



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Public

Issues Paper on Insurer Culture

November 2021

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.

Issue Papers provide background on particular topics, describe current practices, actual examples or case studies pertaining to a particular topic and/or identify related regulatory and supervisory issues and challenges. Issues Papers are primarily descriptive and not meant to create expectations on how supervisors should implement supervisory material. Issues Papers often form part of the preparatory work for developing standards and may contain recommendations for future work by the IAIS.

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This document was prepared by the Market Conduct Working Group and Governance Working Group in consultation with IAIS Members.

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Acronyms

ACPR	Autorité de contrôle prudentiel et de résolution (France)
AFM	De Autoriteit Financiële Markten (Netherlands)
AMF	Autorité des marchés financiers (Québec)
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
BNM	Bank Negara Malaysia
BSC	Balanced scorecard
CBA	Commonwealth Bank of Australia
CBR	Central Bank of Russia
CCI	Consumer Credit Insurance
CCO	Chief Compliance Officer
CCIR	Canadian Council of Insurance Regulators
CFF	Customer Fact Find
CISRO	Canadian Insurance Services Regulatory Organisations
DNB	De Nederlandsche Bank (Netherlands)
FCA	Financial Conduct Authority (UK)
FRBNY	Federal Reserve Bank of New York
FSA	Financial Services Agency (Japan)
FSB	Financial Stability Board
FI	Financial institution
FTC	Fair treatment of customers
FSCA	Financial Sector Conduct Authority (South Africa)
FSRC	Financial Services Royal Commission/ Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Australia)
G30	Group of Thirty
GCRA	Governance, culture, remuneration and accountability
HKMA	Hong Kong Monetary Authority
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles
KPI	Key performance indicator
MAS	Monetary Authority of Singapore
MB	Management Board
MPI	Mobile Phone Insurance
MRC	Mandatory Reference Checking
OIREQ	Own Initiative Requirement
OMTPL	Obligatory Motor Third Party Liability Insurance

PARP	Product Approval and Review Process
PRA	Prudential Regulation Authority (UK)
RGSA s	Risk Governance Self-Assessments
SB	Supervisory Board
SM&CR	Senior Managers and Certification Regime
TPD	Total and Permanent Disability Insurance

1 Introduction

1.1 Objectives and scope of paper

1. The IAIS' 2020-2024 Strategic Plan identifies culture as a key trend in insurance markets and insurance supervision that is likely to affect the IAIS' mission in the upcoming years.¹ Inputs from IAIS Members and stakeholders during the strategic review process undertaken in 2017-2018 highlighted that issues relating to conduct and culture are of increasing importance to both conduct and prudential supervisors, particularly in light of rapidly changing financial markets driven by innovation, shifts in consumer expectations and broader societal challenges. This has been further reinforced since 2020 as demonstrated by global insurer and supervisory responses to the impact of the Covid-19 pandemic on policyholders.

2. This calls for stronger recognition that conduct risks can lead to considerable financial soundness concerns for the sector and vice versa. Moreover, the IAIS appreciates that effective insurer cultures are pivotal to strengthening and maintaining public trust and confidence in the sector as a whole. Insurers, therefore, find themselves under increasing pressure to demonstrate a solid leadership and cultural commitment to embedding principles relating to both sound prudential management and the fair treatment of customers across all aspects of their business.

3. Accordingly, the objective of this paper is to explore the concept of insurer culture as a point of intersection for prudential and conduct risks, with a few selected examples to illustrate the broader role of culture in this regard.

4. Given the complexity of "culture" as a concept and the multi-dimensional elements that influence the cultural make-up of individual insurance businesses, this paper is not intended to provide an exhaustive analysis of the topic or to develop detailed supervisory guidance.

5. Instead, as a first step, the scope of the paper is limited to exploratory observations on the importance of insurer culture for insurers and supervisors, with the aim of advancing these observations through further engagement and the possible development of additional IAIS material, as required. Some aspects relevant to this topic have also been addressed to a certain extent in previously published IAIS material, as highlighted throughout the paper.² Such previous material should be considered as complementary to the issues described in this paper, where relevant.

6. Just as any community or organisation's culture is unique to itself, it does not seem appropriate to ascribe one "right" or "good" culture to insurers. However, an insurer's culture may be viewed through a variety of lenses to understand whether it appears healthy, sustainable, purposeful and safe. For supervisors, this would entail understanding whether the culture of a particular insurer effectively promotes positive outcomes related to its overall safety and soundness, the interests of its policyholders and other stakeholders, and the fair treatment of customers.³

¹ See [2020-2024 Strategic Plan](#).

² See for example IAIS [Issues Paper on Conduct of Business Risk and its Management](#) (2015); [Application Paper on the Composition and the Role of the Board](#) (2018); [Issues Paper on Corporate Governance](#) (2009); [Application Paper on Proactive Supervision of Corporate Governance](#) (2018).

³ See ICP 7.2.1.

7. The Insurance Core Principles (ICPs) serve as a natural starting point to help identify the various elements required to achieve a sound culture within insurers. The ICPs describe clear roles and responsibilities for setting the cultural tone of the insurer as well as for the practical embedment of this tone across the various levels and functional areas of the insurer.

8. Understanding the various elements that make up insurer culture, which in turn inform certain decisions, behaviours and practices across the insurer's business, can be critical in helping supervisors identify and address prudential and conduct issues in a more timely and effective manner. This could mitigate the potential for widespread misconduct and possible financial and consumer harm, leading to improved public confidence in the overall integrity of the sector.

9. It is also important to recognise that managing culture is not a one-off event for insurers but needs ongoing reinforcement to yield permanent and meaningful outcomes.⁴ Consequently, identifying shortcomings in an insurer's culture may prove less challenging than actually correcting them, which will require a demonstrable long-term commitment on the part of the insurer.

10. Various ICPs make explicit reference to supervisory expectations regarding insurer culture, for example:

- **ICP 7.2** states that “[t]he 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”.
- **ICP 8.4** states that “[t]he 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”.
- **ICP 19.2** states that “[t]he supervisor requires insurers and intermediaries to establish and implement policies and procedures on the fair treatment of customers, as an integral part of their business culture”.

1.2 Background

1.2.1 What is meant by “culture” in a corporate context?

11. The IAIS defines corporate culture as “[t]he set of norms, values, attitudes and behaviours of an insurer that characterises the way in which the insurer conducts its activities”.⁵

12. Similar to the complex structural components of a human being, organisations are typically made up of physiological and psychological components. Like the human psyche, corporate culture is also composed of at least two layers, one visible and in this sense working on a conscious or surface level, and another existing on a much deeper or subliminal level.

⁴ See G30 Steering Committee and Working Group on Banking Conduct and Culture, [Banking Conduct and Culture, A Permanent Mindset Change](#), November 2018, p. 30.

⁵ See [IAIS Glossary](#).

13. Corporate culture is broadly influenced by various formal and informal governance and structural factors as well as certain behavioural characteristics that underpin the organisation. For example, on the surface, an organisation's formal governance arrangements, policies and processes may be indicators of the organisation's transparency and credibility. Similarly factors that may sometimes be perceived as more informal, such as the organisation's style of communication, or office layout (where relevant), could also be signifiers of overall corporate culture. More fundamentally, beyond this surface level, corporate culture describes the collective principles, philosophies, goals and standards as well basic assumptions that influence decisions, actions and behaviour of members of the organisation. These can be dynamic and variable and, at individual level, may be influenced by personal backgrounds, prior professional experiences and other pre-existing beliefs and attitudes.⁶

Examples:

Group of 30 (G30) Steering Committee and Working Group on Banking Conduct and Culture

The G30, writing in the context of bank culture, breaks down culture as, first, a delivery mechanism – processes, policies, organisation and technology - for values and behaviours. Second, these values and behaviours – including ethics, norms, expectations and beliefs - shape the institution's conduct. Each institution's culture is unique and has to be right for that organisation.⁷

The G30 noted that institutions faced with conduct issues or scandals do not necessarily have a bad culture overall - elements of their culture are misaligned with the outcomes sought by these institutions and these drive undesirable or inappropriate behaviour. The delivery mechanism may work, for example, but the values or behaviours fail at one or more critical points, such as middle management.

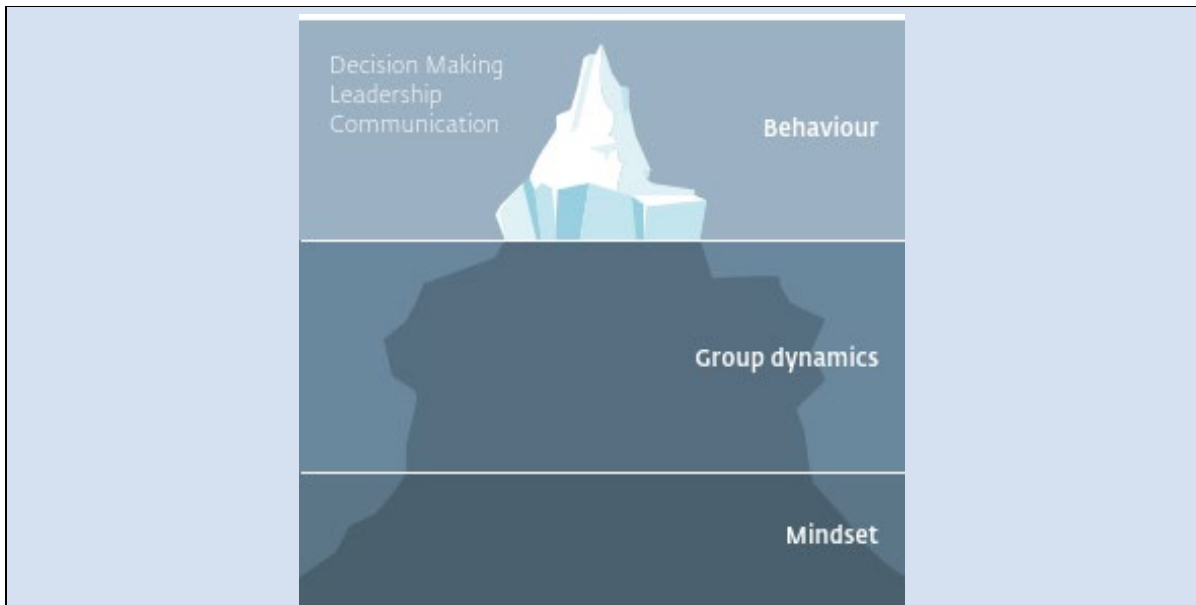
Netherlands

The De Nederlandsche Bank (DNB) uses an iceberg metaphor to visualise culture at three levels within an organisation, showing observable "behaviour" at the surface while showing "group dynamics" and "mindset" as indirectly observable beneath the surface:⁸

⁶ See for example [Cambridge English Dictionary](#); [Investopedia](#); [Gabler Wirtschaftslexikon](#).

