# International Association of Insurance Supervisors

# Organisation for Economic Co-operation and Development

# World Bank

# Corporate Governance Survey Report

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This document was prepared by the World Bank in cooperation with the IAIS and OECD Secretariats.

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# Corporate Governance Survey Report

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## 1 Introduction

### *1.1 Background and Objectives*

The Technical Committee of the International Association of Insurance Supervisors (IAIS) and the Insurance and Private Pensions Committee (IPPC) of the Organisation for Economic Co-operation and Development (OECD) issued a joint questionnaire on the corporate governance of insurers in July 2008.

The OECD published *Guidelines for Insurers' Governance* in 2005 as a complement to the OECD *Principles of Corporate Governance*. The Guidelines provide governments and the insurance industry with a roadmap for promoting insurer corporate governance, and thereby better protecting policyholders and other stakeholders. As mandated by the OECD Council, the IPPC initiated a review of the Guidelines in 2008 and, to this end, formed an ad hoc IPPC Task Force on the Governance of Insurers (IPPC Task Force).

The former Corporate Governance Task Force of the IAIS reviewed existing corporate governance guidance, including material prepared by the Basel Committee on Banking Supervision (BCBS) and International Organisation of Securities Commissions (IOSCO), the OECD, and self-regulatory entities. In a document titled "Main Elements of Insurer Corporate Governance," the IAIS Corporate Governance Task Force summarised the main elements of insurer corporate governance. The IAIS endorsed this summary in October 2007.

The IAIS Corporate Governance Task Force recommended that a new Governance and Compliance Subcommittee (GCS) carry out a survey of industry practices. This recommendation was approved by the Technical Committee in October 2007. This Task Force also recommended that the GCS use the survey results to prepare a supervisory paper on insurer corporate governance. A supervisory paper on corporate governance for insurers must be based on a range and well-developed understanding of industry practices and supervisory requirements. Thus, the GCS agreed that a survey was necessary. The IAIS and OECD have cooperated to reduce potential overlap and duplication with respect to each organisation's insurer corporate governance efforts.

This joint survey was intended to enable IAIS Members and Observers to develop common knowledge about the variety of industry corporate governance practices and the rationale behind such practices. It also aimed to identify the best among the various practices described, with a view to developing a general supervisory paper. In addition, any areas identified for improvement could form the basis for a future GCS Issues Paper. For the OECD, the purpose of the joint survey was to help its members understand the progress made with respect to implementation of its 2005 Guidelines and assess the need for any revision to the Guidelines.

The World Bank has analysed the results of the survey and prepared this high-level summary report. The results of the analysis has provided valuable input for the joint IAIS-OECD Issues Paper and will provide an invaluable source of information for future work by the IAIS and the OECD.

Based on the survey providing an overview of industry best practice and the joint Issues Paper, the GCS will develop and propose a high-level supervisory paper applicable to insurers operating in any legal structure and environment. The purpose of a high-level supervisory paper is to establish principles that can benefit individual insurers and their stakeholders, rather than developing detailed prescriptive regulation on the subject.

The IPPC will, for its part, review its 2005 *Guidelines on Insurers' Governance* for possible updates and improvement. Modalities regarding future work between the GCS and the IPPC and its ad hoc IPPC Task Force will be discussed at a future time.

Experience obtained through conducting this survey and drafting the joint Issues Paper will provide an example in seeking optimal modalities of cooperation.

### *1.2 Respondents*

The survey sought input from the following main groups of stakeholders:

- **Individual insurers**: The main objective of this survey was to collect information on industry best practices relating to the governance of insurers. In order to more specifically identify best practices and better understand their value, insurers were encouraged to supplement information about their current best practices with descriptions and examples of how governance practices are actually implemented in their organisation or group.

- **Trade associations**: As good corporate governance cannot be promoted only through regulation and supervision, insurance industry trade associations can and should take vital roles in developing, and promoting the implementation of, better corporate governance practices. Therefore, it was also useful to seek their views and input.

- **Supervisors**: Insurance supervisors were encouraged to comment on supervisory expectations on corporate governance, as well as actual examples of regulation which may support good governance practices. Examples of bad corporate governance practices can also serve as useful material for both supervisors and industry. For instance, failed or troubled insurers often employ less than optimal governance structures and practices. Vulnerabilities identified in the governance structures of failed or troubled insurers could serve as useful material for the development of an IAIS supervisory paper. Therefore, supervisors were encouraged to provide examples based on their own experiences encountered in their jurisdictions, together with any reports which analyse the corporate governance of failed or troubled insurers or financial institutions.

- **Government** (non-supervisory): Governmental authorities with responsibilities for the corporate governance framework for insurers and financial policymakers were encouraged to complete the survey. It was open to these authorities to seek input from banking and securities supervisors, central banks, antitrust or competition authorities, and other governmental bodies; alternatively, these other governmental bodies could respond directly to the survey.

- **Other parties**: Input was also sought from other parties such as policyholders, consumer groups, insurance agents, brokers, rating agencies, and institutional investors.

The questionnaire was circulated in July 2008 and most responses were submitted by the general deadline of 31 October 2008. As such, it is recognised that responses are taken as current at the time they were prepared and that respondents may be continuing to review their approach to the issues raised in the questionnaire, particularly issues related to the financial market turbulence.

In total, 41 supervisors responded, 22 contributions were received from associations, federations and others, and 142 responses were received from individual firms (see Table 1). Responses reflected a generally representative regional coverage from supervisors and, with respect to industry and association contributions, a numerical weighting toward more developed markets particularly in Europe and Asia.

Contributions from individual firms represented a broad cross section of ownership, size, nature of business, years of establishment, listed and unlisted firms, and local as well as foreign owned insurers. The majority (75%) reported that they were part of a financial group despite a wide divergence in size of the insurance business.

