



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

IAIS public discussion session: Application Paper on Proactive Supervision of Corporate Governance

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Background information

- Outcome of 2014 Self-Assessment and Peer Review (SAPR): supervision of corporate governance not proactive enough
- Corporate governance-related problems often root cause of insurer's failures
- The response of the IAIS:
 - Application Paper on the Composition and the Role of the Board (endorsed by the Executive Committee on 7 November)
 - Application Paper on Proactive Supervision of Corporate Governance (covered by this public discussion session)

Overarching issues

- Nature of the Application Papers:
 - Provide further advice, illustrations, recommendations or examples of good practice to supervisors on how supervisory material could be implemented
 - Do not include new requirements (in addition to those set out in Insurance Core Principles)
- Proactive supervision of corporate governance should be carried out:
 - Proportionately to the issues identified
 - Using an approach customised to the circumstances
- Legislative changes
 - May be needed when a supervisor chooses to implement suggested supervisory practices
 - It is up to the supervisor to take the appropriate steps to do so

Issues addressed in the Application Paper

- Supervisory organisation, culture and processes
 - Various challenges, related to issues such as supervisory expertise, supervisory "blind spots", willingness to act
- Gathering relevant information from different sources
 - The supervisor needs to have relevant information to be able to carry out proactive supervision and may consider a range of approaches to gathering such information
- Yellow and red flags
 - Early warning system of mainly non-financial (but also financial) indicators of corporate governance problems
 - Proposed flags structured in several categories
- Effective communication with insurers and the wider public
 - Includes sharing with insurers and the wider public the objectives and strategy of supervision and principles guiding the supervisory approach
 - Possible different forms of communication (verbal or written; directed to the entire industry or selected insurers facing the same issues)

Outcome of the public consultation

- The Application Paper was subject to public consultation between 8 Nov and 17 Dec 2018
- 48 comments from 7 participants
- Application Paper adopted by the Executive Committee available here:

<https://www.iaisweb.org/page/supervisory-material/application-papers/file/80572/application-paper-on-proactive-supervision-of-corporate-governance>

- Public consultation comments with their resolution available here:
- <https://www.iaisweb.org/page/Homepage/file/80573/resolution-of-comments-on-application-paper-on-proactive-supervision-on-corporate-governance>

Main comments and their resolution

- Insurers are ultimately responsible for having a sound corporate governance framework
 - Reflected explicitly in para. 3.
- A variety of organisational and governance structures
 - Highlighted in para. 6.
- Supervisory steps vs supervisory measures
 - The paper in general refers to early supervisory steps and focuses on a stage of identifying and analysing corporate governance problems.
 - The meaning of supervisory steps (which are different from supervisory measures) explained in para. 7.
- Identification of yellow and red flags does not necessarily indicate broader corporate governance-related problems
 - Already reflected in the wording of para. 33 and 34. Para. 33 further redrafted to address this point.
- Description of some yellow and red flags redrafted and new flags added

QUESTIONS?