⁷ See G30 Steering Committee and Working Group on Banking Conduct and Culture, [Banking Conduct and Culture, A Permanent Mindset Change](#), November 2018.

⁸ See DNB, [Supervision of Behaviour and Culture](#), 2015.



In DNB's model, behaviour is everything that people do that can be perceived by others. DNB's model focuses on group behaviour and the interaction between certain individual roles – such as the CEO – and the group. As such, DNB's supervision on behaviour and culture does not focus on the individual competencies of Board members, as is the case in assessing suitability.

DNB pays special attention to behaviours related to decision-making, leadership and communication, because these behaviours are considered important for groups that work together and depend on each other to achieve goals and results.

“Group dynamics” is defined as the interaction between different positions and patterns within a group or between groups, which affects overall group effectiveness.

The deepest level of organisational culture is mindset: these are the deeply held beliefs and values that often guide group dynamics and behaviour.

United Kingdom

The Financial Conduct Authority (FCA) has described culture as “the habitual behaviours and mind-sets that characterise an organisation, its key drivers being the organisation's leadership, purpose, governance and approach to managing and rewarding people”.⁹

1.2.2 Why does culture matter for insurers and supervisors?

14. It is important for insurers and supervisors to understand the key components of corporate culture because these can significantly influence the achievement of various outcomes for insurers, policyholders and other stakeholders.

15. Insurers are primarily responsible for embedding an organisational culture that consistently promotes sound prudential and conduct outcomes. The focus of insurance supervisors, on the other hand, is to assess the effectiveness of an insurer's culture in actually delivering on these outcomes.

16. An effective or “sound” culture can help, amongst others, prevent excessive risk-taking leading to more prudent and fair outcomes generally. An ineffective or “unsound” culture can

⁹ See FCA, [Transforming Culture in Financial Services Discussion Paper DP 18/2](#), March 2018.

serve as a stimulant for risky behaviour that could potentially lead to adverse outcomes not just for the insurer and policyholders, but more broadly for the insurance sector and the financial system as a whole.

17. Assessing an insurer's culture can be highly subjective and may require the thoughtful exercise of supervisory judgment on a case-by-case basis. Therefore, applying a closer and more critical eye on the culture of an insurer may help supervisors gain valuable insights into the driving forces behind certain decisions and practices within the insurer. These insights on risky behavioural patterns can lead to more accurate and earlier identification of root causes underlying certain recurring issues. This can, in turn, facilitate more proactive supervisory interventions that prevent specific prudential and conduct risks from materialising.

18. Complexities may arise when trying to pinpoint a singular or overarching culture within an insurer, particularly if "sub-cultures" form within different levels or functional areas of the business (eg between the underwriting, sales and claims functions etc), or in cases where the insurance legal entity forms part of a broader group. In the latter, it is recognised that different cultures may exist within the various entities of that broader group. Assessing how behaviours and practices filter through the different group structures, management and staff levels of the insurer as well as across its various functional areas, and geographical locations if applicable¹⁰ may provide better understanding of the depth and consistency of cultural embedment across the insurer.

19. Starting at the top, the Board has a responsibility to promote a culture of openness and debate within the Board, with proper involvement of Senior Management and Key Persons in Control Functions.¹¹

20. As part of the Board's responsibility for the effective oversight of Senior Management, the Board oversees the implementation of the insurer's corporate culture, business objectives and strategies for achieving those objectives, including oversight of the implementation of norms for responsible and ethical behaviour.¹² Promoting sound risk management, compliance and fair treatment of customers is also the responsibility of Senior Management.¹³

21. Supervisory assessments of culture often place significant focus on the tone set by the Board and Senior Management. However, decision-making and behaviours at the middle and lower levels of an insurer are critical to evaluating how deeply embedded this cultural tone is across the insurer.¹⁴

22. A positive tone at the top, including promoting a sound culture of openness and debate at all levels of the organisation, can help set norms for responsible and ethical behaviour down through middle management and front-line employees. This can be achieved by, for example, promoting employee well-being and good performance, and discouraging financial misreporting, fraud and money laundering. It can also encourage compliance with laws, regulations and internal policies and generally promote behaviours that preserve the reputation of the insurer and foster public confidence in the sector.

¹⁰ See also G30 Steering Committee and Working Group on Banking Conduct and Culture, [Banking Conduct and Culture, A Permanent Mindset Change](#), November 2018 at page 30.

¹¹ See IAIS [Application Paper on the Composition and the Role of the Board](#) (2018).

¹² See ICP 7.2 and ICP 7.2.5.

¹³ See ICP 7.10.

¹⁴ See for example speech by Martin Wheatley (Chief Executive, FCA), [Debating trust and confidence in banking](#), May 2015.

23. Consistent embedment of a sound culture within individual insurers may significantly reduce the potential for widespread misconduct and significantly increase the potential for good prudential and conduct outcomes which can result in enhanced financial soundness, stability and fair customer treatment across the sector.¹⁵

24. Leadership accountability, transparent internal communication, appropriate remuneration and performance structures, and effective consequence management for misconduct are key in facilitating the desired behaviours and entrench a sound culture within all levels and functional areas of an insurer. This is further strengthened in an insurer whose overall values, business objectives and strategies are aligned accordingly.

25. The desired behaviours alluded to above, when reinforced by an effective culture, can help facilitate the smooth day-to-day operations and functions of an insurer, and are also important when new circumstances or stress situations occur. For example, Covid-19 has had wide ranging impacts, including on personal health, lifestyle habits and work locations, which have affected insurers' interactions with policyholders as well as their own internal operations. Many of the attributes of an effective culture described above can help when dealing with change or responding to stress situations such as the Covid-19 pandemic. A sound, effective culture should contribute to the ability and willingness of insurers to adapt swiftly to events as significant as the pandemic. For insurers with an ineffective culture, the challenges and operational changes brought about by an event like Covid-19 could further exacerbate issues such as misconduct, non-compliance or risky behaviour potentially leading to adverse outcomes.¹⁶

Examples:

Australia

Insurers' staff have generally had to work remotely from March 2020 due to the Covid-19 pandemic. At the same time insurers in Australia have had to deal with claims arising from multiple natural disasters including bushfires, hailstorms and floods.

The Australian Securities and Investments Commission (ASIC) found that insurers have adopted various practices to adapt to the situation while also demonstrating a positive customer-centric culture by, for example:

- Using data to identify policyholders located in areas affected by the disasters and proactively contacting them to remind them who their insurer is, and to start the claims process.
- Setting up pop-up hubs for claims lodgement in affected, often rural and isolated areas, including in evacuation centres, and providing information directly to customers, to make it easier to initiate claims.
- Proactively communicating through different channels to ensure that customers understand the claims process and how their claim is progressing. This has been particularly important

¹⁵ See for example [Monetary Authority of Singapore Information Paper: Culture and Conduct Practices of Financial Institutions \(FIs\)](#), September 2020; [Australian Royal Commission Report into Misconduct in the Banking, Superannuation and Financial Services Industry](#), February 2019; [Financial Markets Authority and Reserve Bank of New Zealand Thematic Review of Bank Conduct and Culture](#), November 2018; [Central Bank of Ireland Review of Behaviour and Culture of the Irish Retail Banks](#), July 2018.

¹⁶ See for example MAS and the Association of Banks in Singapore, [Risk Management and Operational Resilience in a Remote Working Environment](#), March 2021; IOSCO, [Initial Findings and Observations About the Impact of COVID-19 on Retail Market Conduct](#), December 2020; <https://www.fca.org.uk/insight/conduct-culture-and-covid-19>.

during the pandemic as it has added further challenges in managing the increased claims arising from natural disasters. In previous natural disasters insurers had been able to call in extra claims assessors and traders for repairs from across the country or overseas. This has not been possible in light of travel restrictions due to the pandemic, leading to delays in some instances.

- Having centralised claims management for natural disaster claims, giving customers continuity, where possible, through the claims process.
- Waiving some claims documentation requirements once a claim has been accepted, such as accepting total loss home insurance claims without requiring itemisation of contents. This has helped to make the claims process simpler for claimants as it is extremely difficult for a claimant who has experienced total loss from a fire or flood to provide evidence of contents and their value.
- Having passed on the benefit of government funding of debris removal from affected properties, despite no contractual requirement to do so, which means that policyholders receive higher payments to help them rebuild their homes.