It should be noted that comparisons between jurisdictional and regional contributions will be influenced by the numbers of respondents available and participating in each group. For example, it is less feasible that large numbers of supervisory responses would come from a jurisdiction as they may only have one or a small number of supervisory authorities in existence whereas, in some cases, a large number of industry responses came from the same country as there were many insurers. In other words, multiple responses from a region in the industry side would outweigh the same proportionate response from supervisors simply because of such definitional and structural elements.

**Table 1: Numbers of Responses**

| | Supervisory Authorities | Associations, Federations and others | Individual Insurers | Total |
|---|---|---|---|---|
| Region 1 – North America | 6 | 2 | 4 | 12 |
| Region 2 – Western Europe | 11 | 11 | 31 | 53 |
| Region 3 – Central Eastern Europe | 4 | 3 | 26 | 33 |
| Region 4 – Asia | 5 | 5 | 33 | 43 |
| Region 5 - Oceania | 2 | - | - | 2 |
| Region 6 – Latin America | 5 | - | - | 5 |
| Region 7 – Sub-Saharan Africa | 2 | 1 | 33 | 36 |
| Region 8 – Middle East and North Africa | 4 | - | 15 | 19 |
| Region 9 - Offshore | 2 | - | - | 2 |
| **TOTAL** | **41** | **22** | **142** | **205** |

## 2 Elements of Corporate Governance

Several questions sought respondents views on key aspects of corporate governance. First, respondents were asked to identify what, in their view, are the most significant strengths and weaknesses of insurer governance. Supervisory respondents tended to answer this question more often than industry participants, many of whom left it blank. The most frequently identified items identified are shown in Table 2. Supervisors emphasised the fitness and propriety of boards and risk management and internal controls whereas those industry responses that did address the question pointed to a range of elements, mostly external to the firm, that tend to place obligations on the corporate governance system.

**Table 2: Most Frequently Identified Strengths and Weaknesses of Insurer Governance (% of respondents)**

| | by Supervisors | other respondents |
|---|---|---|
| *Strengths* | | |
| 1. | Boards that are fit and proper - 36 | Disclosure and transparency – 11 |
| 2. | (Generally) good corporate governance – 31 | (Generally) good corporate governance - 10 |
| 3. | Well functioning internal controls & risk management – 31 | Well functioning internal controls & risk management - 10 |
| 4. | Disclosure & transparency – 17 | Ethics and social responsibility – 10 |

| | | |
|---|---|---|
| 5. | Strong / improved regulatory requirements – 14 | Obligation to policyholders - 10 |
| *Weaknesses* | | |
| 1. | Lack of fit and proper boards and management – 33 | Insufficient number of responses |
| 2. | Weak risk management and internal control - 28 | |
| 3. | Lack of board independence – 22 | |
| 4. | Lack of regulation – 17 | |
| 5. | Lack of transparency - 17 | |

Question 3b asked a similar question, but focusing on the *conditions* for high quality or lower quality governance. This question was asked of supervisors but it was only a voluntary question for other respondents. The most frequently identified positive responses are set out in Table 3. Negative responses regarding most frequently observed weaknesses identified the same elements.

**Table 3: Most Frequently Cited Conditions for High and Lower Quality Insurer Governance**

| Issue | By supervisors |
|---|---|
| | % of total |
| *Conditions for Higher Quality* | |
| 1. Fit and proper boards and management | 39 |
| 2. Independence of boards and audit committees | 31 |
| 3. Sound prudential regulations | 28 |
| 4. Transparency and disclosure | 22 |
| 5. Well functioning risk management and internal control | 22 |

Information on whether or not poor governance had been observed as a direct cause of failure or near failure was sought in question 3a. 47 percent of supervisory responses and 10 percent of industry responses that were received indicated particular cases whereas 16 percent of industry responses and 39 percent of supervisory responses indicated no cases. The balance for supervisors and industry represented no response. Of these particular cases, where issues were cited regarding governance, the most frequently cited issues that had given rise to the concern of supervisors are reported in Table 4. This table only includes supervisory responses as industry responses giving reasons were particularly limited as the question was voluntary for industry. Those industry responses that were received pointed to weakness in risk management, board competence, dominant CEOs, or differences between the board and management. Industry responses tended not to identify pricing and solvency as governance issues.

**Table 4: Most Frequently Identified Governance Issues that Led to Insurer Failure or Near Failure**

| Issue | By supervisors |
|---|---|
| | % of total |
| 1. Poor governance (generally) | 36 |
| 2. Weak internal control and risk management | 17 |
| 3. Inadequate pricing | 6 |
| 4. Inadequate solvency monitoring by the insurer | 6 |
| 5. Lack of knowledge and expertise | 6 |

Regarding trends in corporate governance and the motivation for these trends, the most frequently identified ones in the responses are shown in Table 5. Supervisors placed great store in the role of regulation and supervision in motivating change. Industry respondents also rated regulatory change as a strong reason why corporate governance practices had or were expected to change although their most frequent response was that these practices were constantly evolving. Insurers also gave a higher recognition to the role of international firms both in their influence on local operations as well as the overall practice of being informed by international practices when reviewing corporate governance practices. Supervisors also recognised international trends as a motivation for change but less so than did the sector itself. The balance of insurer responses was diverse as the responses tended to itemise specific changes that had been put in place. Aside from those listed in the table as the $4^{th}$ and $5^{th}$ most material responses, others included the appointment of independent directors, strengthened internal control or risk management, improved independence of internal audit, and greater transparency and disclosure.

**Table 5: Most Frequently Identified Motivations for Changes in Insurer Governance (% of respondents who nominated)**

| | by Supervisors | other respondents |
|---|---|---|
| 1. | Regulatory influences - 58 | Normal evolutions – 23 |
| 2. | In response to corporate scandals – 14 | Regulatory influences – 21 |
| 3. | Due to the demands of better qualified management – 6 | Adopting group level requirements or international trends– 21 |
| 4. | In response to market factors – 6 | Creation of new committees – 19 |
| 5. | Reflecting international trends - 6 | (Generally) strengthened implementation - 11 |

Similarly, when considering expectations for change in the near term, supervisors most frequently indicated that further focus was expected to be placed on improving corporate governance (20%). Other supervisory responses suggested more specific areas of focus, the most frequently identified ones being systems of internal control and risk management (14%). A smaller proportion of insurers responded to the question of future developments. Most commonly, those insurers that did respond indicated that change was a constant expectation as a result of normal business management. Some pointed to regulatory reforms that were generally anticipated either because they were expected, would be the motivation for change, or were specifically expected, particularly in Europe through the impact of implementing the Solvency II initiative.

