



# IAIS

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

PUBLIC

## **Peer Review of Corporate and Risk-Governance relative to the standards set out in Insurance Core Principles 4, 5, 7 and 8**

**June 2020**

**About the IAIS**

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions. The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard setting body responsible for developing principles, standards and other supporting material for the supervision of the insurance sector and assisting in their implementation. The IAIS also provides a forum for Members to share their experiences and understanding of insurance supervision and insurance markets.

The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators, and assists in shaping financial systems globally. In particular, the IAIS is a member of the Financial Stability Board (FSB), member of the Standards Advisory Council of the International Accounting Standards Board (IASB), and partner in the Access to Insurance Initiative (A2ii). In recognition of its collective expertise, the IAIS also is routinely called upon by the G20 leaders and other international standard setting bodies for input on insurance issues as well as on issues related to the regulation and supervision of the global financial sector.

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This document was prepared by the Expert Team of the Peer Review Process on ICPs 4, 5, 7 and 8 in consultation with IAIS Members.

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## Contents

Executive summary.....	4
Acronyms.....	6
Introduction.....	7
1 Scope and Assessment Methodology.....	9
1.1 Scope.....	9
1.2 Assessment Methodology.....	9
2 Member Participation.....	10
3 Assessment Results and Observations.....	11
3.1 Insurance Core Principle (ICP) 4.....	11
3.1.1 Analysis of Observance Level.....	11
3.1.2 Area for Improvement.....	12
3.1.3 Example of Useful Practices.....	13
3.2 Insurance Core Principle (ICP) 5.....	14
3.2.1 Analysis of Observance Level.....	14
3.2.2 Area for Improvement.....	16
3.2.3 Example of Useful Practices.....	17
3.3 Insurance Core Principle (ICP) 7.....	18
3.3.1 Analysis of Observance Level.....	18
3.3.2 Area for Improvement.....	20
3.3.3 Example of Useful Practices.....	20
3.4 Insurance Core Principle (ICP) 8.....	22
3.4.1 Analysis of Observance Level.....	22
3.4.2 Area for Improvement.....	23
3.4.3 Example of Useful Practices.....	24
Annex 1: Peer Review Process.....	25
Annex 2: Participating IAIS Members by Category.....	26
Annex 3: Aggregated Results of Observance Level by IAIS Region.....	28
Annex 4: Aggregated Results of Observance Level by Member ( <i>Confidential</i> - IAIS members only Extranet).....	30

## Executive summary

1. This report provides the aggregate assessments results and observations from the IAIS Peer Review Process (PRP) on the thematic topic of *Corporate and Risk-Governance*, which included Insurance Core Principles (ICP) 4 (Licensing), 5 (Suitability of Persons), 7 (Corporate Governance) and 8 (Risk Management and Internal Controls).<sup>1</sup>
2. A total of 70 authorities participated in the PRP, of which 20 responses came from IAIS Members in FSB jurisdictions and 30 responses came from IAIS Members in the Organisation for Economic Co-operation and Development (OECD). Both figures include the four US Member states that participated. Every IAIS Region was represented<sup>2</sup>.
3. The assessment questionnaire was developed by the PRP Expert Team and consisted of 117 questions covering the 9 standards of ICP 4, 6 standards of ICP 5, 11 standards of ICP 7 and 8 standards of ICP 8.
4. The summary results of Members (by nature of jurisdiction and based on the final individual reports of each Member) indicate:

**Table 1.1**

ICPs 4, 5, 7 and 8 results	FSB jurisdictions				Other OECD jurisdictions <sup>3</sup>				Other jurisdictions				Total respondents			
	4	5	7	8	4	5	7	8	4	5	7	8	4	5	7	8
<b>Observed</b>	13	5	5	13	10	4	1	9	6	8	5	7	29	17	11	29
<b>Largely Observed</b>	7	15	14	6	4	10	13	5	30	26	27	24	41	51	54	35
<b>Partly Observed</b>	0	0	1	0	0	0	0	0	0	2	4	5	0	2	5	5
<b>Not Observed</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Not Applicable</b>	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1
<b>Total</b>	20	20	20	20	14	14	14	14	36	36	36	36	70	70	70	70

5. Overall, the observance rate per ICP has increased since the last assessment in 2014. For ICP 4, all participants in the self-assessment scored either "Observed" or "Largely Observed". For ICP 5, 98% scored either "Observed" or "Largely Observed"; and for ICP 7 and 8, 93% scored either "Observed" or "Largely Observed". The remaining jurisdictions achieved "Partly Observed".<sup>4</sup>
6. There is a confidential annex to this report (Annex 4), which shows the detailed results by standard and jurisdiction. This annex is available to IAIS Members only.
7. 178 pages of comments from the assessed jurisdictions were received following a review of the draft results. Most of the comments were related to changes to the original answer to a question or selected response option. In general, the Expert Team accepted changes to the original answers if they were convincingly justified with a supporting explanation.

<sup>1</sup> As adopted in November 2015

<sup>2</sup> Annex 2 sets out the categorisation of participating IAIS Members by IAIS Region and according to membership of FSB and OECD.

<sup>3</sup> A large majority of FSB jurisdictions also are OECD jurisdictions. "Other OECD jurisdictions" refers to jurisdictions that, while members of the OECD, are not represented at the FSB.

<sup>4</sup> In 2014 78% scored observed or largely observed for ICP 4, 79% for ICP 5, 70% for ICP 7 and 77 % for ICP 8.

8. The participants in the PRP were asked to respond to open questions and to share their supervisory practices. Based on the answers received, the Expert Team has drawn up useful practices as guidance for other jurisdictions.
9. The Expert Team did not include concrete suggestions for changes to improve compliance with certain standards in the individual reports. In view of the detailed knowledge of the legal and factual situation in a jurisdiction required for this, this must be reserved for the Members Assessment Process (MAP).

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## Acronyms

<b>AML</b>	Anti-Money Laundering
<b>CFT</b>	Combating the Financing of Terrorism
<b>ExCo</b>	Executive Committee
<b>FSB</b>	Financial Stability Board
<b>IAC</b>	Implementation and Assessment Committee
<b>ICP</b>	Insurance Core Principle
<b>NAIC</b>	National Association of Insurance Commissioners
<b>PRP</b>	Peer Review Process
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>SAPR</b>	Self-Assessment and Peer Review
<b>SAWG</b>	Standards Assessment Working Group
<b>SPFO</b>	Strategic Plan and Financial Outlook

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## Introduction

10. The mission of the International Association of Insurance Supervisors (IAIS) is to:
  - promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and
  - contribute to global financial stability.
11. In support of this mission, the IAIS has identified the implementation of the IAIS Insurance Core Principles (ICPs) by insurance supervisors as one of its strategic priorities. This priority was reaffirmed in the new 2020-2024 Strategic Plan and Financial Outlook (SPFO).
12. From 2012, the IAIS's primary assessment tool was the Self-Assessment and Peer Review (SAPR). In October 2014, the IAIS changed its By-laws. Amongst the changes, the amended By-laws state that IAIS Members commit to "undergo periodic Self-Assessments and Peer Reviews" (Article 6 (6) (c)). Since 2012, nearly 130 IAIS Members have participated in at least one SAPR. On average, 70 IAIS Members participated in each assessment, representing all IAIS Regions and economic/insurance market development stages.
13. In January 2017, the IAIS' Executive Committee (ExCo) asked a small group of ExCo members and Implementation and Assessment Committee (IAC) members to prepare recommendations on how the IAIS' assessment activities could be strengthened to build off the success of the SAPR process. In June 2017, ExCo approved a proposal to enhance the IAIS' Assessment Programme, beginning in 2018, with three distinct but complementary assessment processes:
  - a strengthened Peer Review Process (PRP) building on the IAIS' successful SAPR;
  - enhanced access to self-assessment tools with the establishment of a Self-Assessment Tool (SAT), allowing IAIS Members to undertake a self-assessment on demand; and
  - a Member Assessment Process (MAP), which provides a comprehensive review of the implementation of supervisory material by an IAIS Member.
14. The objectives for the PRP are to:
  - identify and analyse the level of observance of the standards relating to the assessment theme, including a reference to regional and global implementation status;
  - assess the effectiveness of implementation of the standards in a consistent and coherent manner;
  - identify findings and useful practices that should be communicated to the participating IAIS Members to encourage effective implementation in their supervisory practices; and
  - provide input to implementation partners on areas where there are regional or global challenges for ICP implementation.

