allocation of responsibilities to individual Board members (for example the membership of Board committees 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. 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. 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]

7.1.4 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, 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, 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 strategy and the financial soundness of the insurer and monitor whether the Senior Management is meeting the performance goals set by the Board;
- 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

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

- have regular interaction with any committee it establishes as well as with other key functions, proactively request information from them and challenge that information when necessary.

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 objectives and strategies 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, in line with the insurer's long term interests and viability.**

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

**CF7.2a The group-wide supervisor requires the IAIG Board to ensure that the group-wide business objectives and strategies for achieving those objectives take into account at least the following:**

- **applicable laws and regulations of, and the risks which may arise from doing business in, the jurisdictions in which the IAIG operates;**
- **long term financial soundness of the IAIG as a whole;**
- **the interests of policyholders and other stakeholders;**
- **fair treatment of customers; and**
- **the interests and objectives of the insurance legal entities within the IAIG.**

CF7.2a.1 The IAIG Board should establish processes for identifying and addressing any risks to the proper implementation of the IAIG's objectives and strategies for achieving those objectives, including any emerging risks.

CF7.2a.2 The group-wide supervisor should cooperate and coordinate with the other involved supervisors to compare the consistency of the interests and objectives of the IAIG with those of the insurance legal entities within the IAIG.

**CF7.2b The group-wide supervisor requires the Head of the IAIG to provide, at least annually, a clear, detailed explanation of the strategy that the IAIG Board has set for the IAIG as a whole and its key legal entities and business lines.**

CF7.2b.1 The explanation of the strategy that the IAIG Board has set for the IAIG should include matters such as:

- the overall business model and its rationale;
- material business lines and how they are likely to develop;
- non-insurance business the IAIG is likely to pursue;
- the geographic emphasis of the IAIG and any likely changes;
- anticipated changes in market share;
- the consequences (financial or otherwise) of achieving, or not achieving, the strategy; and
- how the strategy ensures the IAIG will have the ability to fulfil its obligations to policyholders.

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.

7.2.3 A corporate culture reflects the fundamental corporate values and includes norms for responsible and ethical behaviour applicable to all employees of the insurer. The Board should take the lead in setting the appropriate tone at the top. This includes adherence to the corporate values by the Board and a strong risk culture avoiding excessive risk taking. The corporate values, norms and supporting policies should be communicated throughout the insurer. These are also reflected in the insurer's business objectives and strategies, and 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 the tone at the top the Board should ensure that employees are aware that appropriate disciplinary or other actions will follow unacceptable behaviours.

7.2.4 The Board should ensure that the corporate 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.

7.2.6 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 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 financial condition, objectives and strategies) or the interests of its policyholders or other stakeholders.

***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 competence at the Board level commensurate with the governance structure;**
- **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.

**CF7.3a The group-wide supervisor requires that the collective competence of the IAIG Board includes, at a minimum, an understanding of:**

- **the governance and corporate structure of the IAIG;**
- **the business of the legal entities within the IAIG, including associated risks;**
- **the supervisory regimes applicable to the IAIG;**
- **the issues that arise from cross-border business and international transactions; and**
- **the governance, risk, compliance, audit and related areas that allow them to provide oversight in these areas and of the Control Functions.**

CF7.3a.1 The IAIG Board should be capable of understanding and describing the purpose, structure, strategy, material operations, and material risks of the IAIG, including those of legal entities in other financial sectors and unregulated legal entities that are part of the group.

**CF7.3b The group-wide supervisor requires the IAIG Board to ensure that the group-wide corporate governance framework includes policies and procedures to identify and avoid, or mitigate, conflicts of interests that may adversely affect the IAIG as a whole or any of its legal entities.**

CF7.3b.1 Conflicts of interest within an IAIG could arise:

- at the level of the Board, Senior Management and Key Persons in Control Functions of the IAIG and of its legal entities; and
- among the interests of the legal entities, or between the group-wide interests and those of any legal entity. For example, when the IAIG may be harmed by actions of an insurance legal entities within the IAIG or when an insurance legal entity within the IAIG may be harmed by the actions of the IAIG.

CF7.3b.2 Where a conflict of interest involving individuals or legal entities cannot be avoided, or mitigated, the policies and procedures should require the relevant individuals to inform their superiors or the relevant Board or the IAIG Board of the conflict and to take measures prescribed by the Board to mitigate its adverse impact.

7.3.2 Board members 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 Board memberships held within or outside the insurance group.

*Board effectiveness*

7.3.3 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*

7.3.4 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*

7.3.5 While the Board as a whole remains collectively responsible for the stewardship of the insurer, the Chair of the Board has the pivotal 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, it is good practice for the Chair of the Board to be a non-executive Board member and not serve as chair of any Board committee. In jurisdictions where the Chair of the Board is permitted to assume executive duties, the insurer should have measures in place to mitigate any adverse impact on the insurer's checks and balances.

*Board Committees*

7.3.6 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 include 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 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 and/or effectiveness of the functions combined. In all cases, the Board remains ultimately responsible for matters delegated to any such committees.

*Independence and objectivity*

7.3.7 To promote objectivity in decision making by the Board, the formal and perceived independence of Board members should be ensured. To that end, Board members should avoid personal ties or financial 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. Documented procedures and 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, abstention of voting and, where appropriate, prior approval by the Board or shareholders of professional positions or transactions.

7.3.8 Besides policies on conflicts of interests, the insurer should ensure objectivity in decision making by establishing clear and objective independence criteria which should be met by an adequate number of members of 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.

7.3.9 Objectivity in decision making is also promoted by independence of mind of the individual Board members. This means that a Board member should act without favour; provide constructive and robust challenge of proposals and decisions; ask for information when the member judges it necessary in the light of the issues; and avoid "group-think".

7.3.10 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.

*Board powers*

7.3.11 To be able to discharge its role and responsibilities properly, the Board should have well-defined powers, which are clearly set out either in legislation and/or as part of the constituent documents of the insurer (such as the constitution, articles of incorporation, by-laws or internal/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 Senior Management and Key Persons in Control Functions.

*Access to resources*

7.3.12 Adequate resources, such as sufficient 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 criteria (such as independence) and due procedures for appointment and dismissal of such consultants or specialists.

*Delegations*

7.3.13 The Board may 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.

7.3.14 Where the Board makes any delegations, it should ensure that:

- 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 that an individual member of the Board:**

- **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 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 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 regarding the member's duty of loyalty to the insurer. 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 risk management and internal controls***

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

7.5.1 It is the Board's responsibility to ensure that the insurer has appropriate systems and functions for risk management and 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).

***Duties related to remuneration***

**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, identified risk appetite, 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).**

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

**Overall remuneration strategy and oversight**

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.

7.6.3 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 non-executive members to promote objectivity in decision-making.