Netherlands

DNB has executed several change effectiveness reviews to determine what the success factors and impediments are for financial institutions (including insurers) to successfully implement organisational and cultural change programmes. This has been found to be a prerequisite for financial institutions' reactions to Covid-19.

The two most common success factors for change effectiveness were found to be:

1. Large sense of urgency for the required change and willingness to change by employees (insurance).
2. High execution power and energy to start the change.

The three main problematic patterns that were found to impede effective change were:

1. Lack of (attention for) reflective learning.
2. Lack of attention for translating change vision into behaviour and embedding the changes.
3. Ineffective top-down leadership of changes.

The failure to deliver sustainable change is caused by similar problematic behavioural patterns and cultural root causes present throughout the organisation, but these patterns particularly manifest at the top.

Root causes differ per situation, task group and financial institution, however the following commonalities were found (not an exhaustive list):

Group dynamics:

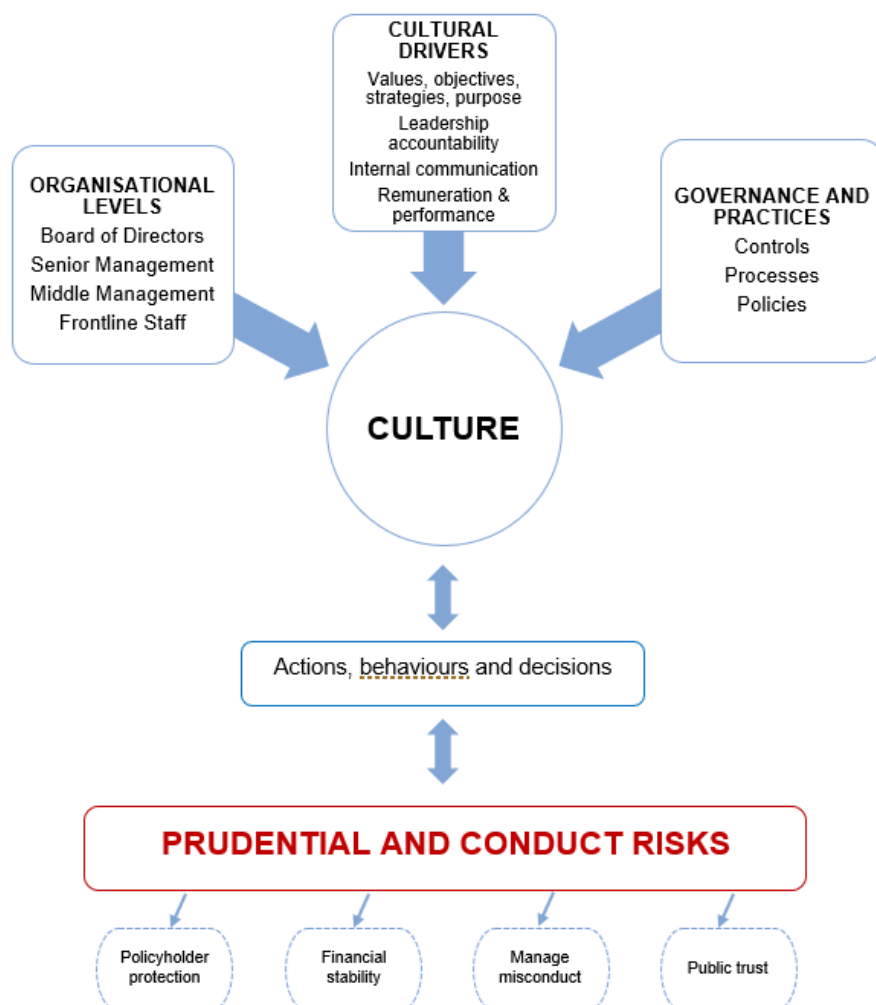
- Constructive challenge versus not dealing well with differences of opinion.
- Conflicts within or between the Management Board (MB) and Supervisory Board (SB).

Mindset:

- Differences in values and convictions that are not explicitly discussed.
- Action orientation (banks) versus analytical approach (insurers).
- Strong convictions that behaviour cannot change.
- Lack of importance attributed to behavioural risks (compared to financial risks).

26. It is recognised that a multitude of other internal and external factors may also play a role in influencing an insurer’s culture by driving specific decisions and behaviours within different aspects of its business. Similarly, some supervisors may consider additional factors beyond those highlighted in this paper as key components in their assessments of insurer culture, depending on their individual supervisory contexts. For exploratory purposes, the scope of this paper is limited to the factors mentioned in the preceding paragraphs (as summarised in *Figure 1* below) due to their foundational role in informing decisions and behaviours in virtually every aspect of an insurer’s business, and their correlation with the expectations set out in the ICPs. Additional factors not covered in this paper or in other existing IAIS material may be explored as part of future work on this topic.

Figure 1



2 The relationship between insurer culture, the management of prudential and conduct risks and the mitigation of misconduct

2.1 The role of culture as a linkage between prudential and conduct risks¹⁷

27. To a large extent, prudential and conduct risks have traditionally been assessed separately by supervisors. Prudential risks, being more quantifiable and generally resulting in impacts that are more clearly evident in the shorter-term, have customarily received greater scrutiny by insurers and supervisors. However, prudential and conduct risks can often mirror two sides of the same coin, the likelihood and impact of both types of risks being rooted in overlapping elements that make up the overall culture of the insurer.

28. While prudential risk management ostensibly focuses on the mitigation of adverse consequences for insurers themselves, conduct risk management is primarily concerned with the alleviation of potentially unfair treatment or harm to customers¹⁸. Conduct risks may not always appear to constitute immediate or direct threats to the soundness or stability of insurers, and consequently may not initially attract the attention of prudential supervisors. Nevertheless, it is increasingly being recognised that the poor management of conduct risks can lead to significant prudential concerns and vice versa.¹⁹

29. In an insurance context, both prudential and conduct risk management are, at their core, ultimately concerned with the overall protection of policyholders. It therefore follows that an integrated approach to assessing these risks could naturally result in more desirable outcomes for insurers, customers and the sector as a whole.

30. The collective set of norms, practices, decision-making and behavioural elements that make up an insurer's culture directly influences how that insurer manages both types of risks.²⁰ This makes the issue of culture a critical intersection point to help prudential and conduct supervisors gain a more universal or "integrated" view of vulnerabilities across an insurer's business, thereby identifying and addressing potential blindspots that may not otherwise be picked up through a fragmented or singular supervisory lens.

31. The cultural tone of an insurer, set at the highest level by the Board, can be an early indicator for certain prudential and conduct outcomes across the business. For example, an insurer led by a Board that demonstrates ethical and transparent decision-making (culture) can help reinforce the implementation of strong governance, risk management and internal control systems (prudential) resulting in lowered instances of unfair business practices and better outcomes for customers (conduct). On the other hand, a Board whose decisions are driven solely by interests of short-term-profit-oriented shareholders (culture) may set aggressive profitability targets (prudential) that could incentivise unfair product design, sales and claims handling practices by management and staff (conduct), which could in turn lead to

¹⁷ See also IAIS [Issues Paper on Conduct of Business Risk and its Management](#) (2015).

¹⁸ See [IAIS Glossary](#). Conduct risk is defined as "[t]he risk of financial loss or other adverse consequences that arises from insurers and/or intermediaries conducting their business in a way that treats customers unfairly or results in harm to customers".

¹⁹ See for example [Australian Royal Commission Report into Misconduct in the Banking, Superannuation and Financial Services Industry](#), February 2019.

²⁰ See for example [Australian Prudential Regulation Authority Information Paper on Transforming governance, culture, remuneration and accountability](#), November 2019.

large scale consumer complaints, litigation, reputational damage and significant longer-term losses for the insurer (prudential and conduct).

2.2 The role of culture in mitigating misconduct

32. Misconduct is generally understood as behaviour that falls short of expected standards, including legal, professional, internal conduct and ethical requirements.²¹

33. In the aftermath of the 2008 Global Financial Crisis, the risk of financial sector misconduct and its associated impact has attracted much regulatory and public scrutiny. Many of the incidences of misconduct that emerged during and since the crisis reflected, at their core, significant deficiencies in organisational culture, demonstrated through poor governance, remuneration and risk management frameworks, often driven by an unhealthy “tone at the top”.²²

34. The impact of misconduct can extend beyond individual employees or institutions and can be detrimental for consumers and the sector as a whole. This is evident in the legacy of poor outcomes, both prudential and conduct, produced by various financial scandals reported in recent years. Over time, the poor management of misconduct risk by financial institutions can lead to significant reputational damage and an erosion in market confidence.²³

35. Traditionally, supervisors have addressed misconduct risk by assessing the effectiveness of insurers’ risk management and internal control functions (eg anti-money laundering, compliance and audit processes), often focusing on isolated process breakdowns. However, as demonstrated in the examples below, some supervisors recognise that pervasive misconduct could be the result of deeper organisational deficiencies, characterised by an unsound culture, that trigger certain harmful decisions, behaviours and practices.

36. Some supervisors are therefore developing enhanced tools and approaches for identifying, assessing and managing misconduct risk that focus on assessing the underlying cultural factors that help enable or deter misconduct from occurring within financial institutions.

Examples:²⁴

Financial Stability Board (FSB)

The FSB has published a toolkit to help supervisors and financial institutions mitigate misconduct risk, utilising a multi-faceted approach.²⁵

The toolkit identifies 19 tools that can be used to address three overarching issues identified by the FSB as part of its earlier work on misconduct, namely:

²¹ See Financial Stability Board (FSB), [Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors](#), April 2018.