One of the key differentiating factors for the PRP is the inclusion of examples of useful practices. Examples of useful practices could provide valuable information as to how the ICPs could be implemented in an effective manner. The report includes a synthesis of useful practices for standards where observance can present challenges. At the same

time, those practices provide insights on effective implementation of the standards of ICPs 4, 5, 7 and 8 by the IAIS Members who participated in the PRP. Consequently, useful practices may provide guidance and potential benchmarks to implementation partners.

15. The IAIS formed an Expert Team to conduct this PRP, consisting of Harald Eschmann (Germany, BaFin), Manus Carvill (Guernsey, GFSC), Emese Várkonyi Nagy (Hungary, Central Bank of Hungary), Julia Soboleva (Russia, Bank of Russia), Elizabeth Gilbert (United Kingdom, PRA), Rashmi Sutton (USA, NAIC) and Thiago de Magalhães Gaudie Ley (Brazil, SUSEP). The Standards Assessment Working Group (SAWG) and Secretariat are grateful to the Expert Team volunteers who put in many weeks of hard work to assess the participating authorities.
16. Their work was supported by Conor Donaldson, Rogier Derksen, Daisuke Hirose, Selina Keng and Akiko Nakamura from the IAIS Secretariat.



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## 1 Scope and Assessment Methodology

### 1.1 Scope

17. This PRP covers the thematic topic of **Corporate and Risk-Governance**. ICPs included as part of this PRP are:
- ICP 4 (Licensing);
  - ICP 5 (Suitability of Persons);
  - ICP 7 (Corporate Governance); and
  - ICP 8 (Risk Management and Internal Controls).
18. For the purpose of this assessment, the ICPs 4, 5, 7 and 8 that were adopted in November 2015 have been used as the basis for the assessment.<sup>5</sup>

### 1.2 Assessment Methodology

19. The ICPs set forth the objectives of insurance regulation and supervision and are the basis for assessing the regulatory framework and supervisory practices within a jurisdiction. The Assessment Methodology contained within the ICPs sets out the factors that should be considered in assessing the ICPs and describes how observance should be evaluated.
20. The framework described by the ICPs is general, recognises that supervisors require flexibility to determine how to achieve the objectives in their particular domestic context (eg legal and market structure). The Standards set forth requirements that are fundamental to the implementation of each ICP and provide the basis for assessing observance.
21. The PRP follows the assessment methodology set out in the Assessment Methodology of the ICPs:

In general, an ICP will be considered **Observed** whenever all the standards are considered to be observed or when all the standards are observed except for a number that are considered not applicable. An ICP will be considered to be **Not Applicable** when the standards are considered to be not applicable. For an ICP to be considered **Largely Observed**, it is necessary that only minor shortcomings exist which do not raise any concerns about the supervisor's ability to achieve full observance with the ICP. An ICP will be considered **Partly Observed** whenever, despite progress, the shortcomings are sufficient to raise doubts about the supervisor's ability to achieve observance. An ICP will be considered **Not Observed** whenever no substantive progress toward observance has been achieved.

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<sup>5</sup> See <https://www.iaisweb.org/page/supervisory-material/insurance-core-principles>.

## 2 Member Participation

22. The IAIS received responses from 70 authorities representing all regions and a range of market size. In general, the sample size provides a strong illustrative sample and global/regional picture of implementation although the IAIS recognises that Members who believe they have a good implementation story to share may be more inclined to participate in PRPs.
23. Every IAIS Region was represented.<sup>6</sup> Regarding the nature of the jurisdictions, 20 responses were from IAIS Members in FSB jurisdictions, and 30 from IAIS Members in OECD jurisdictions; both figures include the four US Member states that participated. 36 participating IAIS Members are from non-OECD/non-FSB Member jurisdictions.

**Table 2.1**

IAIS Region	Respondents and participation rate		FSB jurisdictions	OECD jurisdictions <sup>7</sup>	Other
North America	7	100% <sup>8</sup>	7	7	0
Latin America	5	33%	1	1	3
Western Europe	12	55%	6	11	1
Central, Eastern Europe and Transcaucasia	13	52%	1	7	6
Asia-Oceania	9	38%	4	2	5
Middle East and North Africa	6	50%	0	0	6
Offshore and Caribbean Islands	9	45%	0	2	7
Sub-Saharan Africa	9	45%	1	0	8
<b>Total</b>	<b>70</b>	<b>46%</b>	<b>20</b>	<b>30</b>	<b>36</b>

<sup>6</sup> The IAIS Regions are: North America; Latin America; Western Europe; Central, Eastern Europe and Transcaucasia; Asia-Oceania; Middle East and North Africa; Offshore and Caribbean Islands and Sub-Saharan Africa. The order of the regions is according to the IAIS Member Handbook.

<sup>7</sup> 14 OECD jurisdictions are not FSB member jurisdictions.

<sup>8</sup> Four US Member states participated in the PRP. In total, there are 56 member states counted as one membership through the US NAIC's IAIS membership.