7.6.4 In order to satisfy itself about the effectiveness of the remuneration policy and practices, the Board should consider at least:

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

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. Members of the Board should not be placed in a position of actual or perceived conflicts of interests in respect of remuneration decisions.

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.

7.6.7 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.

7.6.8 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*

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

7.6.10 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 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 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 performance have manifested after the award of variable remuneration; and
- Guaranteed variable remuneration should generally not be offered, as they are not consistent with sound risk management and performance-based rewards.

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.

7.6.12 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;
- 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*

7.6.13 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").

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*

7.6.15 Where an insurer provides discretionary payouts on termination of employment ("severance payments", sometimes also referred to as "golden parachutes"), such payment should 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 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.

***Reliable and transparent financial reporting***

**7.7 The supervisor requires the insurer's Board to ensure there is a reliable financial reporting process for both public and supervisory purposes 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 overseeing the insurer's 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.

The Board carries out functions including:

- 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 (reviews by internal audit of the insurer's financial reporting controls) and reviewing the internal auditor's plans and material findings; and
- reporting to the supervisor on significant issues concerning the financial reporting process, including 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***

**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 should ensure that the insurer:

- applies robust processes for approving, or recommending for approval, the appointment, reappointment, removal and remuneration of the external auditor;
- applies 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 meet any additional regulatory requirements;
- monitors and assesses the effectiveness of the external audit process throughout the audit cycle;
- investigates 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

- reports to the supervisor on circumstances relating to the resignation or removal of the external auditor.

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 local and international audit standards;
- the external auditor complies with internationally accepted ethical and professional standards and, where applicable, the more stringent requirements applicable to audits of listed entities and public interest entities;
- there are adequate policies and a process to ensure the independence of the external auditor, including:
  - 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; and
- 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 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 Reports prepared by the external auditor for the insurer (e.g. management letters) should be made available to the supervisor by the insurer or the external auditor.

7.8.7 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. 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.

7.8.8 The supervisor should require a further audit by a different external auditor where necessary.

***Communications***

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

7.9.1 Communications with the supervisor should promote effective engagement of the supervisor 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:

- 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 In addition to information publicly available, 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.

CF7.9a.1 The IAIG's systems and controls for communications should give the IAIG the ability to inform the group-wide supervisor of governance issues concerning both the IAIG as a whole and particular insurance legal entities within the IAIG.

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.

7.9.5 Appropriate quantitative information should also be made available to enable supervisors 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 remuneration and long-term awards;
- the total amount set aside in respect of deferred variable remuneration;
- adjustment to net income for the period in respect of variable 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 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;**
- **promotes 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**
- **maintains adequate and orderly records of the internal organisation.**

7.10.1 Senior Management should implement appropriate systems and controls, in accordance with the established risk appetite and corporate values and consistent with internal policies and procedures.

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:

- processes for engaging persons with appropriate competencies and integrity to discharge the functions under 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 7.3.13 and 7.3.14);
- 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.

7.10.3 Adequate procedures should be in place for assessing the effectiveness of Senior Management's 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.

7.10.4 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 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.

7.11.2 The supervisor should assess through its supervisory review and reporting processes whether the insurer's overall corporate governance framework is effectively implemented and remains adequate (see ICP 9 Supervisory Review and Reporting).

7.11.3 To help facilitate the supervisory review and reporting processes, the supervisor should 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). Communication may also be facilitated by the supervisor having regular interaction with the Board, Senior Management and Key Persons in Control Functions.

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.

7.11.5 To ascertain the on-going effectiveness of the Board and Senior Management, the supervisor may also consider the use of measures such as the following, where appropriate:

- on-going mandatory training that is commensurate with their respective duties, roles and responsibilities of the Board and Senior Management within the insurer;
- a review of the periodic self-evaluation undertaken by the Board as referred to in Guidance 7.3.3 and 7.11.1;
- meetings and/or interviews with the Board and Senior Management, both collectively and individually as appropriate, particularly to reinforce expectations relating to their performance and to get a sense of how informed and proactive they are; and
- attending and observing Board proceedings.

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.

**ICP 8 Risk Management and Internal Controls**

**The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit.**

***Introductory Guidance***

8.0.1 As part of the overall corporate governance framework and in furtherance of the safe and sound operation of the insurer and the protection of policyholders, the Board is ultimately responsible for ensuring that the insurer has in place effective systems of risk management and internal controls and functions to address the key risks it faces and for the key legal and regulatory obligations that apply to it. Senior Management effectively implements these systems and provides the necessary resources and support for these functions.

8.0.2 In some jurisdictions, risk management is considered a subset of internal controls, while other jurisdictions would see it the other way around. The two systems are in fact closely related. Where the boundary lies between risk management and internal controls is less important than achieving, in practice, the objectives of each.

8.0.3 The systems and functions should be adequate for the insurer's objectives, strategy, risk profile, and the applicable legal and regulatory requirements. They should be adapted as the insurer's business and internal and external circumstances change.

8.0.4 The nature of the systems that the insurer has is dependent on many factors. The systems typically include:

- strategies setting out the approach of the insurer for dealing with specific areas of risk and legal and regulatory obligations;
- policies defining the procedures and other requirements that members of the Board and employees need to follow;
- processes for the implementation of the insurer's strategies and policies;
- and controls to ensure that such strategies, policies and processes are in fact in place, are being observed and are attaining their intended objectives.

8.0.5 An insurer's functions (whether in the form of a person, unit or department) should be properly authorised to carry out specific activities relating to matters such as risk management, compliance, actuarial matters and internal audit. These are generally referred to as control functions.

*Special considerations for groups*

8.0.6 Group wide risks may affect insurance legal entities within a group, while risks at the insurance legal entity level could also affect the group as a whole. To help address this, groups should have strong risk management and compliance culture across the group and at the insurance legal entity level. Thus, in addition to meeting group governance requirements, the group should take into account the obligations of its insurance legal entities to comply with local laws and regulations.

*Special Considerations for Groups*

8.0.7 How a group's systems of risk management and internal controls are organised and operate will depend on the governance approach the group takes, i.e., a more centralised or a more decentralised approach (see IAIS Issues Paper on Approaches to Group Corporate Governance; impact on control functions, October 2014). Regardless of the governance approach, it is important that effective systems of risk management and internal controls exist and that risks are properly monitored and managed at the insurance legal entity level and on a group-wide basis.

8.0.8 Additionally, a group's governance approach will also affect the way in which its control functions are organised and operated. Coordination between the insurance legal entity and group control functions is important to help ensure overall effective systems of risk management and internal controls. Regardless of how the group control functions are organised and operated, the result should provide an overall view of the group-wide risks and how they should be managed.

8.0.9 Supervisors should require the establishment of comprehensive and consistent group governance and assess its effectiveness. While the group-wide supervisor is responsible for assessing the effectiveness of the group's systems of risk management and internal controls, the other involved supervisors undertake such assessments on a legal entity basis. Appropriate supervisory cooperation and coordination is necessary to have a group-wide view and to enhance the assessment of the legal entities.