## 3 Governance Structure

Governance structure refers to the organisation of decision-making and oversight in an entity and includes related arrangements and practices. It includes both the governing body and the system in which it operates. It involves the assignment of rights and responsibilities across the organisation and other parties.

Question 5 cited particular factors that might have an important and specific impact on the governance structure of insurers and asked respondents to evaluate their importance using a scoring system. Table 6 shows the average scores. In general, supervisors gave a slightly higher rating to the role of supervisory rules although the sector also saw this as the most significant driver. Supervisors gave a higher focus to related party transactions and controlling shareholder risks and a lower role to corporate responsibility issues than the sector. When prompted for further issues, the contribution was varied; however, the contribution of international group membership to improved governance was the most frequent additional response for both insurers and supervisors. The heavier weight given to policyholder responsibility and the nature of insurance activities by the sector compared to supervisors suggests a key awareness of these responsibilities on the part of sector respondents who are, after all, closer to this obligation. The difference in responses related to unit-linked products can be attributed to the number of sector respondents that do not write such contracts.

With respect to the lower weighting attached by the sector to related party transactions, a reading of the actual responses suggests a clear difference of view between supervisors and the sector as to the risks associated with, and the need for watchfulness of, these transactions. Whilst some sector responses reflected a strong understanding, others suggested that respondents were not at all conscious of the issue. Similarly, CSR is an emerging issue that has clearly captured the attention of the sector but less so for insurance supervisors who tend to have a strong prudential focus.

**Table 6: Average Scores – Factors with Specific Impact on the Governance Structure of Insurance**

| Issue | Response from supervisors | Response from other respondents |
|---|---|---|
| *Survey Nominated Items* | | |
| 1. The nature of insurance activities and contracts | 2.4 | 2.7 |
| 2. Policyholders rights and interests | 2.5 | 2.8 |
| 3. Supervisory requirements for prudent behavior & proper market conduct | 2.9 | 2.7 |
| 4. Investments relating to unit-linked insurance products | 1.6 | 1.4 |
| 5. Connections with related parties and controlling shareholders | 2.7 | 2.1 |
| 6. Expectations of corporate social responsibility | 1.8 | 2.2 |

Note, scores were elicited as 3=‘great importance’, 2=‘medium importance’, 1= ‘low importance’ and 0= ‘[very] low importance’. As such, average scores can range between 0 and 3.

## *3.1 Board Committees*

The survey sought an indication from supervisors of the types of board committees that are “necessary to ensure a sound and effective system of corporate governance”. Several respondents separated their responses between those committees that were required and those that were encouraged but not mandatory. Industry was asked to advise of the committees that exist. Both sets of respondents were also invited to indicate whether any new proposals were being considered in this area.

Table 7 summarises the supervisory responses and highlights the fact that while supervisors feel that the board committees are important, not all jurisdictions take a mandatory regulatory approach requiring them to be established. For 22 percent of supervisory responses, no legal requirements with respect to board committees exist leaving the requirements to proportionality, general obligations (for example, company law), and moral suasion. The gap between supervisory expectations and actual legal obligations is notable.

**Table 7: Supervisory Responses on Board Committees**
**(% of positive responses)**

| Board committees | For good governance | Mandatory by law or being considered |
| --- | --- | --- |
| Audit | 58 | 28 |
| Risk Management | 31 | 11 |
| Nominations | 25 | 14 |
| Remuneration | 25 | 14 |
| Investment | 22 | 11 |
| As relevant to size, nature & complexity | 14 | |

Consistent with this finding, actual practice reported by insurers is broadly consistent with supervisory views (see Table 8). Notably, in the context of the current debate on remuneration, both supervisory expectations and actual practice in the insurance sector is well in excess of that imposed by regulatory requirements. Beyond the key committees reported in Table 8, the two most frequently identified committees that often exist are an asset-liability committee for life insurers and a strategic development committee oriented to board review and support of the insurer's overall strategic direction. Mutual insurers and some stock companies also had committees specifically oriented to dealing with participating policyholder issues. Most respondents from industry elected not to provide information on committees under consideration but those that did nominated audit, risk management, remuneration and human resources committees. Close to 20 percent of industry respondents indicated that they did not have any committees of this nature.

**Table 8: Insurer-Reported Committees that Exist**
**(% of positive responses)**

| Board committees | Exist |
| --- | --- |
| Audit | 60 |
| Risk Management | 21 |
| Nominations | 15 |
| Remuneration | 23 |
| Investment | 23 |

It is clear that the audit committee is far more accepted as standard practice than other committees and more so than is demanded by legal obligations. Other committees are becoming increasingly popular as mechanisms to assist the board in its effective oversight and to improve the efficiency of governance.

As noted below, insurers report that the main drivers of future expectations with respect to governance are regulatory reforms, expectations of the market, and participation in international groups. Notably, listing requirements play only a secondary role with many insurers seeking to meet best practice regardless of their listed status. As a result, it is reported that globalisation, increased cross-border insurance ownership, a desire by insurers to meet market best practice, and regulatory reforms are the main reasons why new board committees are established.