### 3 Assessment Results and Observations

#### 3.1 Insurance Core Principle (ICP) 4

##### **ICP 4 Licensing**

**A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.**

##### 3.1.1 Analysis of Observance Level

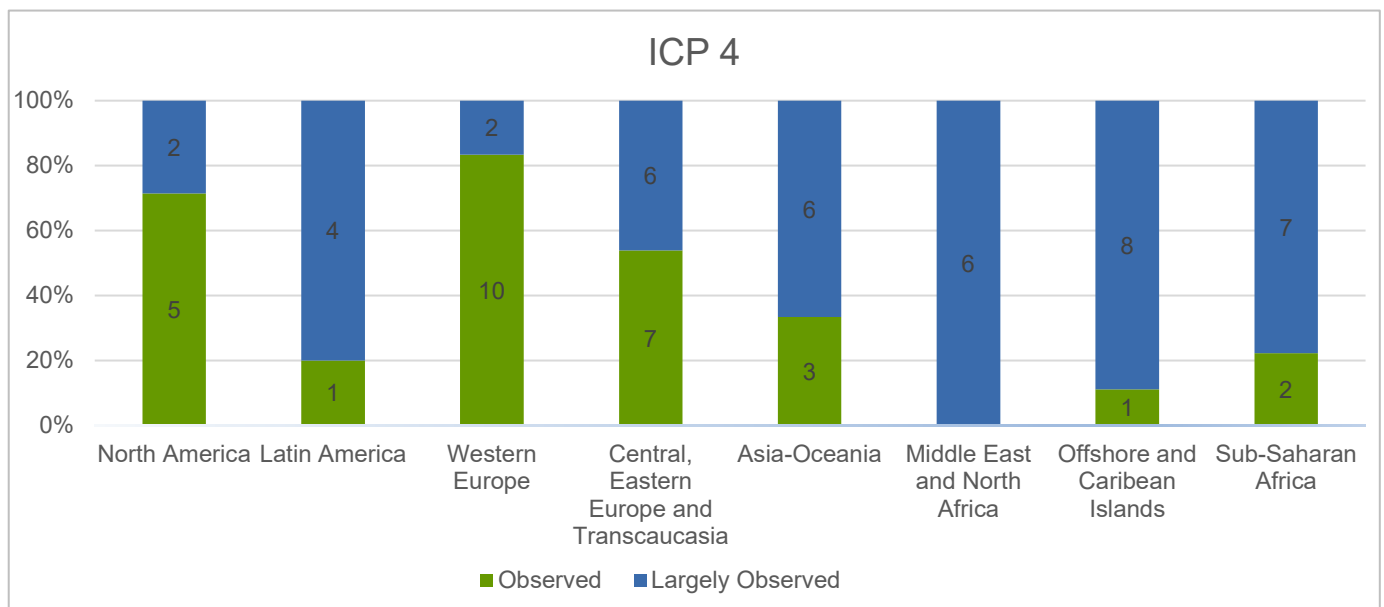
###### Overall result

24. For ICP 4 all Members were assessed either observed (29 Members – 41%) or largely observed (41 Members – 59%).

**Table 3.1**

ICP 4 results	FSB jurisdictions	Other OECD jurisdictions	Other jurisdictions	Total respondents
Observed	13	10	6	29
Largely Observed	7	4	30	41
Partly Observed	0	0	0	0
Not Observed	0	0	0	0
Not Applicable	0	0	0	0
<b>Total</b>	<b>20</b>	<b>14</b>	<b>36</b>	<b>70</b>

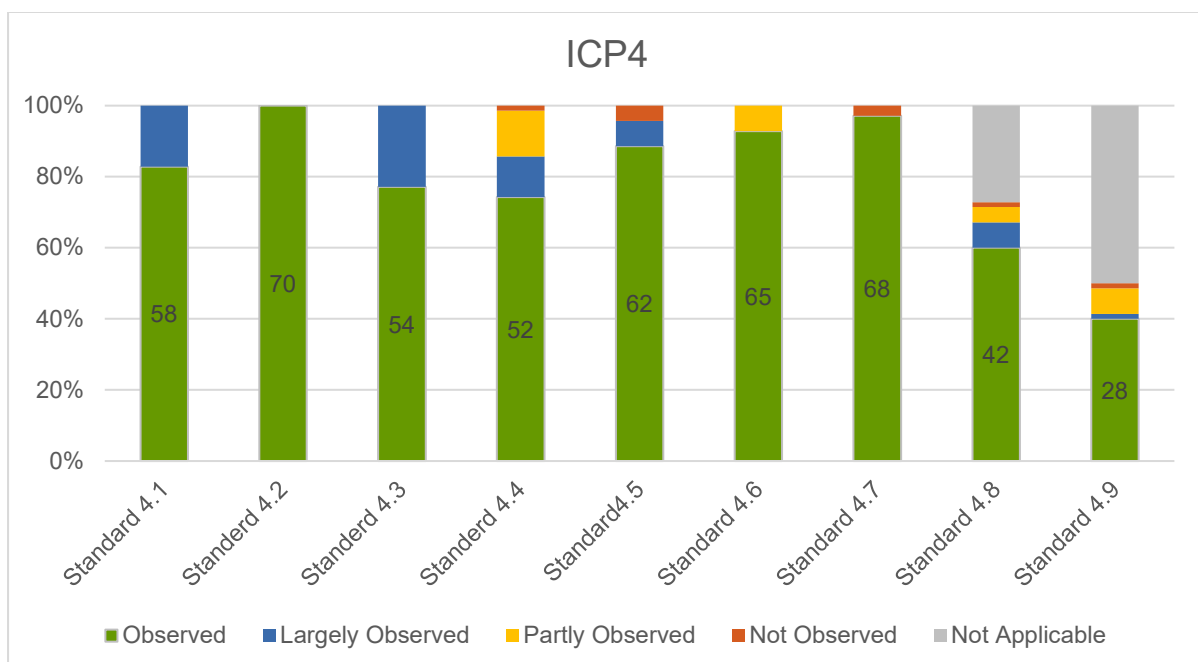
25. FSB jurisdictions and other OECD jurisdictions had the highest level of observance.



26. By regions, the observance level was highest in Western Europe followed by North America and Central, Eastern Europe and Transcaucasia, while other regions reached largely observed in the majority of cases (for Middle East and North Africa in all cases).

###### Details on the level of observance per standard

- 27. Every Member observed Standard 4.2, which states that jurisdictions issue licences to allow the conduct of insurance business.
- 28. Also levels of observance for Standard 4.1 (content of insurance legislation) and 4.3 (licensing requirements) were high with 83%/77% observed and 17%/23% largely observed, respectively.
- 29. One Member did not observe Standard 4.4, which requires a decision to be taken in reasonable time, and 9 Members were rated partly observed for this standard.
- 30. Three Members did not observe Standard 4.5, which allows for additional requirements, conditions and restrictions if an applicant does not meet all licensing conditions.
- 31. Standard 4.6, concerning the scope of the licence, was only partly observed by 5 Members.
- 32. Two Members did not observe Standard 4.7 on publication of a complete list of all licensed insurers.
- 33. Standards 4.8 and 4.9 were also difficult to observe because they are not often applicable; these standards require consultation between supervisors if insurers apply for a licence to do business on a cross-border basis.



### 3.1.2 Areas for Improvement

- 34. In several cases, the timelines for assessing a complete application are not communicated, or only on a case-by-case basis. Often this information is not publicly available. Further, there is a wide variance in what supervisors interpret as a “reasonable time”. The view of the Expert Team is that Members should assess complete applications and take a decision ideally within 3 months but at least within 6 months.
- 35. If an applicant does not fulfil all licensing requirements, supervisors should have the power to determine whether to issue a licence under additional requirements, conditions and restrictions.

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36. There should be a public list of all insurers and the scope of the licences so customers can check which products an insurer is licensed to offer.
  37. For the Expert Team, information exchange between supervisors is key when an insurer intends to do cross-border business, or to open a subsidiary in another jurisdiction, for example, to exchange information on suitability of key persons<sup>9</sup>.

### **3.1.3 Example of Useful Practices**

38. Many authorities have established a pre-application process or preliminary consultation whereby they meet with potential applicants to discuss the proposed business model and the risks posed, and to ensure greater understanding of licensing submission requirements by the applicant. This is also intended to ensure a complete submission of documentation by the applicant. Some authorities use checklists for registration and documentation requirements for licensing of insurers and reinsurers. Many authorities ensure the consistent application of licensing requirements and procedures by using published guidelines, application forms and checklists.
39. In case of foreign applicants, some authorities will consider the jurisdiction the applicant is coming from and the level of regulation within such jurisdiction, especially the effectiveness of Anti-Money Laundering/Countering the Financing of Terrorism regulations. They consider whether they have an MoU or bilateral agreement with the supervisor within the jurisdiction, and whether there are any impediments to the effective supervision of the foreign insurer.
40. A few authorities divide insurance undertakings into “impact” groups, based on the possible negative impact on financial stability and require additional conditions or restrictions.