*Systems for risk management and internal controls*

8.1 **The supervisor requires the insurer to establish, and operate within, an effective risk management system.**

*Basic components of a risk management system*

8.1.1 The risk management system is designed and operated at all levels of the insurer to allow for the identification, assessment, monitoring, mitigation and reporting of all risks of the insurer in a timely manner. It takes into account the probability, potential impact and time horizon of risks.

8.1.2 An effective risk management system typically includes elements such as:

- a clearly defined and well documented risk management strategy, which includes a clearly defined risk appetite and takes into account the insurer's overall business strategy and its business activities (including any business activities which have been outsourced);
- relevant objectives, key principles and proper allocation of responsibilities for dealing with risk across the business areas and business units of the insurer
- a documented process defining the Board approval required for any deviations from the risk management strategy or the risk appetite and for settling any major interpretation issues that may arise;
- appropriate documented policies that include a definition and categorisation of material risks (by type) to which the insurer is exposed, and the levels of

acceptable risk limits for each type of these risk. These policies describe the risk standards and the specific obligations of employees and the businesses in dealing with risk, including risk escalation and risk mitigation tools;

- suitable processes and tools (including stress testing and, where appropriate, models) for identifying, assessing, monitoring and reporting on risks. Such processes should also cover contingency planning;
- regular reviews of the risk management system (and its components) to help ensure that necessary modifications and improvements are identified and made in a timely manner;
- appropriate attention to other matters set out in ICP (16 Enterprise Risk Management for Solvency Purposes); and
- an effective risk management function

*Scope and embedding of the risk management system*

8.1.3 The risk management system should at least cover underwriting and reserving, asset-liability management, investments, liquidity and concentration risk management, operational risk management, conduct of business, and reinsurance and other risk-mitigation techniques.

8.1.4 The risk management system should be aligned with the insurer's risk culture and embedded into the various business areas and units with the aim of having the appropriate risk management practices and procedures embedded in the key operations and structures.

*Identification*

8.1.5 The risk management system should take into account all reasonably foreseeable and relevant material risks to which the insurer is exposed, both at the insurer and the individual business unit levels. This includes current and emerging risks.

8.1.6 Significant new or changed activities and products that may increase an existing risk or create a new type of exposure should be subject to appropriate risk review and be approved by the Board and Senior Management.

*Assessment*

8.1.7 Insurers should assess material risks both qualitatively and, where appropriate, quantitatively. Appropriate consideration should be given to a sufficiently wide range of outcomes, as well as to the appropriate tools and techniques to be used. The interdependencies of risks should also be analysed and taken into account in the assessments.

*Monitoring*

8.1.8 The risk management system should include early warnings or triggers that allows timely consideration of, and adequate response to, material risks. An insurer may decide to tolerate a risk, when it is acceptable within the risk appetite that has been set.

*Mitigation*

8.1.9 The risk management system should include strategies and tools to mitigate against material risks. In most cases an insurer will control or reduce the risk to an acceptable level. Another response to risk is to transfer the risk to a third party. If risks are not acceptable within the risk appetite and it is not possible to control, limit or transfer the risk, the insurer should cease or change the activity which creates the risk.

*Reporting*

8.1.10 Risks, the overall assessment of risks and the related action plans should be reported to the Board and/or to Senior Management, as appropriate, using qualitative and quantitative indicators and effective action plans. The insurer's documented risk escalation process should allow for reporting on risk issues within established reporting cycles and outside of them for matters of particular urgency.

8.1.11 The Board should have appropriate ways to carry out its responsibilities for risk oversight. The risk management policy should therefore cover the content, form and frequency of reporting that it expects on risk from Senior Management and each of the control functions. Any proposed activity that would go beyond the Board-approved risk appetite should be subject to appropriate review and require Board approval.

*Risk Policies*

8.1.12 The insurer's risk policies should be written in a way to help employees understand their risk responsibilities. They should also help explain the relationship of the risk management system to the insurer's overall corporate governance framework and to its corporate culture. The overall risk management policy of the insurer should outline how relevant and material risks are managed. Related policies should be established, either as elements of the risk management policy, or as separate sub-policies. At a minimum, these should include policies related to the risk appetite framework, an asset-liability management policy, an investment policy, and an underwriting risk policy.

8.1.13 Regular internal communications and training on risk policies should take place.

*Changes to the risk management system*

8.1.14 Both the Board and Senior Management should be attentive to the need to modify the risk management system in light of new internal or external circumstances.

8.1.15 Material changes to an insurer's risk management system should be documented and subject to approval by the Board. The reasons for the changes should be documented. Appropriate documentation should be available to internal audit, external audit and the supervisor for their respective assessments of the risk management system.

| | |
|---|---|
| **CF8.1a** | **The group-wide supervisor requires the Head of the IAIG to establish, and operate within, an appropriately documented and effective risk** |

**management system that operates at all levels of the IAIG and covers, at a minimum, the:**

- **diversity of activities of the IAIG;**
- **nature and degree of risk of individual legal entities or business lines;**
- **cumulative risks at the level of the IAIG, in particular cross-border risks;**
- **interconnectedness of the legal entities within the IAIG;**
- **sophistication and functionality of information and reporting systems in addressing key group-wide risks; and**
- **laws and regulations of the jurisdictions where the IAIG operates.**

CF8.1a.1 The IAIG's risk management system should:

- be integrated with its organisational structure, decision-making processes, business operations, legal entities and risk culture;; and
- measure the risk exposure of the IAIG against the risk appetite limits on an on-going basis in order to identify potential concerns as early as possible.

CF8.1a.2 The Head of the IAIG should ensure that a risk assessment is carried out before the IAIG enters into new business lines and products and that ongoing risk assessment is carried out after entering into new business areas. The Head of the IAIG should have in place adequate processes, controls and systems to manage the risks of new products.

**CF8.1b The group-wide supervisor requires the Head of the IAIG to review annually the risk management system to ensure that emerging risks are taken into account and necessary modifications and improvements are identified and made in a timely manner.**

**CF 8.1c The group-wide supervisor requires the Head of the IAIG to have in place processes and procedures for promoting an appropriate risk culture**.

CF8.1c.1 Processes and procedures for promoting an appropriate risk culture should include risk management training, address the issue of independence and create appropriate incentives for staff.

8.2 **The supervisor requires the insurer to establish, and operate within, an effective system of internal controls.**

*Basic components of an internal controls system*

8.2.1 The internal controls system should ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported (both internally and externally), and compliance with laws, regulations, supervisory requirements and the insurer's internal rules and decisions. It should be designed and operated to assist the Board and Senior Management in the fulfilment of their respective responsibilities for oversight and management of the insurer. Some insurers have a designated person or function to support the advancement, coordination and/or management of the overall internal controls system on a more regular basis.