²² See for example speech by Andrew Bailey (Chief Executive Officer, PRA), [Culture in financial services – a regulator’s perspective](#), May 2016.

²³ See Federal Reserve Bank of New York (FRBNY), [White Paper on Misconduct Risk, Culture, and Supervision](#), Stephanie Chaly, James Hennessy, Lev Menand, Kevin Stiroh, and Joseph Tracy, December 2017.

²⁴ For additional examples also see previous footnote.

²⁵ See FSB, [Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors](#), April 2018.

- *Mitigating cultural drivers of misconduct* – including tools to effectively develop and communicate strategies for reducing misconduct in financial institutions and for authorities to effectively supervise such approaches.
- *Strengthening individual responsibility and accountability* – including tools that seek to identify key responsibilities and functions in a financial institution and assign them to individuals to promote accountability and increase transparency.
- *Addressing the “rolling bad apples” phenomenon* – including tools to improve interview processes and onboarding of new employees and for regular updates to background checks to avoid hiring individuals with a history of misconduct.

United Kingdom

The FCA seeks to identify risks of harm in an insurer’s business model and assess how effective the insurer’s culture is in mitigating these risks. The business model assessment drives the culture assessment. If the insurer’s culture is ineffective in mitigating the risks, the FCA engages with the insurer to mitigate these risks. This applies even if the insurer meets the threshold conditions so that it is, and remains capable of, effective supervision, it is properly resourced and employs suitable staff, and uses a suitable business model.

The FCA assesses potential harm from an insurer’s business model using three business model assessment groups and assesses the effectiveness of culture in mitigating these harms using the six culture assessment groups, namely, the insurer’s purpose, leadership, people policies, governance, systems and controls, and oversight.

This model is used to assess insurers and other individual institutions, as well as portfolios of smaller institutions assessed as a collective.²⁶

The FCA expects all institutions to contact their supervisor when things go wrong. Those with a culture of wanting to do the right thing see complaints and other identified issues as opportunities to make systematic improvements.

Netherlands

The Autoriteit Financiële Markten (AFM) conducts investigations into behaviour and culture at major banks, insurers and other financial providers.²⁷ The investigations are triggered by AFM’s observations of risks either at specific entities or across the market.

These investigations seek to obtain better insights into what drives people to put the customer’s interest or public interest first and make it possible to identify high risk behaviour before this results in harm.²⁸

Australia

The Australian Prudential Regulatory Authority (APRA) focuses on the risk culture of insurers, rather than looking at culture more broadly. According to APRA, risk culture refers to “the norms of behaviour for individuals and groups that shape the ability to identify, understand, openly discuss, escalate and act on an entity’s current and future challenges and risks.”

Risk culture is not separate to organisational culture but reflects the influence of organisational culture on how risks are managed. APRA’s Risk Culture 10 Dimensions is a consistent framework used by its frontline supervisors to assess cultural issues of regulated entities, including insurers,

²⁶ See FCA, [FCA Mission: Approach to Supervision](#), April 2019.

²⁷ See AFM, [Investigating behaviour and culture: How is this conducted in practice?](#), 2016.

²⁸ See also AFM, [Building a healthy organisational culture in the financial sector: inspiration for compliance officers with guts](#), Céline Christensen, Tessa Coffeng, Elianne van Steenberg, Leanne Wiegman, Tijdschrift voor Compliance number 3, June 2018.

as part of their day-to-day supervisory activities. Some of the dimensions covered include factors relating to leadership, decision-making and challenge, alignment with purpose and values, and responsibility and accountability.

37. Many insurers implement frameworks that focus on negative consequences for employee infractions to deter, and ensure accountability for, misconduct (eg warnings, lowered performance ratings, financial penalties, termination etc.). Consistent and transparent disciplinary action in response to breaches of ethics, laws and other internal codes of conduct signal a culture that does not tolerate misconduct.

38. Similarly, positive reinforcement as well as reasonable financial and non-financial incentives for good behaviour may also be effective in driving behavioural changes that promote a desirable culture, thereby reducing the risk of misconduct within the insurer (eg employee reward programmes, publicising examples of good ethical conduct by individual employees, appointing culture champions etc.).

Examples:

Singapore

The Monetary Authority of Singapore (MAS) has published an information paper that sets out several desired outcomes relating to incentive structures that MAS expects to see in banks. One of the outcomes is “[e]thical behaviour that considers customers’ interests and demonstrates prudent-risk taking are actively promoted and celebrated. At the same time, there are clear frameworks and processes to deter staff from, and hold them accountable for, misconduct through disciplinary actions and compensation adjustments”.²⁹

Several banks inspected have implemented formal penalty structures setting out the minimum levels of disciplinary actions for each category or severity level of misconduct. Disciplinary actions taken include verbal and written warnings (which could result in downward adjustments of performance ratings and remuneration, and restrictions on promotion opportunities), and for highly severe cases, termination of employment.

Examples of positive reinforcement found include rewarding exemplary staff behaviour, having senior management share at town halls about cases where staff have chosen to uphold the financial institution’s values when faced with moral dilemmas in business.

On a related note, some banks had softened the impact of disciplinary actions for staff with misconduct due to business considerations. For example, they reduced the downward adjustment in variable compensation for staff who had repeatedly breached internal policies on account of good financial performance, paid-out significant one-off financial rewards soon after financial penalties were imposed. Such actions undermined the effectiveness of the disciplinary actions and signalled to staff that financial performance and business considerations were more important than conduct and ethical issues. If such actions were allowed to persist, it would result in a culture that does not incentivise, and is not conducive to, good conduct and ethics.

²⁹ See MAS, [Incentive Structures in the Banking Industry: Fostering Sound Behaviour and Conduct](#), March 2019. While this paper was based on MAS’ thematic inspection of incentive structures in banks, the desired outcomes and good practices expected of banks have subsequently been extended to insurers.

Australia

In 2018 ASIC published a report on its review of the sale of direct life insurance including term life, trauma, accidental death, income protection and total and permanent disability (TPD) insurance.³⁰ Life insurance is sold direct to customers when it is not sold by an adviser with personal advice or through a customer's retirement fund.

The review found that sales of direct life insurance were associated with poor customer outcomes, unfair sales practices and pressure selling. One of the root causes for the persistence of these poor practices was the lack of proper consequence and performance management for misconduct.

ASIC found that insurers' and distributors' quality assurance frameworks did not consistently test for behaviours that were likely to increase the risk of poor customer outcomes and were not effective at detecting such conduct.

ASIC also found that some insurers' training and scripts prescribed concerning sales practices, such as inappropriate handling of customer objections. In some cases, expectations about appropriate sales conduct were not clearly articulated or appeared conflicted. For example, while sales staff were told not to engage in pressure selling, they were also trained in how to handle customers' objections and on sale 'closing' techniques.

39. The influence of improper consequence management for misconduct is not limited to the culture of individual institutions but can spread across the sector. Recent scandals in the banking industry, such as interest rate and currency benchmark rigging, have drawn attention to the problem of "rolling bad apples". This refers to individuals, sometimes at senior level, who are not held accountable for their misconduct at one institution and then resurface at another institution (or another division of the same institution), only to repeat their misbehaviour and possibly influence those around them to behave in a similar way.³¹

40. Individuals who are not held accountable for misconduct at one insurer may be more likely to repeat poor patterns of behaviour at other insurers. This could heighten financial and operational risks for insurers, and potentially increase the risk of certain types of consumer harm being perpetuated from one insurer to the next thereby undermining confidence in the sector as a whole. This concern may also raise specific supervisory considerations regarding appropriate punitive and remediation frameworks for misconduct by financial advisors and intermediaries, as well as other key distribution channel partners, who act on behalf of multiple insurers.³²

41. It may be helpful for supervisors to consider the rigour with which insurers assess the integrity of individuals through interview and on-boarding processes as well as ongoing background checks to avoid retaining employees, advisors and intermediaries with a propensity to engage in, or encourage, misconduct.

³⁰ See ASIC, [Report 587: The sale of direct life insurance](#), August 2018.

³¹ See FSB, [Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors](#), April 2018.

³² See Stanford Institute for Economic Policy Research, [Misconduct under the Microscope: Examining Bad Behavior by Financial Advisers](#), March 2018.

Examples:

United Kingdom

The FCA's assessment of a financial institution's culture includes considering its leadership, purpose, governance and approach to managing and rewarding its employees. As part of the Senior Managers and Certification Regime (SM&CR), the FCA expects financial institutions to take responsibility for certifying the competence and integrity of employees with the potential to cause significant harm.

The FCA has also introduced detailed requirements for the provision of references relating to those in senior management functions or with certified functions, including a requirement to revise those references where, for example, the provider of the reference is now aware of the circumstances which would have required drafting a different reference.

Hong Kong

In 2020, the Hong Kong Monetary Authority (HKMA) issued a consultation paper to solicit comments on a proposed Mandatory Reference Checking (MRC) scheme designed to address "rolling bad apples" in the banking sector.³³

Based on preliminary industry engagements, the HKMA reports that many banks favour the introduction of a MRC scheme. Under a typical MRC scheme, recruiting banks must obtain a reference from the applicant's current and former employers using a standard template containing conduct-related information. Current and former employer banks must respond to MRC requests within a specified timeframe, and all banks are required to have internal controls, policies, and procedures to support the MRC scheme.