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<sup>9</sup> This is also covered by ICP 3

### 3.2 Insurance Core Principle (ICP) 5

#### **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.**

#### 3.2.1 Analysis of Observance Level

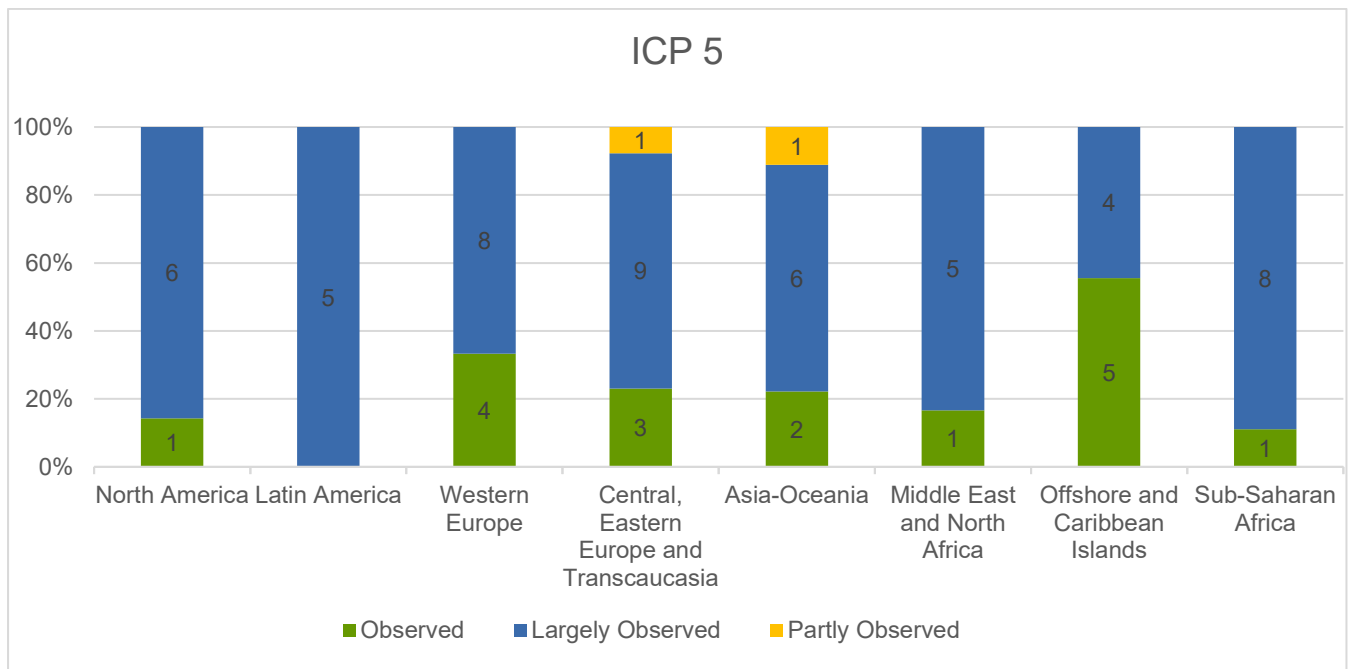
##### Overall result

41. For ICP 5, a large majority of Members were assessed as Largely Observed (51 Members – 73%) and Observed (17 Members – 24%). Only 2 Members were Partly Observed (2 Members – 3%).
42. The assessment questionnaire for ICP 5 consisted of 13 questions covering 6 standards. The results are based on the final reports of 20 IAIS Members of FSB jurisdictions, 14 IAIS Members in other OECD jurisdictions and 36 IAIS Members in other jurisdictions:

**Table 3.2**

ICP 5 results	FSB jurisdictions	Other OECD jurisdictions	Other jurisdictions	Total respondents
<b>Observed</b>	5	4	8	17
<b>Largely Observed</b>	15	10	26	51
<b>Partly Observed</b>	0	0	2	2
<b>Not Observed</b>	0	0	0	0
<b>Not Applicable</b>	0	0	0	0
<b>Total</b>	20	14	36	70

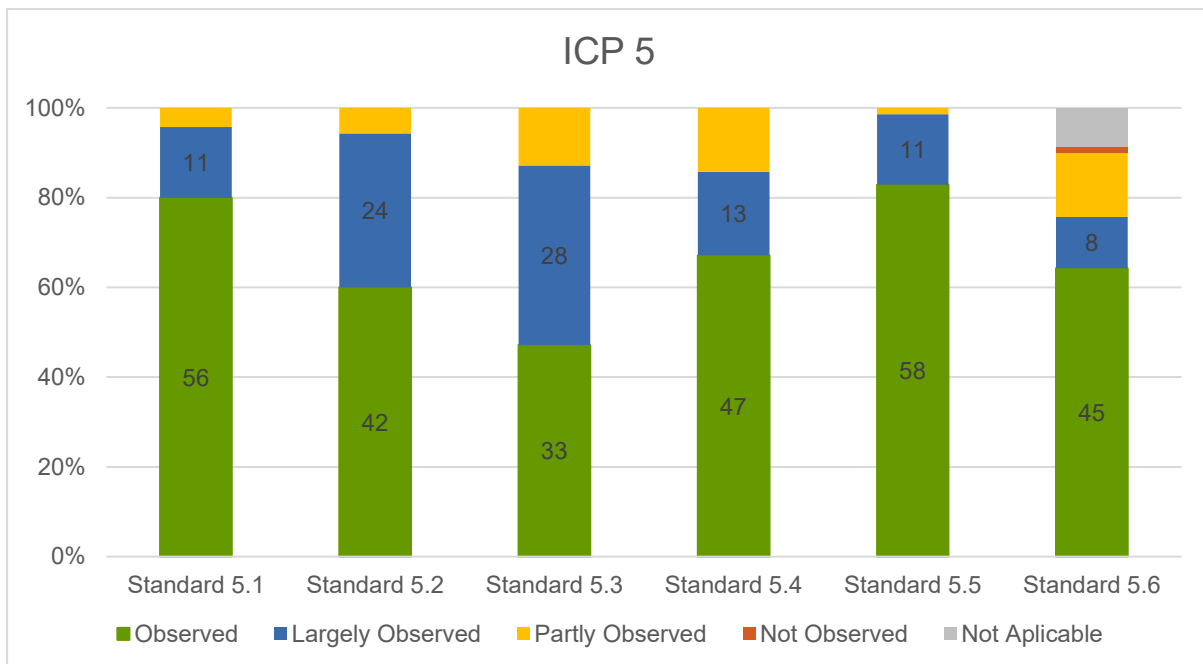
43. The results were fairly consistent across the different categories of respondents: FSB jurisdictions, other OECD jurisdictions and other jurisdictions were assessed as having similar levels of Observed (22%-29% of Members) and Largely Observed (71%-75% of Members). However, 6% of Members in other jurisdictions were assessed as Partly Observed. Aggregated results by Region can be found in Annex 3.
44. It was noted that observance of ICP 5 was high amongst participating authorities and has increased compared with the results of the assessment in 2014 where only 10 from 69 jurisdictions were assessed as Observed.



*Details on the level of observance per standard*

45. Overall observance of each of the Standards significantly increased compared with the results of the assessment in 2014 but there are still shortcomings in some jurisdictions.
46. Senior Management and Key Persons in Control Functions are not subject to suitability requirements or these requirements are not set in law.
47. Assessment of suitability of Significant Owners does not include financial soundness.
48. Insurers are not required to assess suitability of persons on an ongoing basis.
49. Supervisors rely on moral suasion as legal competences are missing.
50. Exchange of information especially with other jurisdiction is not common.

51. Detailed breakdown of results by Standard:



### 3.2.2 Areas for Improvement

52. The power to establish and enforce suitability requirements should be provided explicitly in legislation and can be elaborated in supervisory guidelines or internal supervisory communication.
53. Supervisors require insurers to assess the of suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners on an ongoing basis (entry to the role, periodically and as requested).
54. Supervisors should require insurers to notify any changes in Board Members, Senior Management, Key Persons in Control Functions and Significant Owners, and of any circumstances that may materially adversely affect their suitability.
55. Some authorities rely on other supervisory powers and interventions (supervisory pressure or moral suasion), as there is no legal basis for action, to rectify situations when Board Members, Senior Management, Key Persons in Control Functions or Significant Owners no longer meet suitability requirements. Supervisors who are lacking clear legislative power should take action to establish under legislation the possibility of taking 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.
56. Supervisors should exchange information with other supervisors when assessing the suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners. This underscores the need to establish arrangements to facilitate information exchange between supervisory authorities inside and outside their jurisdiction and to create an enabling environment for this to take place in practice.