8.2.2 The internal controls system should cover all units and activities of the insurer and should be an integral part of the daily activities of an insurer. The controls should form a coherent system, which should be regularly assessed and improved as necessary. Each individual control[1] of an insurer, as well as all its controls cumulatively, should be designed for effectiveness and operate effectively.

[1] Individual controls may be preventive (applied to prevent undesirable outcomes) or detective (to uncover undesirable activity). Individual controls may be manual (human), automated, or a combination and may be either general or process or application specific.

8.2.3 An effective internal control system requires an appropriate control structure with control activities defined at every business unit level. Depending on the organisational structure of the insurer, business or other units should own, manage and report on risks and should be primarily accountable for establishing and maintaining effective internal control policies and procedures. Control functions should determine and assess the appropriateness of the controls used by the business or other units. The internal audit function should provide independent assurance on the quality and effectiveness of the internal controls system.[2]

[2] This division of responsibilities between business, risk management and compliance and internal audit is typically referred to as the three lines of defense. The business is considered as the first line of defence, the control functions (other than internal audit) as the second line of defence, and internal audit as the third line of defence. The business is deemed to "own" the controls, and the other lines of defence are there to help ensure their application and viability. Whatever approach is used, it is important that responsibilities be clearly allocated to promote checks and balances and avoid conflicts of interest.

**CF8.2a The group-wide supervisor requires the Head of the IAIG to ensure that the internal controls system at the group-wide level is appropriately documented and covers at a minimum the:**

- **diversity of the activities of the IAIG, including geographical reach of the activities of legal entities within the IAIG;**
- **intra-group transactions;**
- **interconnectedness of the legal entities within the IAIG; and**
- **laws and regulations of the jurisdictions where the IAIG operates.**

8.2.4 An effective internal controls system typically includes:

Segregation of duties and prevention of conflicts of interest

- appropriate segregation of duties and controls to ensure such segregation is observed. This includes, amongst others, having sufficient distance between those accountable for a process or policy and those who check if for such a process or policy an appropriate control exists and is being applied. It also includes appropriate distance between those who design a control or operate a control and those who check if such a control is effective in design and operation;

- up-to-date policies regarding who can sign for or commit the insurer, and for what amounts, with corresponding controls, such as practice that key decisions should be taken at least by two persons and the practice of double or multiple signatures. Such policies and controls should be designed, among other things, to prevent any major transaction being entered into without appropriate governance review or by anyone lacking the necessary authority and to ensure that borrowing, trading, risk and other such limits are strictly observed. Such policies should foresee a role for control functions, for example by requiring for major matters the review and sign-off by Risk Management or Compliance, and/or approval by a Board level committee;

Policies and processes

- appropriate controls for all key business processes and policies, including for major business decisions and transactions (including intra-group transactions), critical IT functionalities, access to critical IT infrastructure by employees and related third parties, and important legal and regulatory obligations;
- policies on training in respect of controls, particularly for employees in positions of high trust or responsibility or involved in high risk activities;
- a centralised documented inventory of insurer-wide key processes and policies and of the controls in place in respect of such processes and policies, that also may introduce a hierarchy among the policies;

Information and communication

- appropriate controls to provide reasonable assurance over the accuracy and completeness of the insurer's books, records, and accounts and over financial consolidation and reporting, including the reporting made to the insurer's supervisors;
- adequate and comprehensive internal financial, operational and compliance data, as well as external market information about events and conditions that are relevant to decision making. Information should be reliable, timely, accessible, and provided in a consistent format;
- information processes that cover all significant activities of the insurer, including contingency arrangements;
- effective channels of communication to ensure that all staff fully understand and adhere to the internal controls and their duties and responsibilities and that other relevant information is reaching the appropriate personnel;
- policies regarding escalation procedures;

Monitoring and review

- processes for regularly checking that the totality of all controls forms a coherent system and that this system works as intended; fits properly within the overall corporate governance structure of the insurer; and provides an element of risk control to complement the risk identification, risk assessment, and risk management activities of the insurer. As part of such review, individual controls are monitored and analysed periodically to determine gaps and improvement opportunities with Senior Management taking such measures as are necessary to address these; and

- periodic testing and assessments (carried out by objective parties such as an internal or external auditor) to determine the adequacy, completeness and effectiveness of the internal controls system and its utility to the Board and Senior Management for controlling the operations of the insurer.

**CF8.2b The group-wide supervisor requires:**

- **the Head of the IAIG to assess annually that the internal controls systems at the group-wide and legal entity levels are coherent, complete and effective;**
- **annual testing and assessments carried out by an independent objective party to determine the coherence, completeness and effectiveness of the internal controls system and its utility to the IAIG Board and Senior Management for controlling the operations of the IAIG.**

*Responsibilities of the Board*

8.2.5 The Board should have an overall understanding of the control environment across the various entities and businesses, and require Senior Management to ensure that for each key business process and policy, and related risks and obligations, there is an appropriate control.

8.2.6 In addition, the Board should ensure there is clear allocation of responsibilities within the insurer, with appropriate segregation, including in respect of the design, documentation, operation, monitoring and testing of internal controls. Responsibilities should be properly documented, such as in charters, authority tables, governance manuals or other similar governance documents.

8.2.7 The Board should determine which function or functions report to it or to any Board Committees in respect of the internal controls system.

*Reporting*

8.2.8 Reporting on the internal controls system should cover matters such as:

- the strategy in respect of internal controls (such as responsibilities, target levels of compliance to achieve, validations and implementation of remediation plans);
- the stage of development of the internal controls system, including its scope, testing activity, and the performance against annual or periodic internal controls system goals being pursued;
- an assessment of how the various business units are performing against internal control standards and goals;
- control deficiencies, weaknesses and failures that have arisen or that have been identified (including any identified by the internal or external auditors or the supervisor) and the responses thereto (in each case to the extent not already covered in other reporting made to the Board); and

- controls at the appropriate levels so as to be effective, including at the process or transactional level.

*Control functions (general)*

8.3 **The supervisor requires the insurer to have effective control functions with the necessary authority, independence and resources.**

8.3.1 As part of the effective systems of risk management and internal controls, insurers have control functions, including for risk management, compliance, actuarial matters and internal audit. Control functions add to the governance checks and balances of the insurer and provide the necessary assurance to the Board in the fulfilment of its oversight duties.

**CF8.3a The group-wide supervisor requires the Head of the IAIG to ensure that the tasks and responsibilities of the IAIG control functions, whether located at the level of the Head of the IAIG or within another entity of the IAIG, are clearly defined and that these IAIG control functions do not duplicate, limit or restrict the tasks and responsibilities of control functions at an insurance legal entity level.**

**CF8.3b The group-wide supervisor requires the IAIG control functions to:**

- **coordinate with the control functions at the insurance legal entity level, and**
- **evaluate group-wide internal management reporting.**

8.3.2 The existence of control functions does not relieve the Board or Senior Management of their respective governance and related responsibilities.