When considering how members of committees are or should be nominated, respondents provided a range of approaches and, in some cases, requirements varied depending on the particular board committee. For example, it was frequently the case that the audit committee was nominated at the board level. In contrast, there was a general tendency for other committees than the audit committee to have lower-level nomination engagement. Often these other committees were nominated by management and approved by boards, or filled by ex officio membership under more general board policies (i.e., automatic membership by virtue of the director(s) or key managers holding another position within the structure). Nominating committees, where they existed, carried out the responsibility of nominating and vetting committee membership but their existence is not universal. In a few cases, most particularly mutual insurers, the general assembly would have a role in confirming committee membership. For some insurers with significant controlling shareholders, it was reported that the shareholder would also be involved in approving nominees directly. Supervisors favoured board-level nomination of committees to a greater extent (39% of respondents) compared to giving a role to management.

The survey sought information on the responsibilities of established board committees. The range of responses was broad from supervisors, who provided commentary regarding the nature of the roles in detail, which were largely consistent with normal expectations, to insurers who responded that the committees responded to their (undisclosed in the survey) mandate from the board, albeit also consistent with general expectations. Most particularly, supervisory responses emphasised the way that committees enhance oversight of the insurer's governance, including, in some cases, specific supervisory sign-off or whistle-blowing obligations; by contrast, industry responses emphasised the valuable functional role of committees in making the operation of board more effective by providing a greater, closer, and deeper review of management policies, supporting the overall work of the board, and dealing with specific mandates from the board to go into specified matters in greater detail. Industry responses also gave a greater weight to the role of committees in enhancing transparency of governance.

### *3.2 Risk Management*

Supervisors were asked whether a risk management function was required under regulation, encouraged, or not subject to specific requirements. 50% of respondents indicated that it was a requirement and 22% indicated that it was encouraged. 25% indicated that there was no specific requirement.

Insurers were asked to indicate how the risk management function operated and how it was integrated into the insurer's governance structure. Responses varied, ranging from the function being a part of the internal audit through to it being a separate and fully distinct function with a chief risk officer and direct reporting to the board. To an extent this result was expected given the varying size and complexity of insurers but it also reflected different levels of progress in developing the risk management function across markets, especially emerging and recently liberalised markets where progress reflected the more recent creation of new insurers. That said, in the vast majority of cases (97%)

the function was centralised or planned to be so. The very small minority that did not centralise this function argued that this approach was selected because it provided greater responsiveness to business needs. Where this function was centralised, cost, independence, and limited available expertise were cited as the main reasons for centralisation. A considerable minority indicated that a centralised approach was selected in order to be consistent with shareholder or board views as to what would be good practice.

Insurers were also asked about impediments to the effectiveness of risk management. While a broad range of responses were received, the main identified impediments were difficulties in having adequate data, challenges presented by technology, cultural issues, and staff training. In general, these can be largely expected across all markets. A number of respondents also identified the current macroeconomic turmoil as presenting material challenges to the effective implementation of risk management processes. Additional but less frequently provided responses included the following: difficulties in securing the necessary staff expertise; challenges for small companies; challenges for large complex companies; issues arising from the structure of insurance groups; and the recognition that much of risk management is emerging through new science so is not a fully settled process were all identified usefully. One respondent noted, perhaps most succinctly and usefully, that risk management is a process and an approach that is one where there are 'many diverse challenges' and it is representative of the variety of responses received.

Supervisors indicated that, in their view, risk management had developed largely due to regulatory influences (69%). In addition, they noted market drivers, (19%), the advent of risk based supervision (11%), international governance practices (14%), and the waves of international scandals (8%). Market participants, while recognising the role of regulation as an impetus for change (15%), gave greater weight to general improvements driven by business demands, increased transparency, the contribution of foreign shareholders and group membership.

Given the specific nature of insurance operations, information was sought on the extent to which specific requirements were in place for internal controls and risk management practices with respect to policyholder funds and accounts particularly with respect to participating life insurance and unit-linked business. 39% of supervisors indicated that there were special regulations. Of the insurers, responses tended to emphasise internal policies, mutuality when relevant, and the role of the actuary and the board in dealing with the equitable distribution of surplus to participating policyholders.

### *3.3 Conflicts of Interest*

Information was sought on the mechanisms that should be in place to manage certain conflicts of interest. The issues of related party transactions and determining policyholder dividends were explicitly identified in the questionnaire but respondents could also identify other areas where conflict of interest could require special attention.

With respect to dealing with potential conflicts of interest, supervisors highlighted regulations for dealing with this issue at the top of their responses (27%). Other key elements noted were disclosure of conflict of interests (25%), approval of or informing the board (25%) and adequate policies and procedures (17%). Monitoring through internal controls was also notably raised. To a lesser extent, some felt that the general assembly had a role either through information or specific approval of transactions in certain cases.

Insurers, with respect to conflicts of interest, emphasised in their responses that effective policies were the most important element (26%) supported by board level review of key transactions (16%) and the fact that their practices were largely driven by a need to observe regulatory requirements (15%). Transparency was given a high profile in other parts of the industry response, and it was also noted here as a key issue (15%) for respondents.

Regarding the determination of policyholder dividends for participating policies, supervisors emphasised solvency requirements (17%), strong regulation (19%), review and approval by the board (19%) or the approval of or informing the supervisory board (11%) as well as policies and procedures (11%). Industry responses were fewer in number as it was a less relevant issue for many of these respondents but those that did respond indicated the relevance of parent company policies, internal policies, board-level or board committee approval, general assembly approval, a role for actuaries or particularly a ‘with-profits actuary’, regulation imposing rules, or the importance of mutuality.

### *3.4 Separation of Functions*

Supervisors were asked whether there are requirements in their jurisdiction for certain functions to be independent: those identified in the survey are shown in Table 9. These five items were frequently identified: other types of responses were significantly less frequent in number. The items raised in the table are largely consistent with those explicitly mentioned in the same section of the questionnaire.

**Table 9: Functions that Should be Independent (% of positive responses)**

| Board committees | Proportion of responses |
|---|---|
| Actuary | 67 |
| Internal Audit | 64 |
| Compliance | 39 |
| Risk Management | 39 |
| External Audit | 33 |

As to how such independence can be supported, particularly with respect to the functions of risk management, actuarial valuations, and internal audit and control, several proposals were put forward. They covered the potential for independent budget, independent personnel, independent performance evaluation, direct reporting to board, participation in board meetings, access to external audit, and board and supervisory oversight. Supervisors were able to report from the perspective of regulatory requirements as well as supervisory expectations or observed good practices. Insurer responses would have reflected actual practice as well as the expectations and views of the respondent as that which was supported in this question was not always reported elsewhere as the adopted practice.