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### 3.2.3 Example of Useful Practices

57. Many authorities described common key indicators that they use to assess the integrity of individual Board Members, Senior Managers, Key Persons in Control Functions and Significant Owners.
58. Many authorities identified criminal convictions or adverse findings in civil proceedings as a key indicator in assessing integrity. In addition, many authorities take into account an individual's financial soundness, including any history of personal bankruptcy or involvement with businesses that have gone into insolvency, liquidation or administration. One authority requires that as part of the hiring process for senior decision-makers and key risk-taking employees, insurers must provide mandatory employment references containing information on prior conduct going back 6 years.
59. Some authorities described the indicators they use when assessing the collective competence of Board Members.
60. Several authorities require Boards to undertake an annual self-assessment of their collective competence. The exact format of the self-assessment varies. A few authorities noted that they expect insurers to map the specific competences of each individual Board Member and the institution's activities and key risks in order to identify any collective deficiencies.
61. Some Authorities noted that they use the IAIS definition of Key Persons in Control Functions or the Solvency II definition of Key Function Holder.
62. Some authorities noted that they conduct on-site reviews to assess the collective competence of Board Members. On-site reviews include conversations with Directors and Senior Management, desk-based analysis of Board minutes and meeting documentation and in person observation of meetings. One authority noted that as part of an annual governance disclosure, they require insurers to share information with the authority on Board Member qualifications, the nomination and election processes and board self-evaluation processes. This information can then be used by the authority to assess collective competence.

### 3.3 Insurance Core Principle (ICP) 7

#### **ICP 7 Corporate Governance**

The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer’s business and adequately recognises and protects the interests of policyholders.

#### 3.3.1 Analysis of Observance Level

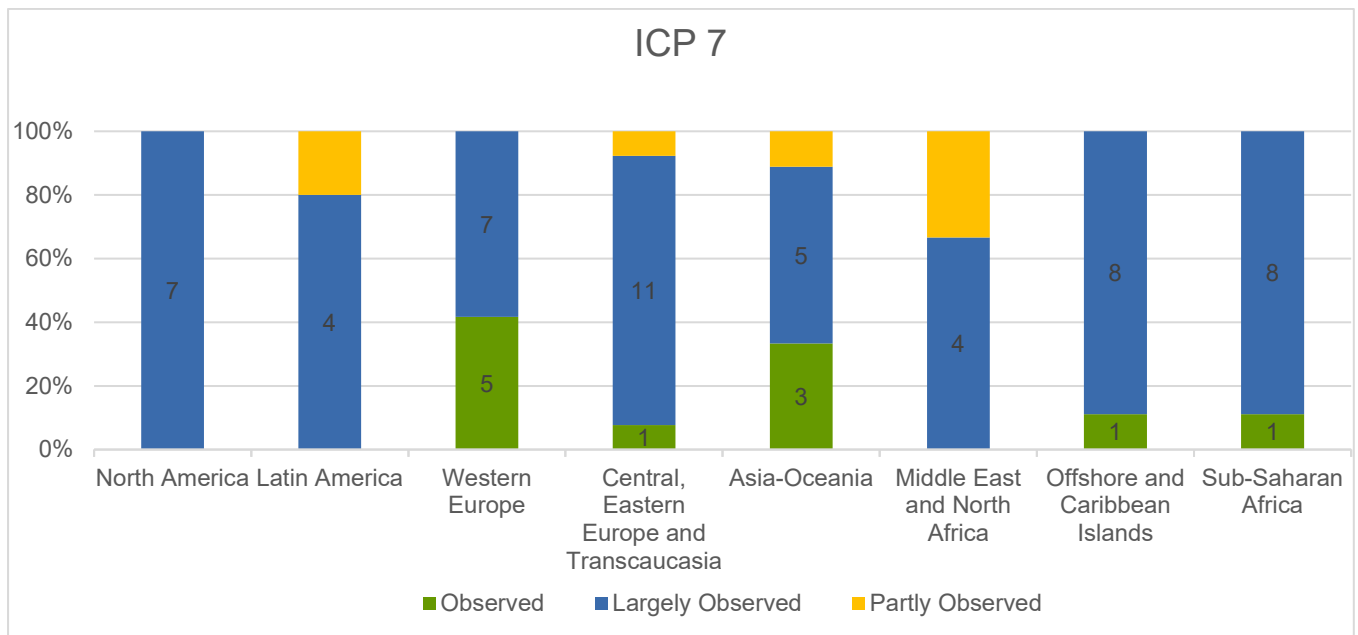
##### Overall result

63. For ICP 7, all participating authorities have been assessed as Observed (11 authorities – 15.3%), Largely Observed (54 authorities – 77.1%) or Partly Observed (5 authorities – 7.1%).

**Table3.3**

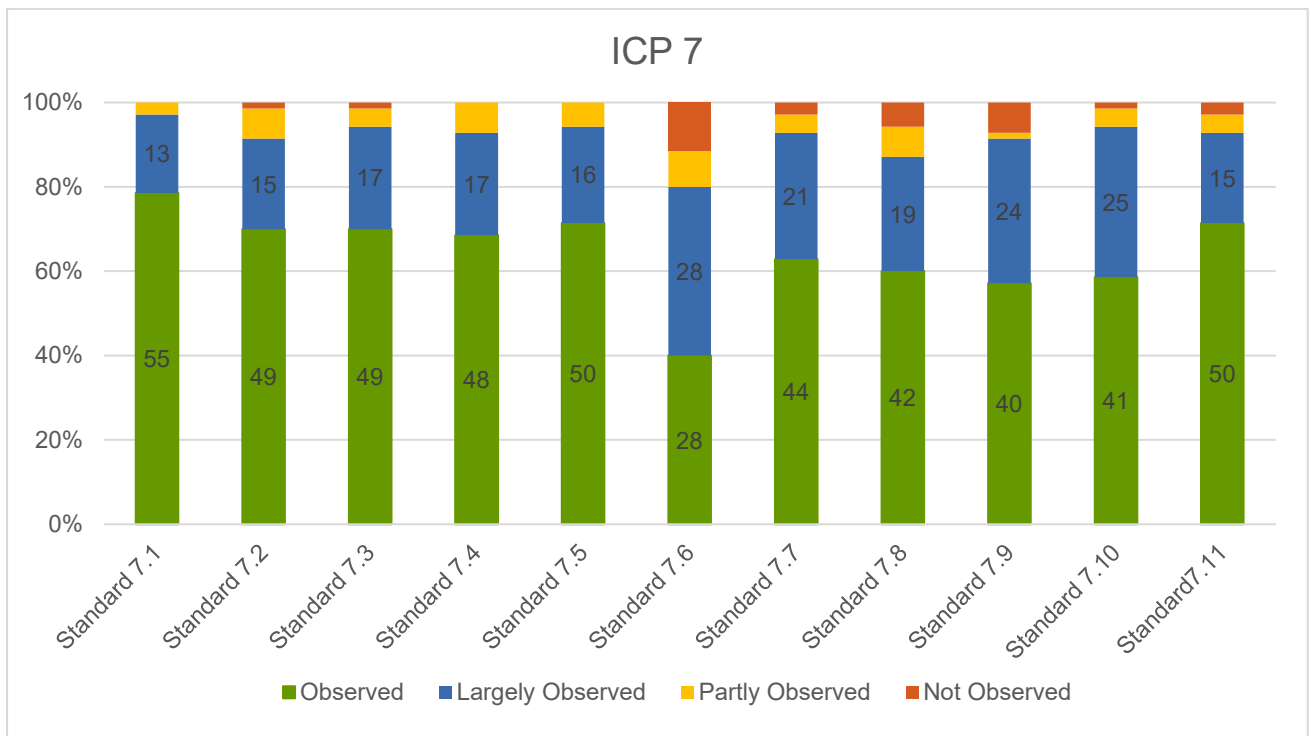
ICP 7 results	FSB jurisdictions	Other OECD jurisdictions	Other jurisdictions	Total respondents
<b>Observed</b>	5	1	5	11
<b>Largely Observed</b>	14	13	27	54
<b>Partly Observed</b>	1	0	4	5
<b>Not Observed</b>	0	0	0	0
<b>Not Applicable</b>	0	0	0	0
<b>Total</b>	20	14	36	70

64. In Western Europe, 41% of Members observe this ICP; followed by Asia-Oceania at 33%. There is a high number of jurisdictions in every Region that were found to be Largely Observed for this ICP.