8.3.3 The control functions should be subject to periodic review either by the internal audit function (for control functions other than internal audit) or an objective external reviewer.

*Appointment and dismissal of heads of control functions*

8.3.4 The appointment, performance assessment, remuneration, discipline and dismissal of the head of control functions should be done with the approval of, or after consultation with, the Board or the relevant Board committee. For the head of the internal audit function, the appointment, performance assessment, remuneration, discipline and dismissal should be done by the Board, its Chair or the Audit Committee.

8.3.5 The insurer should notify the supervisor of the reasons for dismissals of heads of control functions.

*Authority and independence of control functions*

8.3.6 The Board should approve the authority and responsibilities of each control function to allow each control function to have the authority and independence necessary to be effective.

8.3.7 The authority and responsibilities of each control function should be set out in writing and made part of, or referred to in, the governance documentation of the insurer. The head of each control function should periodically review such document and submit suggestions for any changes to Senior Management and the Board for approval, where appropriate.

8.3.8 A control function should be led by a person of appropriate level of authority. The head of the control function should not have operational business line responsibilities.

8.3.9 Insurers should organise each control function and its associated reporting lines into the insurer's organisational structure in a manner that enables such function to operate and carry out their roles effectively. This includes direct access to the Board or the relevant Board committee.

8.3.10 Notwithstanding the possibility for insurers to combine certain control functions, a control function should be sufficiently independent from Senior Management and from other functions to allow its staff to:

- serve as a component of the insurer's checks and balances;
- provide an objective perspective on strategies, issues, and potential violations related to their areas of responsibility; and
- implement or oversee the implementation of corrective measures where necessary.

8.3.11 Each control function should avoid conflicts of interest. Where any conflicts remain and cannot be resolved with Senior Management, these should be brought to the attention of the Board for resolution.

8.3.12 Each control function should have the authority to communicate on its own initiative with any employee and to have unrestricted access to information in any business unit that it needs to carry out its responsibilities. The control functions should have the right to conduct investigations of possible breaches and to request assistance from specialists within the insurer, e.g. legal and internal audit, or engage external specialists to perform the task.

The control functions should be free to report to Senior Management or the Board on any irregularities or possible breaches disclosed by its investigations, without fear of retaliation or disfavour from management.

*Resources and qualifications of the control functions*

8.3.13 Each control function should have the resources necessary to fulfil its responsibilities and achieve the specific goals in its areas of responsibility. This includes qualified staff and appropriate IT/management information processes. The function should be organized in an appropriate manner to achieve its goals.

8.3.14 The head of each control function should review regularly the adequacy of the function's resources and request adjustments from Senior Management as necessary. Where the head of a control function has a major difference of opinion with Senior Management on the resources needed, the head of the control function should bring the issue to the Board or relevant Board Committee for resolution.

8.3.15 Persons who perform control functions should be suitable for their role and meet any applicable professional qualifications and standards. Higher expectations apply to the head of each control function. Persons who perform control functions should receive regular training relevant to their role to remain up to date on the developments and techniques related to their areas of responsibility.

*Board access and reporting by the control functions; Board assessment of control functions*

8.3.16 The Board should grant the head of each control function the authority and responsibility to report periodically to it or one of its committees. The Board should determine the frequency and depth of such reporting so as to permit timely and meaningful communication and discussion of material matters. The reporting should include, among other things:

- information as to the function's strategy and longer term goals and the progress in achieving these;
- annual or other periodic operational plans describing shorter term goals and the progress in achieving these; and
- resources (such as personnel, budget, etc.), including an analysis on the adequacy of these resources.

8.3.17 In addition to periodic reporting, the head of each control function should have the opportunity to communicate directly and to meet periodically (without the presence of management) with the Chair of any relevant Board committee (e.g. Audit or Risk Committee) and/or with the Chair of the full Board. The Board should periodically assess the performance of each control function. This may be done by the full Board, by the Chair of the Board, by the relevant Board committee or by the Chair of the relevant Board committee.

**CF8.3c The group-wide supervisor requires the IAIG Board to ensure that the IAIG control functions:**

- **are not combined;**
- **are subject to periodic review either by the IAIG internal audit function (for control functions other than internal audit) or an objective external party;**
- **have unrestricted access, and periodically report, to the IAIG Board or one of its committees;**
- **have access to people and information, on a group-wide or legal entity level, to carry out their responsibilities; and**
- **are headed by persons who remain suitable for their role and meet any applicable professional qualifications and standards.**

*Risk management function*

8.4 **The supervisor requires the insurer to have an effective risk management function capable of assisting the insurer to**

- **identify, assess, monitor, mitigate and report on its key risks in a timely way; and**
- **promote and sustain a sound risk culture.**

8.4.1 A robust risk management function that is well positioned, resourced and properly authorised and staffed is an essential element of an effective risk management system. Within some insurers, and particularly at larger or more complex ones, the risk management function is typically led by a Chief Risk Officer.

*Access and reporting to the Board by the risk management function*

8.4.2 The risk management function should have access and provide written reports to the Board as required by the Board, typically on matters such as:

- an assessment of risk positions and risk exposures and steps being taken to manage them;
- an assessment of changes in the insurer's risk profile relative to risk appetite;
- where appropriate, an assessment of pre-defined risk limits;
- where appropriate, risk management issues resulting from strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments;
- an assessment of risk events and the identification of appropriate remedial actions.

*Board Access and Reporting of the Compliance Function*

8.4.3 The head of the risk management function should have the authority and obligation to inform the Board promptly of any circumstance that may have a material effect on the risk management system of the insurer.

*Main activities of the risk management function*

8.4.4 The risk management function should establish, implement and maintain appropriate mechanisms and activities including to:

- assist the Board and Senior Management in carrying out their respective responsibilities, including by providing specialist analyses and performing risk reviews;
- identify the individual and aggregated risks (actual, emerging and potential) the insurer faces;
- assess, aggregate, monitor and help manage and otherwise address identified risks effectively; this includes assessing the insurer's capacity to absorb risk with due regard to the nature, probability, duration, correlation and potential severity of risks;
- gain and maintain an aggregated view of the risk profile of the insurer both at a legal entity and/or group-wide level;
- establish a forward-looking assessment of the risk profile;

- evaluate the internal and external risk environment on an on-going basis in order to identify and assess potential risks as early as possible. This may include looking at risks from different perspectives, such as by territory or by line of business;
- consider risks arising from remuneration arrangements and incentive structures;
- conduct regular stress testing and scenario analyses as defined in ICP 16 (Enterprise Risk Management for Solvency Purposes);
- regularly provide written reports to Senior Management, Key Persons in Control Functions and the Board on the insurer's risk profile and details on the risk exposures facing the insurer and related mitigation actions as appropriate;
- document and report material changes affecting the insurer's risk management system to the Board to help ensure that the system is maintained and improved; and
- conduct regular self-assessments and implement or monitor the implementation of any needed improvements.