**Table 10: Importance to Functional Independence (% of respondents)**

| | Supervisory view | | | Insurer view | | |
|---|---|---|---|---|---|---|
| | Risk management | Actuarial | Internal audit and compliance | Risk management | Actuarial | Internal audit and compliance |
| Independent budget | 29 | 27 | 42 | 43 | 45 | 57 |
| Independent personnel | 37 | 44 | 61 | 45 | 55 | 64 |
| Independent performance evaluation | 56 | 59 | 66 | 50 | 62 | 76 |
| Direct reporting lines | 61 | 81 | 88 | 67 | 60 | 83 |
| Board meeting participation | 63 | 61 | 76 | 48 | 45 | 57 |
| Access to external audit | 54 | 66 | 81 | 69 | 67 | 88 |
| Board / supervisory oversight | 66 | 71 | 78 | 67 | 57 | 71 |

It is clear that, with respect to independent budgets, the relativities between functions are similar between insurers and supervisors. Direct reporting lines and board or supervisory oversight are among the key measures seen to be effective in promoting the independence of control functions. Access to extertnal audit was also considered to be a key measure, particularly for the internal audit function. Supervisors placed great stress on board meeting access and participation. In addition, other measures such as independence of personnel and independent performance evaluations were seen to be of value. Respondents were given the opportunity to identify other measures to promote the independence of control functions: the small number of suggestions representing more specific initiatives reinforced the more general picture.

Supervisors provided more specific commentary on requirements or measures to promote independence. A wide range of responses were received. The most frequent nominated response was that the independence of the actuarial and internal audit functions should be established by law / regulation (17%).

Other suggestions that were made by supervisors in multiple responses were:

- Prior approval of supervisors with respect to the evaluation of fitness and propriety.
- The insurers should establish clear definitions and segregation of the roles and responsibilities.

- A licensed insurer should have ongoing audit function (both internal and external).
- There should be a compliance function staffed by an appropriate number of competent staff and sufficiently independent to perform their duties objectively.
- Both the supervisy oversight and external audit should include a review of the insurer's internal controls.

Other suggestions focused on only permitting dismissal by the board or a committee rather than by management, ensuring functions have unimpeded access to information within the company, the role for high professional standards, requirements to report to supervisors, whistle blowing obligations, effective communication and access for the external auditor in particular as he or she would be outside the insurer, periodic personnel reviews, and separation of roles such as the actuary or internal auditor not being a member of management or the board(s).

### *3.5 Transparency*

Regarding the transparency of the governance structure of insurers, supervisors were asked if there were specific issues that required attention, while insurers were asked about their practices. Insurer responses are set out in Table 11. Those items in italics were prompted as examples in the question. The responses are varied but it is clear that the annual report is the main vehicle for disclosure. The use of websites and the central role of the annual general meeting were also highlighted. It may be that respondents focused more on the vehicle of communication rather than on the content. Other communications and content included more frequent and less structured channels such as management letters to stakeholders, communication regarding the existence of the complaint system, reports to supervisors, statements of mission, values and strategy, websites, conference calls with market analysts, and meetings of stakeholders.

**Table 11: Mechanisms in Place or Being Considered to Ensure Transparency**

| Practices identified | Proportion of total practices identified |
|---|---|
| *Disclosure of articles of association* | *48%* |
| Annual report / statements | 36% |
| External websites | 30% |
| *Disclosure of organisation chart* | *30%* |
| *Disclosure of existing committees* | *23%* |
| Disclosure of corporate governance policy | 18% |
| Annual general meeting | 14% |
| As per regulatory requirements | 14% |
| Disclosure of director personal and professional data | 11% |
| *Disclosure of ownership interests* | *7%* |

When supervisors responded to whether or not there were issues with transparency, the most frequent response (44%) indicated that they were happy with practices. Other responses were limited to one or two instances and mentioned a range of unprompted challenges. Many of these focus on challenges in compliance rather than in defining requirements or best practices:

- Whether/to what extent transparency of governance structures has to include providing such information to policyholders;
- Challenges for takaful insurers;
- Reluctance to comply at closely owned companies;
- Insufficient disclosures regarding ownership structures;
- Transparency of remuneration policies;
- Lack of disclosure of the level of adherence to guidelines;
- Differences between listed and non listed or public and non-public companies;
- Weak “tone at the top”; and
- In the extreme, manipulation of accounts.

### *3.6 Mutual Insurers*

Regarding mutual insurers, several issues were canvassed in the survey on which supervisory and insurer views were sought.

With respect to evaluating the effectiveness of policyholder participation in the governance structure, both insurers and supervisors pointed to the relevance of effective turnout and participation in policyholder meetings. Mutual insurers also indicated a range of measures from the soft ‘that the quality and length of debate at policyholder meetings was relevant’ to formal structures ‘assessed annually by the chairman’.

In terms of assurance that mutual policyholders participated, the voting system and the right to participation at general meetings were highlighted by insurers. Supervisory responses were consistent with this view.

### *3.7 Groups and Conglomerates*

The questions to supervisors and insurers were somewhat different regarding groups and conglomerates.

Supervisors were asked about regulatory and supervisory reach and powers. Regarding the legal authority to review governance, internal control and/or risk management functions within the head of the group, 56% of supervisors reported that they did have this authority. A further 8% indicated that they did have this authority but that it was dependent on the head of a group being an insurance company, suggesting a conditional and less than complete authority. 3% of supervisors indicated that laws were being changed to address this situation and 22% indicated that the powers did not exist. 6% of respondents indicated that they do not have group issues so that the absence of requirements, in their case, was somewhat academic.