*Details on the level of observance per standard*

- 65. Although a vast majority of jurisdictions either observe or largely observe ICP 7 there are still shortcomings in a few when it comes to the implementation of requirements in legislation:
- 66. Requirements on corporate governance are often set out in published supervisory guidelines and not in law.
- 67. Performance of the Board is often not assessed ongoing but only in cases of actual or potential supervisory concerns.
- 68. The adequacy and effectiveness of the corporate governance framework is not demonstrated on a regular basis.
- 69. There is often no remuneration policy in line with the corporate culture, risk appetite and the long term interest of the insurer covering at least mayor risk-taking staff.



### 3.3.2 Areas for Improvement

70. The overall conclusion is that observance of this core principle is high, however, a number of Members had gaps in standards 7.6, 7.9 and 7.10.

71. Members may consider the useful practices identified below by the Expert Team to enhance their observance of standards 7.8, 7.9 and 7.10.

### 3.3.3 Examples of Useful Practices

#### **Standard 7.8**

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

72. Some authorities described efforts to encourage communication with external auditors through different channels and reported engaging with external auditors through face-to-face meetings, such as by holding workshops to seek feedback, “structured dialogues”, engagement sessions and seminars.

73. One authority reported issuing specific guidance for auditors and stated that auditors are associate members of trade bodies, with which the authority meets on a regular basis.

#### **Standard 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.**

74. Several authorities noted they use supervisory letters to communicate concerns to the management of insurers, including after on-site examinations.

75. A number of authorities also organise meetings for industry engagement. One authority reported holding periodic breakfasts with industry representatives; another authority has established a “structured dialogue” with insurer Board Members in order to enhance and facilitate policy implementation. One authority organises specific workshops for directors and senior managers, while another organises public lectures on topics relevant to the insurance market.
76. Two authorities noted they have enhanced their communication with the industry through presenting assessment findings in a straightforward, understandable way, such as through a report card or risk matrix.

**Standard 7.11**

**The supervisor requires the insurer to demonstrate the adequacy and effectiveness of its corporate governance framework.**

77. A few authorities reported specific tools they use, such as a “scorecard” process for the assessment of insurers’ corporate governance. Another authority said they use a governance matrix to assess 142 principles segmented into a number of different concepts.
78. One authority reported requiring insurers to complete a self-assessment of corporate governance, while another authority periodically collects and evaluates the corporate governance of the insurer to allow the authority to identify any deficiencies in an insurer’s governance structures.
79. Some authorities developed manuals to evaluate corporate governance.
80. Most authorities reported taking a risk-based approach to supervision, including for assessing corporate governance, and several authorities noted specific approaches and tools used for implementing their risk-based framework.
81. A few authorities noted they use a risk scoring system, which helps to set the overall priorities and intensity of supervision, with those insurers that are assigned a higher score receiving relatively more supervisory attention.
82. Many authorities stated that the intensity of their supervision depends on many factors, using a holistic approach, such as size, class, potential impact on the market, among other relevant risk factors, with the principle of proportionality playing an important role.

### 3.4 Insurance Core Principle (ICP) 8

#### **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.

#### 3.4.1 Analysis of Observance Level

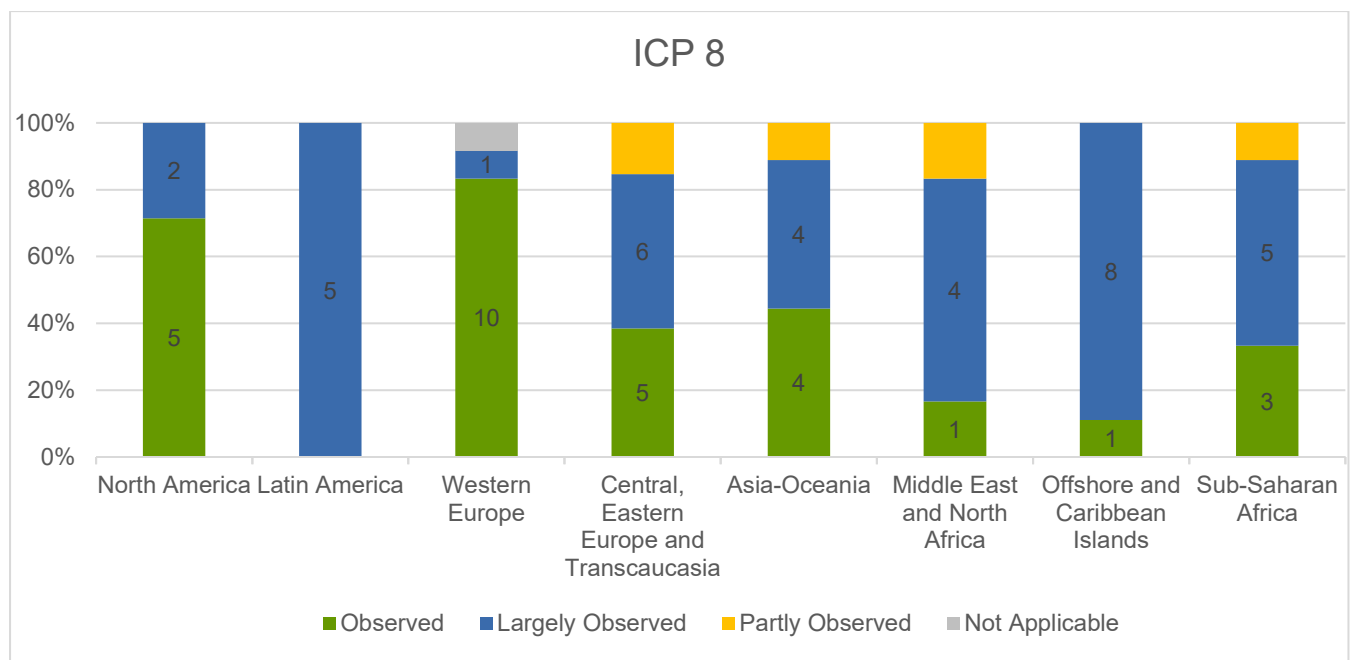
##### Overall result

83. For ICP 8, most Members were assessed as either Observed (29 Members - 41%) or Largely Observed (35 Members - 50%). Only a small minority of Members were assessed as Partly Observed (5 Members – 7%).