**CF8.4a The group-wide supervisor requires the Head of the IAIG to ensure that the IAIG risk management function, at a minimum:**

- **coordinates and monitors consistent implementation of the risk management mechanisms and activities throughout the IAIG at both the group-wide level and at the legal entity level;**
- **sets out expectations relating to the group-wide responsibilities and reporting requirements of the risk management function of each legal entity within the IAIG, as applicable;**
- **sets procedures and processes for effective interaction between the risk management functions of the Head of the IAIG and of the legal entities within the IAIG;**
- **assesses the risk strategy of the IAIG and ensures that this risk strategy, including supporting processes, is implemented at the group-wide level;**
- **conducts an assessment of risks at the group-wide level, legal entity and key business line level;**
- **establishes an annual group-wide risk management plan which is approved by the IAIG Board; and**
- **makes at least quarterly risk management reports to the IAIG Board or one of its committees.**

**CF8.4b The group-wide supervisor requires the IAIG risk management function to separate risk control activities from risk taking activities.**

*Compliance function*

8.5 **The supervisor requires the insurer to have an effective compliance function capable of assisting the insurer to i) meet its legal, regulatory and supervisory**

**obligations and ii) promote and sustain a compliance culture, including through the monitoring of related internal policies.**

8.5.1 The compliance function has a broader role than merely monitoring compliance with laws and regulations and supervisory requirements; monitoring compliance with internal policies and promoting and sustaining a compliance culture within the insurer are equally important aspects of this control function.

8.5.2 Compliance starts at the top. The Board is ultimately responsible for establishing standards for honesty and integrity throughout the insurer and for creating an effective corporate culture that emphasises them. This should include a code of conduct or other appropriate mechanism as evidence of the insurer's commitment to comply with all applicable laws, regulations, supervisory requirements, and internal policies, and conduct its business ethically and responsibly.

8.5.3 As part of this commitment, the insurer has in place a robust and well positioned, resourced and properly authorised and staffed compliance function. Within some insurers, particularly larger or more complex ones, such a function is typically led by a Chief Compliance Officer.

*Board access and reporting of the compliance function*

8.5.4 The compliance function should have access and provide written reports to Senior management, key persons in control functions and the Board on matters such as:

- an assessment of the key compliance risks the insurer faces and the steps being taken to address them;
- an assessment of how the various parts of the insurer (e.g. divisions, major business units, product areas) are performing against compliance standards and goals;
- any compliance issues involving management or persons in positions of major responsibility within the insurer, and the status of any associated investigations or other actions being taken;
- material compliance violations or concerns involving any other person or unit of the insurer and the status of any associated investigations or other actions being taken; and
- material fines or other disciplinary actions taken by any regulator or supervisor in respect of the insurer or any employee.

8.5.5 The head of the compliance function should have the authority and obligation to inform promptly the Chair of the Board directly in the event of any major non-compliance by a member of management or a material non-compliance by the insurer with an external obligation if in either case he or she believes that Senior Management or other persons in authority at the insurer are not taking the necessary corrective actions and a delay would be detrimental to the insurer or its policyholders.

*Main activities of the compliance function*

8.5.6 The compliance function should establish, implement and maintain appropriate mechanisms and activities including to:

- promote and sustain an ethical corporate culture that values responsible conduct and compliance with internal and external obligations; this includes communicating and holding training on an appropriate code of conduct or similar that incorporates the corporate values of the insurer, aims to promote a high level of professional conduct and sets out the key conduct expectations of employees;
- identify, assess, report on and address key legal and regulatory obligations, including obligations to the insurer's supervisor, and the risks associated therewith; such analyses should use risk and other appropriate methodologies;
- ensure the insurer monitors and has appropriate policies, processes and controls in respect of key areas of legal, regulatory and ethical obligation;
- hold regular training on key legal and regulatory obligations particularly for employees in positions of high responsibility or who are involved in high risk activities;
- facilitate the confidential reporting by employees of concerns, shortcomings or potential or actual violations in respect of insurer internal policies, legal or regulatory obligations, or ethical considerations; this includes ensuring there are appropriate means for such reporting;
- address compliance shortcomings and violations, including ensuring that adequate disciplinary actions are taken and any necessary reporting to the supervisor or other authorities is made; and
- conduct regular self-assessments of the compliance function and the compliance processes and implement or monitor needed improvements.

**CF8.5a The group-wide supervisor requires the Head of the IAIG to ensure that the IAIG compliance function coordinates and monitors consistent implementation of the IAIG's compliance mechanisms and activities including, at a minimum:**

- **appropriate policies and processes regarding the legal and regulatory obligations, and the internal policies, of the IAIG and its legal entities;**
- **assessments of the material legal and regulatory obligations and compliance risks of the IAIG, and the steps being taken to fulfil or address them, at least annually and as required by the Board;**
- **development and embedding of group-wide corporate values throughout the IAIG;**
- **assessments of how the IAIG itself and the legal entities within the IAIG are performing against compliance standards and goals;**
- **periodic written reports on its activities to the IAIG's Board or one of its committees; and**
- **an annual group-wide compliance plan which is approved by the IAIG Board.**

*Actuarial function*

8.6 **The supervisor requires the insurer to have an effective actuarial function capable of evaluating and providing advice regarding, at a minimum, technical provisions, premium and pricing activities, capital adequacy, reinsurance and compliance with related statutory and regulatory requirements.**

8.6.1 A robust actuarial function that is well positioned, resourced and properly authorised and staffed is essential for the proper operation of the insurer. It plays a key role as part of the insurer's overall systems of risk management and internal controls.

*Board access and reporting of the actuarial function*

8.6.2 The actuarial function should have access to and periodically report to the Board on matters such as:

- any circumstance that may have a material effect on the insurer from an actuarial perspective;
- the adequacy of the technical provisions and other liabilities;
- distribution of profits to participating policyholders;
- stress testing and capital adequacy assessment with regard to the prospective solvency position of the insurer; and
- any other matters as determined by the Board.

8.6.3 Written reports on actuarial evaluations should be made to the Board, Senior Management, or other Key Persons in Control Functions or the supervisor as necessary or appropriate or as required by legislation.