Just over one third of supervisors reported that they had the legal authority to review the internal operations of a non-regulated entity within a group headquartered in their jurisdiction either directly or through indirect means including cooperation with other supervisors. A limited number (6%) were able to do so through oversight of outsourcing arrangements. 30% of supervisors did not have this power.

When addressing the challenges in supervising the corporate governance, internal controls and / or risk management functions within groups and conglomerates, supervisors were limited in their responses. Those that did reply noted the challenges in assessing the true independence of boards of directors, assessing group risk management and internal control functions, oversight of group level external audit appointments, cross-border cooperation challenges, closely held firms and family owned insurers, organisational complexity, related party challenges in complex group structures, exposure to non-insurance businesses outside supervisory understanding, and an absence of group wide consistent application of governance.

Insurers were asked about their implementation and practices of corporate governance in the group context.

The majority indicated that they do have such policies (57%), that they are established because of the fact that they are part of a group (11% of respondents indicated strong local development and a further 7% indicated that local regulatory requirements were an influence for differences), and that these policies are implemented uniformly on a group wide basis (48%). It is clear that insurers seek to maintain consistency as a way to reinforce consistent practices and controls across groups.

A material number of responses highlighted that local obligations, regulatory or through other obligations on directors of local subsidiaries, meant that it was important that global practices would have to be locally interpreted and that there was an obligation on local directors to make some decisions of their own. At the end of the day, insurer responses report, these processes are followed for legal reasons but that the end result is that the best practices of the group are found to be adequate and are adopted without revision after this consideration.

Still, a material number of responses (12%) indicated that there were no globally uniform practices adopted which, in contrast to the majority, suggests that there are either reasons to consider flexibility or that there is a diversity of practice between ‘best practice’ and practices where development remains a matter of ‘work in progress’ and something for supervisory attention.

## 4 Stakeholders

The next section of the survey addressed the role and protection of the interests of stakeholders.

### *4.1 Policyholders*

To some extent, there was considerable overlap between the section on policyholders as stakeholders and the sections on mutuals and with-profit issues covered above. However, the section on policyholders went further, for instance by referring to the treatment of claims management and special issues arising from non-participating unit-linked policyholders in life insurance investment contracts, including, for supervisors, the identification of relevant regulatory arrangements.

The first of the series of questions tended to be considered by insurers as relating to participating policyholders and member policyholders in mutual companies and the responses reflected this. Supervisors were more likely to advance more general policyholder protection perspectives. The most frequently identified arrangements to protect policyholder interests are shown in Table 12. Supervisors also noted some of the elements mentioned by insurers such as voting rights, special meetings, a role for actuaries, and clear policies for participating funds but these responses were less frequent than the top five listed in the table.

**Table 12: Most Frequently Identified Arrangements to Protect Policyholder Interests (% of respondents)**

| | By supervisors | Other respondents |
|---|---|---|
| 1. | No special arrangements - 19 | The right to vote – 39 |
| 2. | Financial rights of the participating policyholders are guaranteed by law – 19 | The right to elect board members – 23 |
| 3. | Rights to elect members of the board – 14 | Participation in annual and other meetings– 11 |
| 4. | Board policy on fair treatment of customers – 8 | Rules in articles of association or board level policies – 9 |
| 5. | Improving client awareness of rights, product awareness, disclosure – 8 | Transparency and disclosure – 9 |

Claims management was considered to be a significant issue relevant to corporate governance by 53% of supervisory respondents and relevant 'to some extent' by a further 25%. Insurers were asked to elaborate how they addressed this issue and the responses highlighted the need for adequate procedures for claims management as being the key issue (32%), with a wide range of other items identified less frequently but along similar administrative lines including external audit and adequate information technology systems. Various elements of customer dispute resolution systems were also identified as another group of industry responses which represented 27% of all respondents equally split between nominations of internal and external mechanisms. A small number of insurers also noted that privacy rules and the protection of personal information was also a critical issue. One insurer respondent considered that these questions were not a corporate governance issue.

For unit-linked products, the survey asked what arrangements, if any, should be established within the governance structure for the funds associated with unit-linked insurance products to ensure the appropriate treatment of these funds. The question provided examples being the need for an appropriate and specific investment policy, giving attention to pricing, and addressing the equal treatment of policyholders in redemptions. The supervisory responses most frequently identified are shown in Table 13. Interestingly, of the insurer responses, only investment policy was nominated sufficiently frequently to appear in the supervisory response table. Supervisors emphasised disclosure to a far greater extent.

**Table 13: Top 5 Issues for Unit-linked Policies (% of positive responses)**

| | Proportion of Responses |
|---|---|
| Regulatory obligations and supervisory oversight | 14 |
| All the information pertaining to the unit-linked products should be available and communicated properly and completely to policyholders. | 11 |
| Investment policy and pricing are predetermined and disclosed to the policyholders. | 8 |
| Investment policy | 8 |
| Conflict of interests policy | 6 |

Many industry responses did not address the issue reflecting the fact that they did not issue such contracts. Those that did also mentioned the application of a special investment policy for these policyholders, disclosure and client education as important and referred to the complaints mechanisms.

Over half (56%) of the supervisors reported that they did not have special governance rules in respect of unit-linked insurance funds. For those that did, the need for separate accounts, special attention to investment arrangements and policies, and guidance on unit pricing were mentioned and, in some cases, the need for product approval including of marketing materials.

### *4.2 Redress*

The section on redress was most expansive in the supervisory version of the questionnaire. When addressing what redress mechanisms are and should be available to policyholders and/or other stakeholders, supervisors overwhelmingly indicated that these groups should be able to contact supervisory authorities or another independent body such as an ombudsman to address complaints (69%).

A further 31 percent of supervisors indicated that insurers should establish policies and procedures and a unit to deal with complaints and resolve disputes. Internally operated mechanisms also needed to have an option to escalate it to an external body if the complaint is not resolved satisfactorily and were subject to supervisory reporting on the number and nature of complaints.