Singapore

In 2018, the MAS issued a consultation paper on Revisions to Misconduct Reporting Requirements and Proposals to Mandate Reference Checks for Representatives. The paper proposed mandating financial institutions to conduct and respond to reference checks on representatives providing financial advisory services.³⁴

The paper also mentions that MAS is considering extending this reference check requirement to a broader segment of the financial industry beyond representatives to address the issue of "rolling bad apples". The MAS issued a separate public consultation on this proposal in May 2021.³⁵

³⁵Malaysia
In 2018, the Bank Negara Malaysia (BNM) issued requirements for mandatory employee screening as part of enhanced recruitment practices. Financial institutions are required to request employment references from current and past employees, and to furnish the same upon request. Prospective employees are also required to provide a statutory declaration on past criminal convictions and any ongoing investigations or proceedings.³⁶

42. Insurers may face practical challenges in conducting detailed background checks on certain individuals, eg where their previous employment was outside the financial sector or in another country. Nevertheless, an insurer whose culture promotes ethical decision-making

³³ See HKMA, [Consultation Paper on Implementation of Mandatory Reference Checking Scheme to Address the "Rolling Bad Apples" Phenomenon](#), May 2020.

³⁴ See MAS, [Consultation Paper P012-2018: Public Consultation on Revisions to Misconduct Reporting Requirements and Proposals to Mandate Reference Checks for Representatives](#), July 2018.

³⁵ See MAS, [Consultation Paper on Proposals to Mandate Reference Checks](#), May 2021.

³⁶ See BNM, [Employee Screening](#), March 2018.

and good conduct would be expected to take reasonable care and, on a best effort basis, obtain the relevant information, to satisfy itself of the competence and integrity of its employees at all levels, including advisors and intermediaries. This would be regardless of the individual's previous employment in another sector or country.

43. Misconduct can create or amplify a range of risks, from poor customer outcomes and financial loss to damaging the reputation and resilience of individual insurers and possibly the sector as a whole. Robust preventive and detective controls and processes go a long way to help alleviate these risks. It is important that these controls and processes operate within an overarching culture that promotes integrity, accountability and transparency to effectively mitigate potential root causes of misconduct at an institutional level.

44. It is therefore beneficial for both supervisors and insurers to understand how certain cultural drivers may reinforce specific behaviours and practices that either increase or alleviate the risk of widespread misconduct from occurring.

3 Illustrations of how cultural drivers can influence certain prudential and conduct outcomes within an insurer

3.1 Insurer's values, business objectives and strategies

45. The ICPs clearly outline the foundational dimensions of an insurer's culture, reflected through its values, business objectives and strategies.

46. ICP 7.2.3 states that “[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 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”.

3.1.1 Values

47. An insurer's values frame how things are done internally by management and staff towards achieving an overarching common purpose. In this context, “purpose” is used to describe what the insurer wants to achieve, what constitutes its success or the reason why it does what it does. It may be seen as creating meaning for employees, influencing their behaviour and steering them in a common direction. An insurer that is truly purpose led allows its employees to understand their contribution towards achieving that purpose.³⁷

48. It is not the role of supervisors to define a specific set of values for insurers. However, in assessing whether an insurer's values point to a desirable overall culture, it may be instructive for supervisors to consider the extent to which its values and underlying purpose align with expectations set out in applicable regulatory requirements.

49. For example, maximising shareholder value by focusing narrowly on short-term profitability as a primary purpose may undermine an insurer's ability to deliver on broader objectives, such as preserving its long-term viability, considering the interests of policyholders and other stakeholders and ensuring the fair treatment of customers, all of which are expectations that underpin the ICPs.³⁸

50. On the other hand if, for example, an insurer's stated purpose is “to serve customers with integrity”, it signals a clear commitment to aligning its culture with the principle of treating customers fairly, and by extension sound prudential management for the protection of policyholders in the long term. This broader purpose can help frame the insurer's values, ethics, standards and attitudes relating to how things are done across the business from product development and distribution decisions to dealing with sales, claims and complaints.

³⁷ See Deloitte, [Culture, Customer, Purpose: Key recommendations and impacts of the Hayne Royal Commission](#) and [Australian Royal Commission Report into Misconduct in the Banking, Superannuation and Financial Services Industry](#), February 2019.

³⁸ See for example ICP 7, ICP 7.2 and ICP 7.2.1.

Examples:United Kingdom

The FCA sees purposeful direction as part of a broader societal expectation on financial institutions and their leadership to act on climate change, on social diversity and inclusion, on environmental, social and governance issues, on the ethical use of data as well as acting in the best interests of customers.

The FCA has found that setting an insurer's purpose purely in terms of maximising short-term profit is unlikely to create positive outcomes for all its existing customers or attract new potential customers in the long run.

The practice of 'price walking', for example, maximises profits by using "complex pricing practices that allow (insurers) to raise prices for consumers that renew with them year on year". This has been found to erode public trust in insurers.³⁹

South Africa

At the start of the Covid-19 pandemic the Financial Sector Conduct Authority (FSCA) was approached by a number of insurers that indicated they would like to provide premium relief to policyholders to help alleviate the financial impact of the pandemic.

At the same time, the Financial Intermediaries Association of Southern Africa (FIA) alerted the FSCA that the granting of premium relief to policyholders may have an unintended negative impact on the liquidity of intermediaries many of whom are small businesses and may be unable to sustain a reduction in their core income streams for a prolonged period. This potential reduction in income was due to regulation precluding insurers from paying intermediary commission prior to the receipt of policyholder premiums.

As a result, the FSCA granted regulatory exemptions to insurers and intermediaries, that provided premium relief to policyholders, but at the same time allowed insurers to continue paying commission to intermediaries and for intermediaries to accept the same, subject to specific conditions. This proactive approach collectively by insurers and intermediaries resulted in a solution aimed at protecting both the interests of customers as well as the sustainability of the intermediary sector. This was recognised by the FSCA as a positive reflection of the values of the industry as a whole.

51. However, a meaningful set of values and a strong underlying purpose are not necessarily enough to ensure the consistent delivery of positive prudential and conduct outcomes. It is important that these values are practically embedded across all levels and aspects of the insurer's business through steady reinforcement by other cultural factors such as leadership accountability, appropriate performance metrics and effective consequence management.

Example:Australia

In the previously mentioned review of the sale of direct life insurance in Australia, ASIC found that another root cause for the persistence of poor customer outcomes and unfair selling practices was a

³⁹ See FCA, [Transforming culture in financial services: Driving purposeful cultures Discussion Paper DP 20/1](#), March 2020.

misalignment between an insurer's "target culture" (eg corporate goals) and its "observed culture" (ie what actually happened in practice).⁴⁰

All insurers had one or more corporate values that focused on the customer. However, when it came to translating these values into concrete and measurable outcomes, many insurers focused on fairly limited or short-term metrics, such as customer service measures.

Other examples of cultural disconnect included differences between explicit messages (eg in training materials) and implicit messages (eg compliance tests).

Russia

For the majority of Russian insurers, meeting customer needs is a key value embedded in their corporate culture. During the Covid-19 pandemic, providing the standard high level of service proved to be a challenge, which forced many insurers to shift their business processes towards becoming more digitalised, entrepreneurial and innovative.

In this regard, Russian insurers upgraded their websites and the features of customers' personal online accounts to expand their online product offerings and enable online settlement of claims. Another innovation was to provide free courier services to collect documents from customers' homes and deliver them to insurers, thus facilitating remote claims settlement. This was done to accommodate digitally-challenged customers and to ensure business continuity in compliance with local regulatory requirements.⁴¹

52. Through consistent practical reinforcement, a clear and meaningful set of values can help create long-term yields for the insurer, policyholders and other stakeholders, and can help maintain a culture of trust, reciprocity and integrity. It can also directly influence the development of the insurer's business objectives and strategies, and alleviate any potential harm arising therefrom.

3.1.2 Business objectives and strategies

53. Alongside an insurer's set of values, its business objectives and strategies form the basis for shaping its overall culture.

54. The business objectives and strategies of an insurer refer to specific courses of action, delivery channels, product developments and resource allocations adopted by the insurer to achieve its basic long-term goals (or fulfil its underlying purpose), ie formulation of its business model.

55. This could include factors such as developing the insurer's unique value proposition, determining how to respond to external competitive and other pressures, optimising methods to reach targeted customer segments and leveraging potential growth and expansion opportunities.

56. It is important that an insurer's business objectives and strategies, and by extension its business model, align with its values and underlying purpose to drive a culture that promotes sound prudential management and the fair treatment of customers.

57. The way an insurer's business objectives and strategies are operationalised across its business can be a direct reflection of the overall culture of that insurer. The lack of coherent

⁴⁰ See ASIC, [Report 587: The sale of direct life insurance](#), August 2018.

⁴¹ See also KPMG, [Russian Insurance Market Survey](#), 2020.

and meaningful objectives and strategies, together with failure by the insurer's leadership to translate those objectives and strategies into clear behavioural expectations (desired and undesired behaviour) for middle management and frontline staff as part of their day-to-day roles could result in significant operational failures, financial and customer harm, and reputational damage for the insurer.

Examples:

United Kingdom

The Prudential Regulation Authority (PRA) found several deficiencies in an insurer's strategic decision-making and operationalisation processes. These deficiencies pointed to elements of an "unhealthy" culture, such as an extensive strategic change in a challenging timeframe, combined with strategic cost reduction targets, which resulted in significant resource stretch across the control and finance function. In addition, there was limited tolerance of challenge to the strategic vision, resulting in reluctance to speak out.

The combination of these resulted in a mindset of achieving strategic targets "at all costs", which in turn led to a failure to fully address/ revisit areas of inadequate controls. In addition, there was an increase in operational control failures due to opaque governance underpinning risk acceptance levels.

Netherlands

In recent years the AFM's Behaviour and Culture team has examined the Product Approval and Review Process (PARP) of large insurers.