*Main activities of the actuarial function*

8.6.4 The actuarial function evaluates and provides advice to the insurer on matters including:

- the insurer's insurance liabilities, including policy provisions and aggregate claim liabilities, as well as determination of reserves for financial risks;
- asset liability management with regards to the adequacy and the sufficiency of assets and future revenues to cover the insurer's obligations to policyholders and capital requirements, as well as other obligations or activities;
- the insurer's investment policies and the valuation of assets;
- an insurer's solvency position, including a calculation of minimum capital required for regulatory purposes and liability and loss provisions;
- an insurer's prospective solvency position by conducting capital adequacy assessments and stress tests under various scenarios, and measuring their relative impact on assets, liabilities, and actual and future capital levels;
- risk assessment and management policies and controls relevant to actuarial matters or the financial condition of the insurer;
- the fair treatment of policyholders with regard to distribution of profits awarded to participating policyholders;
- the adequacy and soundness of underwriting policies;
- the development, pricing and assessment of the adequacy of reinsurance arrangements;
- product development and design, including the terms and conditions of insurance contracts and pricing, along with estimation of the capital required to underwrite the product;

- the sufficiency, accuracy and quality of data, the methods and the assumptions used in the calculation of technical provisions;
- the research, development, validation and use of internal models for internal actuarial or financial projections, or for solvency purposes as in the ORSA; and
- any other actuarial or financial matters determined by the Board.

8.6.5 Where required, the actuarial function may also provide to the supervisor certifications on the adequacy, reasonableness and/or fairness of premiums (or the methodology to determine the same) and certifications or statements of actuarial opinion.

8.6.6 The supervisor should clearly define when such certifications or statements of actuarial opinion need to be submitted to the supervisor. When these are required to be submitted, the supervisor should also clearly define both the qualifications of those permitted to certify or sign such statements and the minimum contents of such an opinion or certification.

*Appointed actuary*

8.6.7 Some jurisdictions may require an "appointed actuary," "statutory actuary," or "responsible actuary" (referred to here as an "Appointed Actuary") to perform certain functions, such as determining or providing advice on an insurer's compliance with regulatory requirements for certifications or statements of actuarial opinion. The tasks and responsibilities of the Appointed Actuary should be clearly defined and should not limit or restrict the tasks and responsibilities of other individuals performing actuarial functions.

8.6.8 The insurer should be required to report the Appointed Actuary's appointment to the supervisor.

8.6.9 The Appointed Actuary should not hold positions within or outside of the insurer that may create conflicts of interest or compromise his or her independence. If the Appointed Actuary is not an employee of the insurer, the Board should determine whether the external actuary has any potential conflicts of interest, such as if his or her firm also provides auditing or other services to the insurer. If any such conflicts exist, the Board should subject them to appropriate controls or choose another Appointed Actuary.

8.6.10 If an Appointed Actuary is replaced, the insurer should notify the supervisor and give the reasons for the replacement. In some jurisdictions, such a notification includes statements from both the insurer and the former Appointed Actuary as to whether there were any disagreements with the former Appointed Actuary over the content of the actuary's opinion on matters of risk management, required disclosures, scopes, procedures, or data quality, and whether or not any such disagreements were resolved to the former Appointed Actuary's satisfaction.

8.6.11 In some jurisdictions, the Appointed Actuary also has the obligation to notify the supervisor if he or she resigns for reasons connected with his or her duties as an Appointed Actuary or with the conduct of the insurer's business and give the reasons for resigning. The Appointed Actuary should also notify the supervisor and provide an explanation if his or her appointment is revoked by the insurer.

8.6.12 The supervisor should have the authority to require an insurer to replace an Appointed Actuary when such person fails to adequately perform required functions or duties, is subject to conflicts of interest or no longer meets the jurisdiction's eligibility requirements.

**CF8.6a The group-wide supervisor requires the Head of the IAIG to ensure that the IAIG actuarial function provides an overview of the IAIG's actuarial activities, functions and risks arising within or emanating from insurance legal entities within the IAIG. This overview includes, at a minimum:**

- **group-wide risk assessment and management policies and controls relevant to actuarial matters or the financial condition of the IAIG;**
- **the IAIG's solvency position, including a calculation of regulatory capital requirements and technical provisions;**
- **the IAIG's prospective solvency position by conducting capital adequacy assessments and stress tests, under various scenarios, and measuring their relative impact on assets, liabilities, and actual and future capital levels;**
- **development, pricing and assessment of the adequacy of the IAIG's reinsurance arrangements; and**
- **actuarial-related risk modelling in the IAIG's Own Risk and Solvency Assessment (ORSA) and use of internal models.**

**CF8.6b The group-wide supervisor requires the IAIG actuarial function to:**

- **work with the actuarial functions at the insurance legal entity level to review actuarial information; and**
- **provide independent advice and reporting to the IAIG Board on the insurance activities and risks posed to the IAIG.**

*Internal audit function*

8.7 **The supervisor requires the insurer to have an effective internal audit function capable of providing the Board with independent assurance in respect of the quality and effectiveness of the insurer's corporate governance framework.**

8.7.1 One of the oversight roles of the Board is to ensure that the information provided by the internal audit function allows the Board to effectively validate the effectiveness of the internal control system.

8.7.2 The internal audit function should provide independent assurance to the Board through general and specific audits, reviews, testing and other techniques in respect of matters such as:

- the overall means by which the insurer preserves its assets and those of policyholders, and seeks to prevent fraud, misappropriation or misapplication of such assets;
- the reliability, integrity and completeness of the accounting, financial and risk reporting information, as well as the capacity and adaptability of IT architecture to provide that information in a timely manner to the Board and Senior management;
- the design and operational effectiveness of the insurer's individual controls in respect of the above matters, as well as of the totality of such controls (the internal controls system);
- other matters as may be requested by the Board, Senior Management, the supervisor or the external auditor; and
- other matters which the internal audit function determines should be reviewed to fulfil its mission, in accordance with its charter, terms of reference or other documents setting out its authority and responsibilities.

*Authority and independence of the internal audit function*

8.7.3 To help ensure objectivity, the internal audit function is independent from management and other control functions and is not involved operationally in the business. The internal audit function's ultimate responsibility is to the Board, not management. To help ensure independence and objectivity, the internal audit function should be free from conditions that threaten its ability to carry out its responsibilities in an unbiased manner. In carrying out its tasks, the internal audit function forms its judgments independently. If necessary, the internal audit function should consider the need to supplement its own assessment with third party expertise in order to make objective and independent decisions.

8.7.4 The Board should grant suitable authority to the internal audit function, including the authority to:
- access and review any records or information of the insurer which the internal audit function deems necessary to carry out an audit or other review;
- undertake on the internal audit function's initiative a review of any area or any function consistent with its mission;
- require an appropriate management response to an internal audit report, including the development of a suitable remediation, mitigation or other follow-up plan as needed; and
- decline doing an audit or review, or taking on any other responsibilities requested by management, if the internal audit function believes this is inconsistent with its mission or with the strategy and audit plan approved by the Board. In any such case, the internal audit function should inform the Board or the Audit Committee and seek their guidance.

*Board access and reporting of the internal audit function*

8.7.5 The head of the internal audit function reports to the Board (or to any member who is not part of the management) or to the Audit Committee if one exists (or its Chair). In its reporting, the internal audit function should cover matters such as:
- the function's annual or other periodic audit plan, detailing the proposed areas of audit focus, and any significant modifications to the audit plan;
- any factors that may be adversely affecting the internal audit function's independence, objectivity or effectiveness;

- material findings from audits or reviews conducted; and
- the extent of management's compliance with agreed upon corrective or risk mitigating measures in response to identified control deficiencies, weaknesses or failures, compliance violations or other lapses.