**Table 3.4**

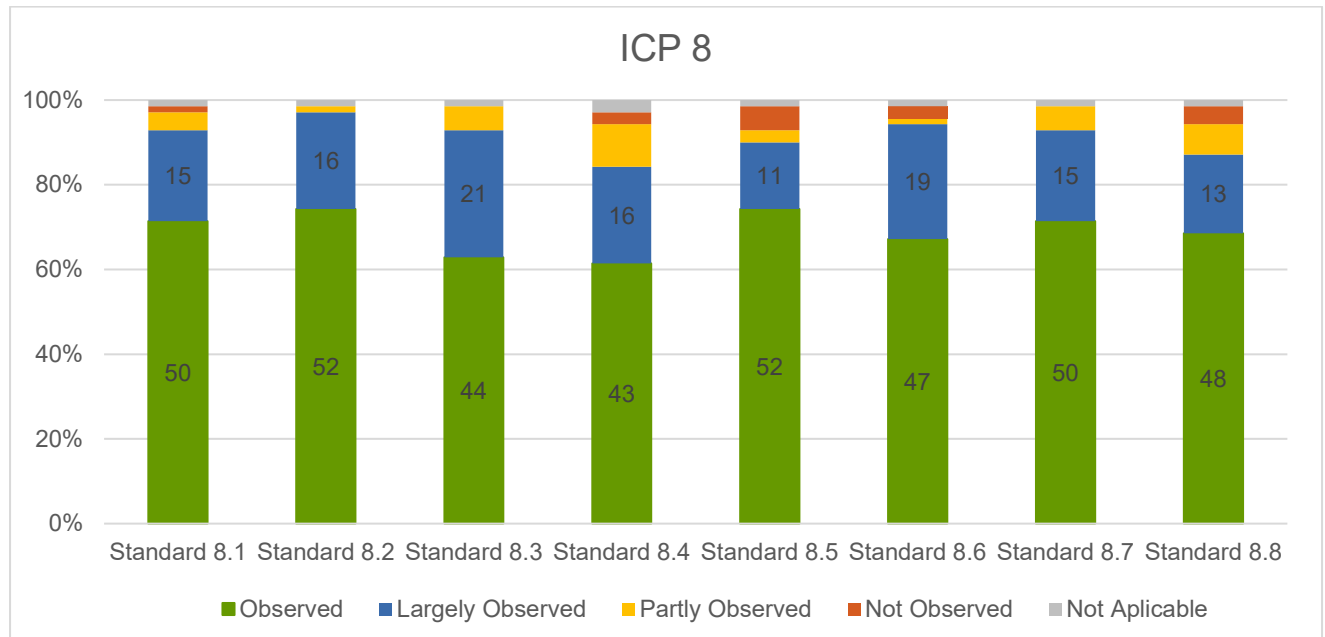
ICP 8 results	FSB jurisdictions	Other OECD jurisdictions	Other jurisdictions	Total respondents
<b>Observed</b>	13	9	7	29
<b>Largely Observed</b>	6	5	24	35
<b>Partly Observed</b>	0	0	5	5
<b>Not Observed</b>	0	0	0	0
<b>Not Applicable</b>	1	0	0	1
<b>Total</b>	20	14	36	70

84. FSB Jurisdictions and Other OECD Jurisdictions had similar observance levels. Observance of ICP 8 was lower among other jurisdictions. One Member did not participate in the peer review on ICP 8 which is considered as not applicable.



85. Observance levels were highest in Western Europe and North America, where 70% and 83% of Members respectively were assessed as Observed. In Central, Eastern Europe and Transcaucasia, Asia-Oceania and Sub-Saharan Africa observance was between 33% and 44%. In the Middle East and North Africa and Offshore and Caribbean Islands observance was lower, between 11% and 17%. In Latin America, no jurisdictions were assessed as Observed, but 100% of Members were Largely Observed.

Details on the level of observance per standard



86. Observance levels were broadly consistent across the standards.

87. Standards 8.1 (effective risk-management system) and 8.2 (effective system of internal controls) have a high level of observance. For both standards, over 71% of jurisdictions require the insurer to establish and operate within an effective risk management system and an effective system of internal controls.

88. Likewise, standard 8.4, which requires an effective risk management function, was observed by 62% of jurisdictions and largely observed by 23%. This standard had the lowest level of observance. Ratings of less than Observed were given either because the standards relating to the risk management function were not required under legislation or because the effectiveness of an insurer’s risk management function was not regularly assessed.

89. Standard 8.5, regarding the compliance function, was observed by 75% of jurisdictions. Standards 8.2 and 8.5 had the highest level of observance within ICP 8.

90. Standards 8.6 (actuarial function), 8.7 (internal audit function) and 8.8 (outsourcing) were observed by between 68% and 72% of jurisdictions.

**3.4.2 Areas for Improvement**

91. To observe ICP 8, jurisdictions should ensure that requirements relating to control functions are set out in legislation.

92. Jurisdictions should also ensure that the effectiveness of the control functions are regularly assessed.

### **3.4.3 Example of Useful Practices**

93. Supervisors have regular meetings with Board Members, Senior Managers and Key Persons in Control Functions, with the frequency of engagement based upon the risk level of the insurer.

94. Insurers must demonstrate the same degree of oversight of, and accountability for, any outsourced material activity or function as applies to non-outsourced activities. Material outsourcing contracts must be reported to the supervisor before inception. This might include a copy of the service level agreement if a supervisor thinks that proportionate to encourage the firm outsourcing to obtain sufficient oversight rights.

95. A nominated individual of sufficient seniority within the insurer has responsibility for outsourced functions. The responsible person must be suitably qualified and have sufficient time to carry out the role.

96. The supervisor requires any outsourcing agreement to give the supervisor the same access to the outsourced provider as to the insurer.

97. Before entering into outsourcing the insurer must provide a detailed exit plan for a planned or unexpected end to the outsourcing.

98. Insurers are scored for impact and risk according to scale, nature, complexity and risk profile, and these factors are used to determine the level of supervisory engagement. Factors are both quantitative and qualitative. Risk based supervision begins at the licence application stage.

99. Impact and risk factors are determined by information from: the licensee through financial and supervisory reporting (eg ORSA); thematic assessments; information from the external auditor; supervisory colleges; complaints from customers; other third party organisations as relevant. The level and frequency of supervisory engagement with licensees is determined by their impact and/or risk rating.

100. Systemic insurers are considered separately to other insurers, with a specific impact rating and additional supervision.



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## Annex 1: Peer Review Process

1. The Peer Review Process (PRP) process can be broken into multiple steps. First, a detailed, web-enabled assessment questionnaire<sup>10</sup> is developed by the Expert Team. Prior to finalising the initial questionnaire, it is circulated to the Standards Assessment Working Group (SAWG) and relevant IAIS working groups for review and comment.
2. Once the Expert Team has reviewed any comments received and finalised the questionnaire, it is sent to all IAIS Members<sup>11</sup> through an on-line survey tool. Members then submit responses to the questionnaire through the survey tool. Responses are initially assessed against quantitative rating criteria. The results are then subject to peer review by the Expert Team. Based on the initial assessment and peer review, individual jurisdiction reports for each participating Member are drafted by the Expert Team.
3. Draft individual Member reports are then sent to Members and they are asked to review their responses and the resulting assessment, and to submit comments for inclusion in the report. Corrections to factual misinterpretations are also accepted. The IAIS Expert Team reviews any comments or corrections provided by the Members before issuing a final individual report. The final individual Member reports are forwarded to the respective authority.
4. It is important to note that Members only respond to the questionnaires – they do not self-rate (ie conduct their own self-assessments). The IAIS Expert Team peer reviews the responses and assigns the ratings to ensure the consistency and independence of the process.
5. On the basis of the final assessment reports, an aggregate report is drafted by the IAIS Expert Team. The aggregate report provides key findings and summary results on a regional level. The SAWG, the Implementation and Assessment Committee (IAC) and relevant working groups are invited to provide input to the report. After a review with necessary revisions by the Expert Team, the aggregate report is then submitted to the SAWG for approval before being submitted to the IAC and Executive Committee (ExCo) for formal approval. The final aggregate report is available to the public and on the IAIS website.
6. All of the activities of the Expert Team are subject to on-going oversight by the SAWG, which is responsible for overseeing the assessment of implementation of the IAIS's supervisory material.