Just over one quarter of supervisors explicitly mentioned that access to the judicial system would also be an option to seek resolution of disputes.

Eight percent of supervisory respondents emphasised that policyholders should be well informed and educated about products and complaint-handling procedures.

For shareholders, their rights to raise matters, make proposals, and vote at annual meetings was noted by some supervisors as an additional course of action.

Various aspects of disclosure were also mentioned by some supervisory respondents in this section of the survey. They included a number of individual responses that suggested that insurer ratings should be publicly available, and that supervisors could have a role in disseminating information about insurance companies that would be relevant to stakeholders.

Insurers were asked to identify the possible courses open to stakeholders with respect to redress including access to the judicial system, complaints to supervisory authorities, a complaints ombudsman or complaints board, or any other options. Responses indicated that the judicial system was an option in 91% of cases. It is not clear whether those that did not select this option were indicating that it was not available or, instead, that it was not a preferred option. 84% of industry responses noted that complaints to the supervisor were available to stakeholders. Slightly less (80%) indicated that an ombudsman or board was an option. 16%, broadly in line with supervisory responses, also noted that an internal complaints system was available in their case. One respondent noted that the board was also able to get engaged in complaint resolution if it was not able to be resolved by management; it may be that the mutual status of the company was one reason why this was mentioned as the board, in that case, was elected by policyholders, although it is interesting to note that boards are informed of complaint levels in many cases and issues with a very large potential cost, such as very large disputed non-life claims, would also be expected to come to the board's attention or to the attention of one of its committees.

Regarding the disclosure of complaint handling, supervisors reported that this was not a requirement in 36% of cases although this was qualified in some instances, with supervisors noting that some insurers do disclose the information despite it not being a requirement and some supervisors encouraging disclosure rather than requiring it. Where it was a requirement, some indicated that there was a requirement to disclose to supervisors (39% of supervisory responses), and some indicated that public disclosure was required (19% of respondents). Note that some responses are included in both types of disclosure. 11% of supervisors did indicate that disclosure was required but did not elaborate further.

Supervisors were asked whether insurers were "required" to improve business practices based on the analysis of complaints. A range of responses were provided. In some cases, the responses were simply 'Yes' (25%) or 'No' (14%), although others elaborated on this question in their answers, with some indicating that they would interpret the question as asking whether there is a specific regulatory requirement, whereas others indicated that they interpreted the question more generally, as asking whether there is a general expectation or obligation. Eight percent of respondents indicated that, although not a requirement, insurers did make improvements voluntarily. 25 percent of respondents indicated that, although not an automatic 'requirement', the supervisor did have the power to direct an insurer to make improvements if felt necessary.

### *4.3 Shareholders*

Industry respondents were asked to describe any experience where effective governance and policyholder protection had been hindered by defence packages against merger and acquisition and/or buyouts by management or other entities. Very few responded to this question and none of those that did respond indicated that they had any such experience.

### *4.4 Participating Policyholders*

Both supervisors and insurance companies were asked about how participating policyholder funds, profits, and distribution of surpluses should be addressed within the governance structure of an insurer with participating policies. Only insurers who issued such policies would have considered answering so the number of responses needs to be taken into account when reviewing the results. At the same time, 14% of supervisors indicated that they do not have participating contracts in their jurisdiction so that the number of supervisors making specific responses is also reduced.

Supervisors most frequently (22%) noted that there were special and detailed regulatory requirements. Where the requirements were further elaborated, 17% of supervisory responses indicated that the actuary was obliged to approve or propose the distribution of surpluses. In most of these cases, the proposal was to be submitted to the board of the insurer who had the ultimate responsibility to make the decision. Despite the number of responses indicating that regulatory requirements were in place, only three respondents explicitly mentioned that the requirements included corporate governance arrangements suggesting that the detail is usually at a more specific level.

11% of supervisory responses explicitly mentioned the relevance of having written board-approved policies associated with the treatment of participating policies. A further 8% noted that the insurance contract itself was expected to play a role to ensure that participating policyholder issues were appropriately treated. Finally, although less frequently mentioned, some jurisdictions provide policyholders with the right to notice of or attendance at the general meeting.

Insurers indicated that the board had a central approval role, consistent with supervisory responses, and, combined with insurer responses mentioning the role of the actuary as particularly important with respect to participating policyholders, this reflected responses from nine percent of insurers. However, insurers also noted a wide range of other parts of the governance system that played a role. These included the investment committee, the design of investment policies, investment management agreements with fund managers, asset-liability management committees and policies, and the potential for a with-profits board level committee.

Some insurers indicated that the board did not make the final decision with respect to distributions and, instead, made a recommendation to the general meeting where it was subject to a vote. This approach was emphasised as consistent with mutual principles and it should be noted that, in such cases, the general meeting is a forum of such policyholders.

Insurers also recognised that regulatory requirements played a role in determining how this issue was addressed in the governance structure. One international insurer made the observation that these requirements can be quite detailed and have considerable variation from one jurisdiction to another and, therefore, the various policies and governance structures adopted was, with respect to participating policyholders, largely determined at the entity level rather than being consistent for the whole group in the way that other policies were.

Along similar lines, supervisors and insurers were also asked about how the distribution of surplus could be protected from undue influence from shareholder or management interests. As respondents had addressed surplus distribution in the previous question, there was considerable duplication in the responses. Additional responses from supervisors including noting the role of independent directors in this respect (6%), the requirement in some cases for there to be some policyholder elected directors, disclosure to policyholders, and the need to report on the distribution to the supervisor. In most cases, however, supervisors indicated that policyholder elected directors in companies other than mutual companies was not a widespread requirement (only four jurisdictions noted that they had this requirement).

Insurers also noted that supervisory oversight played a role in this important respect. Mutual insurers indicated that being mutual addressed this issue, as it means that shareholders are policyholders so avoids any misalignment of objectives between 'shareholders' and 'policyholders'.