The supervision of PARPs consists of both 'hard' and 'soft' elements. Hard elements are more tangible and therefore easier to review, for example whether or not there is a clearly defined (negative) target group for the product or a distribution strategy.

Soft elements are intangible and take more effort to review, for example the way in which decisions are made, what perspectives are talked about and the level of self-reflectiveness amongst employees. Taking notice of these softer elements helps to get a better understanding of the practice within insurers and provides a fruitful basis for dialogue on potential areas for improvement relating to the insurer's overall culture.

Examples of findings from the PARP include the following:

- The customer's interest (customer perspective) is not always taken into account in (proposal) documents or is not formally represented by product committee members when making (important) decisions.
- A more self-reflective culture among employees stimulates the level of attention for the customer's interest and the development of products and services that are beneficial to customers.
- Timely reflection on both content and process helps to improve the quality and speed of decision-making.

These findings have led to several remedial measures by insurers, for example:

- Embedment of customers' interests within decision documents and formal representation of the customer perspective within product committees.
- Dialogue amongst insurers on the negative effects of first mover (dis)advantage for product development and collective responsibility.

Canada

Example 1

The Autorité des marchés financiers (Québec) (AMF) conducted a Group Disability Insurance cross-sectional analysis and published a report in March 2019 that highlights some elements to improve culture relating to fair treatment of customers (FTC).⁴² This includes that FTC objectives should be established for group disability insurance and indicators developed to assess the extent to which those objectives are being met.

The AMF also concluded that a quality assurance programme, which helps ensure that the criteria set for the examination of group disability claims are satisfied, should be put in place. Quality assurance checklists that are used to assess whether the criteria are met should contain FTC-related items, enabling insurers to ascertain whether participants have been treated fairly throughout the disability claims process. Incorporating such criteria into the quality assurance programme is a valuable means of strengthening the corporate FTC culture in group disability insurance files, especially with regards to mental health disabilities.

Example 2

The Canadian Council of Insurance Regulators (CCIR) and Canadian Insurance Services Regulatory Organisations (CISRO) have published guidance on conduct of insurance business and fair treatment of customers. The guidance highlights, amongst other things, that a customer-centric culture fosters consumer confidence and long-term customer relationships. This is preferred over a culture that focuses on short-term financial goals that could cause customer harm and potentially damage the organisation's reputation to the point of having an adverse impact on profitability.⁴³

58. The insurer's Board, as part of its responsibility to set and oversee the insurer's business objectives and strategies, is expected to consider potential risks that could arise from these objectives and strategies, and whether the insurer's overall culture promotes decision-making, behaviours and practices aimed at mitigating or preventing those risks from materialising.

59. It is important for middle management and frontline staff to take ownership of their roles in order to implement the insurer's business objectives and strategies in line with the cultural tone set by the Board and Senior Management.

60. Involving employees at all levels and across all areas of the business, including staff in control functions, points toward a deep-rooted culture of open communication, transparency and accountability. This can be done, for example, by ensuring that the insurer's risk appetite is aligned with the insurer's business strategy and is embedded in its day-to-day activities.⁴⁴ Such involvement can then translate more directly into positive outcomes for the insurer and customers across the insurance value chain through improved product design processes, fair and transparent pricing and selling practices, better claims and complaints handling, and even selection of more sustainable business opportunities.

⁴² See AMF, [Group disability insurance cross-sectional analysis report](#), March 2019.

⁴³ See CCIR /CISRO, [Guidance Conduct of Insurance Business and Fair Treatment of Customers](#), at page 9.

⁴⁴ See ICP 8.1.2.

Examples:Japan*Example 1*

In 2018, the Financial Services Agency (FSA) published a discussion paper on its approach to compliance risk management. It highlights that "compliance risk is closely related to business model/strategy and corporate culture".⁴⁵

Example 2

The FSA found that in a certain case, top management put corporate goals ahead of internal rules. This resulted in reducing claims payment and reserves, and delayed claims payment with no rational reasons. In addition, the top management did not allocate adequate human resources to internal controls. For example, the top management assigned the CCO (Chief Compliance Officer) with other responsibilities. As the CCO was too busy with these other responsibilities, the CCO was not able to conduct thorough investigations of misconduct.

United Kingdom

The FCA wants financial institutions to see the benefits of elevating culture to the same level of importance as business strategy, in terms of better outcomes for employees and consumers, but also in terms of contributing to sustainable growth and creating an environment better equipped to cope with uncertainty.

The FCA has the power to move quickly to stop harm occurring, eg through imposing an Own Initiative Requirement (OIREQ) on an insurer and to work with that insurer to address the drivers of culture and its business model and strategy to prevent a recurrence of harm in the future.⁴⁶

3.2 Leadership accountability

61. Clear lines of accountability for the senior leaders in an insurer encourage them to take ownership of risks and issues across the business, and to take steps to prevent misconduct, including by promoting a sound culture.

62. Leadership accountability that is consistently demonstrated across the insurer fosters a culture of trust and confidence internally amongst employees, and creates a positive external impression with consumers, supervisors and other stakeholders, about the management of the business. This includes ensuring actions that are taken for breaches of internal policies and processes and non-adherence to the insurer's codes of conduct are applied in a fair, timely and consistent manner across the insurer and to all employees at all levels.

63. Conversely, an absence of clear accountability for discharging these responsibilities can create frustration, mistrust and low morale amongst employees, which may in turn negatively impact their behaviour, potentially leading to operational failures, financial losses and poor customer outcomes.

⁴⁵ See [JFSA's Approach to Compliance Risk Management](#), September 2019.

⁴⁶ See FCA, [FCA Mission: Approach to Supervision](#), April 2019.

Examples:Australia

In 2018, APRA announced a prudential inquiry into the Commonwealth Bank of Australia (CBA) (one of Australia's four largest retail banking groups) to examine the frameworks and practices in relation to the governance, culture and accountability within the CBA group.⁴⁷

The overarching conclusion from the inquiry was that "CBA's continued financial success dulled the senses of the institution", particularly in relation to the management of non-financial risks.

The inquiry identified a number of key shortcomings, including the following:⁴⁸

- Lack of senior leadership and Board oversight on issues of conduct and culture;
- Inadequate oversight and challenge by the Board and its gatekeeper committees of emerging nonfinancial risks;
- Unclear accountabilities, starting with a lack of ownership of key risks at the Executive Committee level;
- Paucity or nonexistence of sufficient internal controls; and
- Lack of alignment between banking remuneration practices and frameworks and indicators of good conduct.

Following the inquiry, Risk Governance Self-Assessments (RGSAs) were requested from 36 additional entities. The RGSAs focused those entities on governance, culture, remuneration and accountability (GCRA) related issues and provided APRA with additional information on these important areas.⁴⁹

United Kingdom

A UK insurer entered into a relationship with a Third Party to enable the Third Party to provide mobile phone insurance (MPI) to retail customers in the UK, underwritten by the insurer. The Third Party agreed to undertake all administrative functions on behalf of the insurer, including all claims and complaints handling functions, with the insurer being responsible for oversight of the Third Party and compliance of these functions.

There was a lack of oversight from the Board and senior management on development of conduct risk controls, and the design and implementation of a conduct risk framework did not progress with sufficient speed. As a result of this, a significant number of customers were exposed to unfair treatment in respect of MPI claims and complaints.

Subsequently a financial penalty was imposed on the insurer for its failure to exercise appropriate oversight of its Third Party.

United States

Since 2016, there have been various regulatory, congressional and other oversight investigations into widespread consumer abuses, risk management deficiencies and regulatory compliance breakdowns at Wells Fargo, one of the largest financial institutions in the United States (US).⁵⁰

⁴⁷ See APRA, [Prudential Inquiry Into The Commonwealth Bank of Australia](#), April 2018.

⁴⁸ See also G30 Steering Committee and Working Group on Banking Conduct and Culture, [Banking Conduct and Culture, A Permanent Mindset Change](#), November 2018 at page 6.

⁴⁹ See APRA, [Information Paper: Self-assessments of governance, accountability and culture](#), May 2019.

⁵⁰ See US House of Representatives Committee on Financial Services, [The Real Wells Fargo: Board & Management Failures, Consumer Abuses, and Ineffective Regulatory Oversight](#), March 2020.

A common finding across these investigations was the long-standing failure of the Board and other leadership to prioritise ethical decision-making, sound risk management and consumer protection throughout the bank. The lack of institutional accountability for toxic selling practices and general enterprise-wide control weaknesses was identified as a key factor that enabled widespread misconduct at all levels.

64. As mentioned earlier, the strengthening of individual responsibility and accountability has been recognised by the FSB as one of the overarching tools for strengthening governance frameworks aimed at mitigating misconduct risk.⁵¹ The importance of Board accountability has also been highlighted by the IAIS in previously published material.⁵²

65. There are two major accountability relationships within an insurer. The Senior Management is accountable to the Board. The Board is ultimately accountable to a potentially wide range of stakeholders, namely shareholders, policyholders, members, supervisors and the marketplace. The boundaries of the Board's accountability depend on the nature of the insurer (eg publicly listed) and may vary by jurisdiction.⁵³

66. Various tools may be used by insurers and prudential and conduct supervisors to identify key responsibilities and functions across an insurer and implement measures to hold specific individuals accountable for the outcomes generated by discharging these responsibilities and performing these functions.⁵⁴

Examples:

Singapore

In 2020, MAS issued guidelines for individual accountability and conduct across financial institutions.⁵⁵ The guidelines focus on measures that financial institutions (FI) should put in place to promote the individual accountability of senior managers, strengthen oversight over material risk personnel, and reinforce standards of proper conduct amongst all employees. In this regard, the guidelines set out five accountability and conduct outcomes:

1. Senior managers responsible for managing and conducting the FI's core functions are clearly identified;
2. Senior managers are fit and proper for their roles, and held responsible for the actions of their employees and the conduct of the business under their purview;
3. The FI's governance framework supports senior managers' performance of their roles and responsibilities, with a clear and transparent management structure and reporting relationships;
4. Material risk personnel are fit and proper for their roles, and subject to effective risk governance, and appropriate incentive structures and standards of conduct; and

⁵¹ See FSB, [Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors](#), April 2018 at page 22.