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<sup>10</sup> [PRP Questionnaire on ICPs 4,5,7 and 8](#)

<sup>11</sup> IAIS Members: <https://www.iaisweb.org/page/about-the-iais/iais-members>

**Annex 2: Participating IAIS Members by Category**

IAIS Member	Nature of Jurisdiction			IAIS Region							
	FSB	OECD	Other	North America	Latin America	Western Europe	Central, Eastern Europe and Transcaucasia	Asia-Oceania	Middle East and North Africa	Offshore and Caribbean Islands	Sub-Saharan Africa
Africa-CIMA			x								x
Armenia			x				x				
Austria		x				x					
Bahamas			x							x	
Belgium		x				x					
Belize			x							x	
Brazil – SUSEP	x				x						
British Virgin Islands			x							x	
Burundi			x								x
Canada – OSFI	x	x		x							
Canada (Québec)	x	x		x							
Cayman Island, BWI			x							x	
Chile		x			x						
China, Hong Kong	x							x			
China, Macao			x					x			
Chinese Taipei			x					x			
Costa Rica			x		x						
Croatia (Republic of)			x				x				
Czech Republic		x					x				
Denmark		x				x					
France - ACPR	x	x				x					
Georgia			x				x				
Germany - BAFIN	x	x				x					
Gibraltar		x								x	
Hungary		x					x				
Iceland		x				x					
India	x							x			
Isle of Man		x								x	
Italy	x	x				x					
Japan	x	x						x			
Korea (Republic of)	x	x						x			
Latvia		x					x				
Lebanon			x						x		
Liechtenstein			x			x					
Lithuania		x					x				
Macedonia (Republic of)			x				x				
Malawi			x								x

IAIS Member	Nature of Jurisdiction			IAIS Region							
	FSB	OECD	Other	North America	Latin America	Western Europe	Central, Eastern Europe and Transcaucasia	Asia-Oceania	Middle East and North Africa	Offshore and Caribbean Islands	Sub-Saharan Africa
Malaysia			x					x			
Malaysia (Labuan)			x							x	
Mauritius (Republic of)			x								x
Mexico	x	x		x							
Mongolia			x					x			
Morocco			x						x		
Namibia			x								x
Nigeria			x								x
Panama			x		x						
Philippines			x					x			
Poland		x					x				
Portugal		x				x					
Qatar (QCB)			x						x		
Qatar (QFCRA)			x						x		
Romania			x				x				
Rwanda			x								x
Serbia (Republic of)			x				x				
Slovenia		x					x				
South Africa	x										x
Spain	x	x				x					
Swaziland			x								x
Switzerland	x	x				x					
Trinidad & Tobago			x							x	
Tunisia			x						x		
Turkey	x	x					x				
United Arab Emirates - Dubai International Financial Centre (DIFC)			x						x		
United Kingdom - PRA	x	x				x					
Uruguay			x		x						
USA, Connecticut	x	x		x							
USA, Florida	x	x		x							
USA, Ohio	x	x		x							
USA, Oregon	x	x		x							
Vanuatu			x							x	
<b>Participating IAIS Members by Category</b>	<b>20</b>	<b>30</b>	<b>36</b>	<b>7</b>	<b>5</b>	<b>12</b>	<b>13</b>	<b>9</b>	<b>6</b>	<b>9</b>	<b>9</b>

### Annex 3: Aggregated Results of Observance Level by IAIS Region

ICP4 results	North America	Latin America	Western Europe	Central, Eastern Europe and Transcaucasia	Asia-Oceania	Middle East and North Africa	Offshore and Caribbean Islands	Sub-Saharan Africa
Observed	5	1	10	7	3	0	1	2
	71.4%	20.0%	83.3%	53.8%	33.3%	0.0%	11.1%	22.2%
Largely Observed	2	4	2	6	6	6	8	7
	28.6%	80.0%	16.7%	46.2%	66.7%	100.0%	88.9%	77.8%
Partly Observed	0	0	0	0	0	0	0	0
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Not Observed	0	0	0	0	0	0	0	0
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Not Applicable	0	0	0	0	0	0	0	0
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>7</b>	<b>5</b>	<b>12</b>	<b>13</b>	<b>9</b>	<b>6</b>	<b>9</b>	<b>9</b>

ICP5 results	North America	Latin America	Western Europe	Central, Eastern Europe and Transcaucasia	Asia-Oceania	Middle East and North Africa	Offshore and Caribbean Islands	Sub-Saharan Africa
Observed	1	0	4	3	2	1	5	1
	14.3%	0.0%	33.3%	23.1%	22.2%	16.7%	55.6%	11.1%
Largely Observed	6	5	8	9	6	5	4	8
	85.7%	100.0%	66.7%	69.2%	66.7%	83.3%	44.4%	88.9%
Partly Observed	0	0	0	1	1	0	0	0
	0.0%	0.0%	0.0%	7.7%	11.1%	0.0%	0.0%	0.0%
Not Observed	0	0	0	0	0	0	0	0
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Not Applicable	0	0	0	0	0	0	0	0
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>7</b>	<b>5</b>	<b>12</b>	<b>13</b>	<b>9</b>	<b>6</b>	<b>9</b>	<b>9</b>

ICP7 results	North America	Latin America	Western Europe	Central, Eastern Europe and Transcaucasia	Asia-Oceania	Middle East and North Africa	Offshore and Caribbean Islands	Sub-Saharan Africa
<b>Observed</b>	0	0	5	1	3	0	1	1
	0.0%	0.0%	41.7%	7.7%	33.3%	0.0%	11.1%	11.1%
<b>Largely Observed</b>	7	4	7	11	5	4	8	8
	100.0%	80.0%	58.3%	84.6%	55.6%	66.7%	88.9%	88.9%
<b>Partly Observed</b>	0	1	0	1	1	2	0	0
	0.0%	20.0%	0.0%	7.7%	11.1%	33.3%	0.0%	0.0%
<b>Not Observed</b>	0	0	0	0	0	0	0	0
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Not Applicable</b>	0	0	0	0	0	0	0	0
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	7	5	12	13	9	6	9	9

ICP8 results	North America	Latin America	Western Europe	Central, Eastern Europe and Transcaucasia	Asia-Oceania	Middle East and North Africa	Offshore and Caribbean Islands	Sub-Saharan Africa
<b>Observed</b>	5	0	10	5	4	1	1	3
	71.4%	0.0%	83.3%	38.5%	44.4%	16.7%	11.1%	33.3%
<b>Largely Observed</b>	2	5	1	6	4	4	8	5
	28.6%	100.0%	8.3%	46.2%	44.4%	66.7%	88.9%	55.6%
<b>Partly Observed</b>	0	0	0	2	1	1	0	1
	0.0%	0.0%	0.0%	15.4%	11.1%	16.7%	0.0%	11.1%
<b>Not Observed</b>	0	0	0	0	0	0	0	0
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Not Applicable</b>	0	0	1	0	0	0	0	0
	0.0%	0.0%	8.3%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	7	5	12	13	9	6	9	9

**Annex 4: Aggregated Results of Observance Level by Member**  
**(Confidential - IAIS Members only Extranet)**

<https://extranet.iaisweb.org/page/committees/implementation-and-assessment/reference-documents//file/90670/annex-4-aggregate-report-of-prp-on-icps-4-5-7-and-8>