8.7.6 In addition to periodic reporting, the head of internal audit should be authorised to communicate directly, and meet periodically, with the head of the Audit Committee or the Chair of the Board without management present.

*Main activities of the internal audit function*

8.7.7 The audit function should carry out such activities as are needed to fulfil its responsibilities. These activities include:

- establishing, implementing and maintaining a risk-based audit plan to examine and evaluate alignment of the insurer's processes with their risk culture;
- monitoring and evaluating the adequacy and effectiveness of the insurer's policies and processes and the documentation and controls in respect of these, on a legal entity and group-wide basis and on an individual subsidiary, business unit, business area, department or other organisational unit basis;
- reviewing levels of compliance by employees, organisational units and third parties with laws, regulations and supervisory requirements, established policies, processes and controls, including those involving reporting;
- evaluating the reliability, integrity and effectiveness of management information processes and the means used to identify, measure, classify and report such information;
- monitoring that identified risks are effectively addressed by the internal control system;
- evaluating the means of safeguarding insurer and policyholder assets and, as appropriate, verifying the existence of such assets and the required level of segregation in respect of insurer and policyholder assets;
- monitoring and evaluating the effectiveness of the insurer's control functions, particularly the risk management and compliance function; and
- coordinating with the external auditors and, to the extent requested by the Board and consistent with applicable law, evaluating the quality of performance of the external auditors.

8.7.8 In carrying out the above tasks, the internal audit function should ensure all material areas of risk and obligation of the insurer are subject to appropriate audit or review over a reasonable period of time. Among these areas are those dealing with:

- market, underwriting, credit, liquidity, operational, conduct of business, as well as reputational issues derived from exposure to those risks;
- accounting and financial policies and whether the associated records are complete and accurate;
- extent of compliance by the insurer with applicable laws, regulations, rules and directives from all relevant jurisdictions;
- intra-group transactions, including intra-group risk transfer and internal pricing;
- adherence by the insurer to the insurer's remuneration policy;

- the reliability and timeliness of escalation and reporting processes, including whether there are confidential means for employees to report concerns or violations and whether these are properly communicated, offer the reporting employee protection from retaliation, and result in appropriate follow up; and
- the extent to which any non-compliance with internal policies or external legal or regulatory obligations is documented and appropriate corrective or disciplinary measures are taken including in respect of individual employees involved.

8.7.9 Subject to applicable laws on record retention, the internal audit function should keep records of all areas and issues reviewed so as to provide evidence of these activities over time.

**CF8.7a The group-wide supervisor requires the IAIG Board to ensure that the IAIG internal audit function provides independent assessment and assurance to the IAIG Board regarding, at a minimum, the:**

- **IAIG's group-wide policies, processes, and controls;**
- **overall means by which the IAIG preserves its assets, and those of policyholders, and seeks to prevent fraud, misappropriation or misapplication of such assets;**
- **reliability, integrity and completeness of the accounting, financial, management, information technology systems and risk reporting information;**
- **capacity and adaptability of IT architecture to provide information in a timely manner to the IAIG Board and Senior Management; and**
- **design and operational effectiveness of the IAIG's group-wide risk management and internal controls systems, as well as of the totality of such controls.**

CF8.7a.1 The IAIG internal audit function coordinates with the internal audit functions and external auditors of the legal entities within the IAIG when providing assessment and assurance to the IAIG Board.

*Outsourcing of material activities or functions*

8.8 **The supervisor requires the insurer to retain at least the same degree of oversight of, and accountability for, any outsourced material activity or function (such as a control function) as applies to non-outsourced activities or functions.**

8.8.1 Outsourcing should not materially increase risk to the insurer or materially adversely affect the insurer's ability to manage its risks and meet its legal and regulatory obligations.

8.8.2 The Board and Senior Management remain responsible in respect of functions or activities that are outsourced.

8.8.3 The supervisor should require the Board to have review and approval processes for outsourcing of any material activity or function and to verify, before approving, that there was an appropriate assessment of the risks, as well as an assessment of the ability of the insurer's risk management and internal controls to manage them effectively in respect of business continuity. The assessment should take into account to what extent the insurer's risk profile and business continuity could be affected by the outsourcing arrangement.

8.8.4 The supervisor should require insurers which outsource any material activity or function to have in place an appropriate policy for this purpose, setting out the internal review and approvals required and providing guidance on the contractual and other risk issues to consider. This includes considering limits on the overall level of outsourced activities at the insurer and on the number of activities that can be outsourced to the same service provider. Because of the particularly important role that control activities and control functions play in an insurer's corporate governance framework, the supervisor should consider issuing additional requirements for their outsourcing or dedicating more supervisory attention to any such outsourcing.

8.8.5 Outsourcing relationships should be governed by written contracts that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of all parties. When entering into or varying an outsourcing arrangement, the Board and Senior Management should consider, among other things:

- how the insurer's risk profile and business continuity will be affected by the outsourcing;
- the service provider's governance, risk management and internal controls and its ability to comply with applicable laws and with regulations;
- the service providers' service capability and financial viability; and
- succession issues to ensure a smooth transition when ending or varying an outsourcing arrangement.

8.8.6 In choosing an outsourcing provider, the Board or Senior Management should be required to satisfy themselves as to the expertise, knowledge and skills of such provider.

8.8.7 Outsourcing arrangements should be subject to periodic reviews. Periodic reports should be made to management and the Board.

**CF8.8a The group-wide supervisor requires the Head of the IAIG to have:**

- **in place an appropriate policy which takes into account the potential impact of outsourcing of any material group-wide activity or function on the IAIG business, sets out the internal review and approvals required and provides guidance on the contractual and other risk issues to consider; and**
- **written contracts that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of all parties.**

**CF8.8b** **When choosing a service provider for a material group-wide activity or function that is to be outsourced, the group-wide supervisor requires the Head of the IAIG to:**

- **perform a detailed assessment of the potential service provider's ability and capacity to deliver the outsourced activities or functions;**
- **perform due diligence on the service provider with respect to explicit or potential conflict of interests that would jeopardise the fulfilment of the needs of the IAIG; and**
- **ensure that the service provider has the necessary financial resources to perform the outsourced activities or functions in a proper and reliable way, as well as adequate contingency plans in place to deal with emergency situations or business disruptions.**

**CF8.8c** **The group-wide supervisor requires the Head of the IAIG to ensure that outsourcing of a group-wide activity or function (either to an insurance legal entity within the IAIG or to an external service provider) does not impede effective supervision at the level of the IAIG.**

**CF8.8d** **The group-wide supervisor requires the Head of the IAIG to carry out a review of the cumulative risks of all outsourced activities and functions periodically and take all necessary actions to address any identified risks.**