⁵² See IAIS [Application Paper on the Composition and the Role of the Board](#) (2018).

⁵³ See IAIS [Issues Paper on Corporate Governance](#) (2009) at pages 25-27.

⁵⁴ See ICP 7.10.2 and FSB, [Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors](#), April 2018 at pages 29 to 31. See also IAIS [Application Paper on the Composition and the Role of the Board](#) (2018), which proposes good supervisory practices to address challenges related to, among other things, diversity of the Board, allocation of roles and responsibilities and behavioural aspects of the Board's functioning, such as overly dominant Board Chairs or CEOs.

⁵⁵ See MAS, [Guidelines on Individual Accountability and Conduct](#), September 2020.

5. The FI has a framework that promotes and sustains among all employees the desired conduct.

United Kingdom

The UK Senior Managers and Certification Regime (SM&CR) was introduced for insurers in December 2018, to create a system and a new standard of personal conduct in financial services, as senior leaders recognise the benefits of a sound culture and lead culture change in their businesses.⁵⁶

It is key that the senior manager takes responsibility as a cultural leader. The SM&CR has two Prescribed Responsibilities that relate to culture and which underpin the expectation that financial institutions should have a culture that supports their prudent management. The Prescribed Responsibilities are expected to be allocated to the CEO and Chair respectively.

The SM&CR aims to:

- encourage staff to take personal responsibility for their actions and to improve conduct at all levels; and
- make sure insurers and their staff clearly understand, and can show, who does what.

The SM&CR has three key elements, namely a Senior Managers Regime, a Certification Regime and 5 Conduct Rules. Under the Senior Managers Regime, the most senior people (senior managers) who perform key roles (senior management functions) need the PRA's and/or FCA's approval before starting their roles. A senior manager will need to have a "statement of responsibilities" that clearly states what the senior manager is accountable for at the insurer. A senior manager will be expected to take appropriate responsibility for managing behaviours within their areas of responsibility. Individual employees are also subject to responsibilities. In this regard, the five Conduct Rules set minimum standards of individual behaviour for all employees who work in roles relating to financial services.⁵⁷

3.3 Communication within the insurer

67. Clear and frank communication between the Board and Senior Management and between Senior Management, middle management and the rest of the insurer's staff helps to foster a culture of openness and transparency.⁵⁸

68. Senior and middle management play a crucial role in creating and communicating the insurer's culture. An honest, open and supportive insurer culture could be demonstrated in a variety of ways. Examples include, having an internal forum for staff to speak openly about challenges within their jobs without fear of recrimination, an effective whistle-blowing mechanism that preserves staff confidentiality, and management who proactively engage in dialogue and take steps to make necessary adjustments. Such approaches may also contribute to promoting an effective culture of reporting misconduct.

69. On the other hand, the lack of clear and open communication between different job roles and positions, for example, relating to key strategic and business decisions, dealing with losses and failures, or bonus and incentive structures, can result in mistrust among staff.

⁵⁶ See FCA, [The Senior Manager and Certification Regime: Guide for insurers](#), February 2019.

⁵⁷ Additionally, under the Certification Regime, insurers will need to identify employees who perform "certification functions" - those roles which can cause particular harm to the insurer, its consumers or the market more generally – and check and certify that they are fit and proper to perform their roles at least once a year. See additional details under paragraph 41 of this Paper.

⁵⁸ See also ICP 7.2.4 and IAIS [Application Paper on the Composition and the Role of the Board](#) (2018).

Mistrust between staff and leadership can impact the overall culture of the insurer by lowering staff morale and shifting the focus away from productive outcomes and good service delivery.

70. Fostering an open workplace culture, including a psychologically safe environment, where employees are encouraged to speak-up, report and discuss incidents and dilemmas produces important benefits for the insurer, policyholders and other stakeholders. It provides a catalyst for continuous improvement and stimulates the learning ability of the insurer. This contributes to positive decision-making and risk behaviours that help enhance the quality of products and services to customers and improve overall business performance.

Example:

United Kingdom

In recent years, a UK-based insurer had recurring issues regarding overdue Internal Audit actions on cyber and poor change management and there had been a failure to address this. The UK-regulator monitored this situation and, during regular discussions with the insurer, encouraged them to tackle these issues. The insurer hired a new Chief Executive Officer (CEO) in 2018, and since then has: hired a new Chief Operating Officer; established a new change management function; begun developing a new change management committee structure; and is working on addressing its cyber weaknesses.

Since implementing these changes, it has been noted by both the CEO and the Head of Internal Audit that the culture in the insurer has shifted and is now one in which challenge and escalation of issues is welcomed. For example, where business leads see an issue in other business areas, they are seeking opportunities to determine if that issue is also relevant to their own area.

3.4 Internal remuneration and performance management structures

71. An insurer's approach to managing purportedly competing interests, both internally and with its external stakeholders, is a key driver for a myriad of collective and individual decisions, behaviours and practices at all levels across its business.

72. The management of actual and perceived conflicts of interests by insurers is a broad and multi-faceted topic, many aspects of which are described in existing IAIS material.⁵⁹ While these aspects all contribute to the overall culture of the insurer, a detailed exposition of the topic falls beyond the scope of this Issues Paper.

73. Accordingly, this section focuses on two specific aspects of conflicts of interest management that play a vital role in informing decisions, behaviours and practices within every component of the insurer's business from senior leadership down to frontline staff, namely internal remuneration⁶⁰ and performance management⁶¹.

74. An insurer's approach to remuneration and performance management, specifically the degree of balance it adopts in rewarding both quantitative and qualitative outcomes, can help

⁵⁹ For example see ICPs 7.1, 7.3, 7.4, 7.6, 8.2, 8.3, 8.6, 15.3, 16.6, 18.1, 18.5, 18.7, 19.2, 19.3 and 19.10. Also see IAIS [Issues Paper on Corporate Governance](#) (2009), [Application Paper on Approaches to Conduct of Business Supervision](#) (2014), [Issues Paper on Conduct of Business Risk and Its Management](#) (2015), [Application Paper on Approaches to Supervising the Conduct of Intermediaries](#) (2016), [Application Paper on the Composition and the Role of the Board](#) (2018).

⁶⁰ See ICP 19.3.2 which states that “[c]onflicts of interest can arise from compensation structures as well as other financial and non-financial incentives”.

⁶¹ See ICP 19.3.4 which states that “[o]ther incentives that may create a conflict of interest include performance targets or performance management criteria that are insufficiently linked to customer outcomes”.

fortify an effective culture that properly serves its own long-term financial interests as well as the interests of its policyholders and other key stakeholders.⁶² Conversely, an insurer whose remuneration and performance mechanisms lean disproportionately to incentivising short-term profitability can potentially enable undesirable decisions, behaviours and practices that may result in adverse outcomes for customers and longer term reputational damage for the insurer and the sector.

3.4.1 Remuneration

75. A remuneration policy that aligns performance-based incentives with long-term value creation and the time horizon of risks to which the insurer may be exposed, as well as the fair treatment of customers, can be a strong indicator of a sound overall culture within the insurer.

76. ICP 7.6 states that “[t]he 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”.

77. ICP 19.2.4 states further that “[r]emuneration and reward strategies should take account of the fair treatment of customers. Reward structures need to reflect quality issues and not encourage or reward the unfair treatment of customers. Remuneration structures that create conflicts of interest may lead to poor customer outcomes”.

78. For example, promotional programmes for Senior Management that are based exclusively on short-term profitability targets, without proper consideration of customer-related outcomes, can lead to pressures being exerted on middle management and frontline staff to engage in poor sales and claims practices and other unethical behaviour. Similarly, incentives (both financial and non-financial) for middle management and frontline staff that are based solely on quantitative “hard targets” can be viewed as encouragement for poor conduct and the unfair treatment of customers. The way in which employees experience remuneration and recognition incentives are likely to influence their daily work behaviours, depending on what types of behaviours or targets are seen to be more highly valued by the insurer, eg level of reward or recognition for meeting hard profitability targets versus improving customer experience levels.⁶³

Examples:

France

In 2017, a French mutual insurer received, for the 15th time in a row, a prize for maintaining the best customer relationships in its category. Facing competition from “BigTech” companies, the insurer claimed to maintain its competitiveness based on customer relationships and corporate responsibility.

⁶² See FSB, [Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices: The use of compensation tools to address misconduct risk](#), March 2018 at page 4 which states that “[c]ompensation and related performance management mechanisms help signal the importance that financial institutions place on prudent management of risk and acceptable standards of behaviour, including compliance with related laws, regulations and supervisory expectations”.

⁶³ See AFM, [Rethinking remuneration and recognition: A call to the sector based on research at banks, insurers and financial services providers](#), June 2020.

More than half the criteria used for variable remuneration of the insurer's customer-facing employees is based on customer satisfaction rather than commercial results. Traditional indicators assessing performance such as time spent on the phone are not the only indicators used: additional indicators on customer satisfaction and well-being of employees enter into play, and no variable remuneration is granted according to the volume of sales or the nature of contracts.

It was found that new methods of management based on trust and delegation are favoured, giving more autonomy to employees, who in turn demonstrate more situational intelligence. The insurer indicated that it spends 1.5 times more on claims handling than its competitors, at a cost to the insurer. However, only 1% of customers leave the insurer voluntarily so these costs are recovered through savings of approximately 100million EUR that would have been spent on customer acquisitions.

Australia

Example 1

In the previously mentioned review of the sale of direct life insurance in Australia, ASIC found that another root cause for the persistence of poor customer outcomes and unfair selling practices was the existence of conflicted incentive schemes.⁶⁴

ASIC identified a link between incentive schemes and conduct at point of sale. With one exception, those insurers with the incentive schemes that had the most significant conflicts of interest were also the insurers that engaged in pressure selling and other practices where a sale was prioritised ahead of the needs of the consumer.

Example 2

In another review focused on the sale of consumer credit insurance (CCI), ASIC found that some lenders used third-party telephone marketers to sell policies and motivated them to maximise sales by providing volume bonuses and sales targets.⁶⁵

Lenders reinforced these incentives by concentrating their limited monitoring on telemarketers' sales performance, rather than on detecting and preventing misconduct. This resulted in significant mis-selling of CCI with telemarketers' staff engaging in various unfair tactics, eg not informing customers about exclusions that would make them ineligible for cover, using ambiguous language to obtain customer consent and downplaying customer concerns by playing using practiced sales techniques.

These practices resulted in large numbers of policy cancellations and consumer complaints.

United States

In the previously mentioned investigations into Wells Fargo, it was found that improper financial incentives were a key driver for widespread consumer abuse.⁶⁶

The bank allegedly had a practice of setting daily sales targets that put excessive pressure on employees. Branch managers were assigned quotas for the number and types of products sold. If the branch did not hit its targets, the shortfall was added to the next day's goals. Branch employees were provided financial incentives to meet cross-selling and customer service targets, with personal bankers receiving bonuses up to 15 to 20 percent of their salary and tellers receiving up to 3 percent.

⁶⁴ See ASIC, [Report 587: The sale of direct life insurance](#), August 2018.

⁶⁵ See ASIC, [Report 622 Consumer credit insurance: Poor value products and harmful sales practices](#), July 2019.

⁶⁶ See US House of Representatives Committee on Financial Services, [The Real Wells Fargo: Board & Management Failures, Consumer Abuses, and Ineffective Regulatory Oversight](#), March 2020.

3.4.2 Performance management

79. Clear performance goals and measurable criteria for management and staff at all levels that appropriately balance expectations to deliver on both financial and customer outcomes are important factors in shaping an effective culture for the insurer.

80. ICP 7.2.2 states that “[t]he 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”.

81. In addition, ICP 19.2.4 states that “[a]ppropriate attention should be paid to the recruitment of staff and agents who meet high standards of ethics and integrity. Relevant staff should be trained to deliver appropriate outcomes in terms of fair treatment of customers. Evaluation of performance should include the contribution made to achieving these outcomes. There should be appropriate performance management consequences for staff who fail to meet these standards”.

82. This is further reinforced in ICP 7.6.12 which states that “[t]he 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 ... and not treat growth or volume as a criterion in isolation from other performance criteria”.

83. The above considerations envisage a shift in insurer performance criteria away from pure profitability metrics towards a more balanced approach to financial and non-financial factors, including increased focus on behavioural considerations and/or customer-oriented outcomes.⁶⁷ While this approach could result in initial declines to sales⁶⁸, it demonstrates a broader cultural commitment by insurers to promote the good ethical conduct of their employees and increase their focus on maintaining their long-term viability and customer confidence in the sector.

84. It is worth noting that this move from a largely financial results-based performance framework to one that is more balanced would likely have a limited impact on the overall culture of the insurer if it is done in isolation of the other cultural factors described in this paper. In cases of misconduct, it would be useful to consider whether the incentives themselves were the driver for the undesirable behaviour or whether the incentives are an indicator of a broader unhealthy mindset, which is ultimately responsible for the bad behaviour.⁶⁹

⁶⁷ See FSB, [FSB workshop on compensation practices 2021: Summary of discussion - Financial Stability Board](#), August 2021

⁶⁸ See G30 Steering Committee and Working Group on Banking Conduct and Culture, [Banking Conduct and Culture, A Permanent Mindset Change](#), November 2018 at page 21.

⁶⁹ See previous footnote.

Examples:Singapore

The previously mentioned MAS information paper on incentive structures in the banking industry, highlighted that performance goals that are overly focused on financial targets could put undue pressure on staff to achieve such targets without consideration of ethics or risks.⁷⁰

An example of how this can negatively influence culture would be where excess pressure is placed on sales staff to meet sales targets and/or where sales targets dominate criteria for rewards. Some banks place more importance on staff's ability to meet financial targets, for instance, by assigning higher weights to staff's ability to meet financial key performance indicators. This could signal to staff that behavioural and conduct factors, such as focusing on clients' interests and compliance with laws and guidelines, are subordinated to financial objectives.

Banks usually use a balanced scorecard framework (which typically comprises both financial and non-financial components) to assess staff's performance against non-financial goals. The non-financial components would consider the results of the various transactional and compliance checks on staff performed by control functions and in-business control units within the front office.

The extensiveness and rigour of such checks, and the ways in which scorecard results were used, varied from bank to bank:

- One bank had a formalised process to roll-up staff's balanced scorecard results up the chain of command to their supervisors. This practice sent a strong signal that supervisors were responsible, and would be held accountable, for their staff's risk and compliance behaviour.
- Most banks required some form of input from independent control functions (such as risk management, compliance, and internal audit), on staff performance evaluations. For example, they obtained input from control functions on specific groups of staff such as material risk takers, promotion candidates and certain frontline staff. The input was obtained through a dedicated review process where feedback from control functions (including internal audit, compliance, finance, legal and risk) were recorded in the performance management system and considered for compensation decisions.

Malaysia

To foster behaviour that is consistent with the fair treatment of customers, in 2018 BNM introduced a Balanced Scorecard (BSC) framework for insurance agents.

The BSC framework is designed to capture qualitative performance indicators related to sales and after-sales processes such as persistency rate, comprehensiveness/completeness of Customer Fact Find (CFF) forms submitted on each new policyholder, complaints received and professional development hours as a basis to remunerate insurance agents.

The framework better aligns sales incentives with the quality of advice provided to consumers by linking a portion (ie 25%) of total commission paid to agents at the end of the year to these qualitative outcomes.

The initiative has resulted in incremental but steady improvements in the quality of advice provided by insurance agents, as indicated by the improving persistency rates and level of completeness of CFF forms. Continued improvements in sales practices driven by the BSC are expected to lend support to premium growth while reducing mis selling risks.

⁷⁰ See MAS, [Incentive Structures in the Banking Industry: Fostering Sound Behaviour and Conduct](#), March 2019. While this paper was based on MAS' thematic inspection of incentive structures in banks, the desired outcomes and good practices expected of banks have subsequently been extended to insurers.

Russia

Example 1

The CBR found that “average claim amounts” is the main key performance indicator (KPI) of claims settlement departments at Russian insurers. For this reason, employees in these departments often make every possible effort to keep these numbers at a certain level.

This can lead to artificial underestimations of claim amounts at primary claims settlement stage. This has resulted in customers lodging complaints with the CBR and initiating court actions against insurers, negatively impacting the reputation of the sector, and exposing insurers to potentially increased claims levels that were not previously anticipated.

Example 2

A few years ago, Obligatory Motor Third Party Liability (OMTPL) products were unprofitable in the Russian insurance market. During this time, the CBR found that insurers were pressuring customers into buying linked add-on products to meet their primary performance targets based on volume sales. These volume selling targets were attached to the add-on products rather than the primary/ obligatory product. This resulted in certain customers not being able to purchase the much-needed obligatory product unless they also paid for the linked add-on product, irrespective of whether they required the additional cover.

4 Conclusion

85. The culture of an insurer is influential in determining how effectively it delivers on critical outcomes related to its overall financial soundness, the interests of policyholders and other stakeholders, and the fair treatment of customers. Understanding the various elements that make up an insurer’s culture, and how these inform key decisions, practices and behaviours, is therefore of increasing importance to both insurers and supervisors.

86. As an exploratory first step, this paper acknowledges the role of insurer culture as an important intersection point for managing prudential and conduct risks and reducing the potential for widespread misconduct. Sound, effective insurer cultures are essential for maintaining public trust and confidence in the insurance sector’s overall ability to deliver on its commitment to policyholder protection. Building on the relevant ICPs, the paper highlights that an insurer’s values, business objectives and strategies, clear leadership accountability and communication, as well as positive reinforcement and incentive structures for good behaviour may be effective in promoting a desirable culture leading to good outcomes for insurers and policyholders alike.

87. Recognising that an insurer’s culture consists of various dynamic elements that often require subjective assessment over time, as a next step the IAIS will consider how best to advance the observations outlined in this paper in greater depth. This could include more targeted exploration of, or practical supervisory guidance on, specific cultural drivers such as remuneration practices and conflicts of interest management by insurers.

88. Besides those cultural factors specifically mentioned in this paper, supervisors are also increasingly focusing their attention on the role of diversity and inclusion in the insurance sector. The IAIS has signalled this as an important focus area in its 2021-2022 Roadmap.⁷¹ This will include consideration of potential follow up work to this paper exploring how insurers’ approaches to issues of diversity and inclusion can influence their overall culture, and vice versa.

⁷¹ See Project 37 in Table 2 of the [2021-2022 IAIS Public Roadmap](#) (22 February 2021).