One third of supervisors reported that disclosure to participating policyholders regarding surplus distribution extended beyond the current distribution to give policyholders the opportunity to develop reasonable expectations regarding the future stream of distribution of surplus. Significantly, 28 percent of supervisors indicated that they did not have such requirements. It should be noted that this reflects the fact that some jurisdictions have made an explicit decision against such disclosures as there have been experiences where the disclosure did not lead to reasonable expectations to be developed whereas other jurisdictions do not have the requirement but there would be some industry practice.

Only three supervisory responses considered that there might be situations where policyholders may not be appropriately informed of the existence of a participation clause indicating that supervisors are generally happy with current arrangements in this respect.

Insurers were given the opportunity to identify any practical challenges with respect to dealing with the interests of participating policyholders. The only issue, mentioned above, was that variation of regulatory requirements across jurisdictions leads international firms to cover this issue in a more decentralised fashion than they do with other governance practices.

## 5 Functions and Responsibilities

A substantial section of the survey explored the functions and responsibilities of the board and senior management

### *5.1 Written Policies*

Recognising that some regulations reinforce the need for documentation, the survey invited respondents to indentify those policies required to be documented and insurer practice in this regard (whether required under regulation or not). The question suggested that a number of examples may be considered being policies in relation to risk management, investment, underwriting, reinsurance, introduction of new products, and related party transactions. As a result, it is unsurprising that these particular policies were highlighted in responses.

Supervisors responded (10% or more) by identifying seven elements:

1. Risk management. 39%
2. Investment strategy. 36%
3. Reinsurance. 36%
4. Underwriting. 28%
5. Conflicts of interest and related party transactions. 25%
6. Internal controls, management information systems, and reporting. 19%
7. Introduction of new products. 14%

A number of other potential policies were mentioned by one or two supervisory responses, including:

- Strategic plans.
- Complaints and claims handling.
- Implementation of its strategy and operational performance.
- Fit and proper policy.
- Outsourcing policy.
- Business continuity.
- Policies regarding the core business.
- Development and pricing of insurance products
- Disclosure policy.
- Dividends and bonuses.
- Remuneration policy.
- Corporate governance.
- Compliance.
- The appointment of external auditor.
- The performance of executive management.
- The level of risk.
- Authority to enter into contractual obligations.
- The use of privileged information; and

- The board's responsibilities, functions and tasks and those delegated to board sub-committees and senior management.

Insurer practices are more difficult to interpret. This is because some responses were more general or reflected a particular interpretation of the question. In 45% of cases, responses indicated the existence of written policies without being specific as to their area of focus. Responses in these cases indicated that written policies reflected those required by regulation or, alternatively, that written policies were not board policies but were, instead, developed by management and approved by the board, and so were considered to be management rather than board policies. Where specific policies were identified, those relating to risk management, investment, underwriting, reinsurance, and new product development were most frequently identified. This may reflect both the existence of these policies and the fact that they were prompted in the question. Other policies mentioned reflected a list that was not as extensive as the supervisory responses noted above. Most relevant:

- Reputational risk management was cited, an issue not raised by supervisors so explicitly;
- Although some respondents, either supervisors or industry, may have categorised it as part of other responses, asset-liability management was explicitly mentioned more so by insurers;
- Insurers considered the board charter and by-laws were, in effect, an important written policy;
- The functioning of internal control was mentioned by insurers whereas supervisory responses did not explicitly mention it although it may have implicitly been be categorised under other headings in some cases;
- Some insurers with participating contracts have a written with-profits policy.

### *5.2 Board Independence*

The independence of boards of directors as an objective was explored in greater detail to examine mechanisms that were used to advance this goal, and issues that would present challenges.

Supervisors and insurers both addressed the question of practices, arrangements and / or structures to promote the independence of the board of directors and its committees. Supervisors most frequently selected seven issues:

1. Clear criteria as to board independence and a minimum number of independent non-executive members. 39%
2. Restrictions on related party transactions and conflicts of interest. 19%
3. Independent internal audit committee. 14%
4. Regulatory requirements and supervisory evaluation. 14%
5. Regular meetings and adequate records of the meetings. 11%
6. Clear separation of duties between and within the board and management. 14%

7. Procedures for the appointment, removal, retirement and evaluation of directors. 8%

Insurers also highlighted that independent board members are the first line of defence and most popular way to secure board independence (41% of respondents). A clear board charter, articles, and responsibilities of the board were also emphasized (20% of respondents in each case).

Beyond the most popular responses, supervisors mentioned a range of approaches. Although instructive, and mentioned here for that reason, it needs to be noted that the items mentioned are not universally suggested and some will depend on local legal and cultural practices as to their effectiveness or necessity.

- Clear definition of independence.
- Working ban for the board of directors outside the insurance industry.
- Written terms of reference, reviewed annually.
- The independent directors' meeting without other members.
- New board member orientation and ongoing training.
- Fit and proper criteria.
- Emphasis on accountability.
- Board and committee level cooperation.
- Disclosure.
- Remuneration policies.
- Board recruitment processes, and a nominating committee composed entirely of non-executive directors.
- Separate chairman and chief executive officer.
- Chairman of the board to be an independent director.
- Written policies on internal control and reporting.
- Chairman of the audit committee must be an independent director.
- Clearly defined responsibilities of decision making.
- All board committees chaired by an independent non-executive director and no director to be a member of more than two board committees.

Insurer responses can be expected to be based on experience and the extent that they currently operate in more or less independent ways. As such, they will look to a range of different mechanisms and give them greater emphasis. Given the free form of responses, a range of answers was provided covering additional matters:

- Fitness and propriety requirements on board members
- Policy on selection of board members
- Regular review of directors interests
- Board performance assessments
- Accountability to the general meeting (particularly emphasised by mutual respondents)
- Restrictions on board members having separate business dealings with the insurer

- Closed session meetings separate from management
- Remuneration of board members, including, in some cases, the benefits of board members being honorary
- Separation of the roles of CEO and Chairman of the board
- Adopting international standards
- Listing rules that apply from large financial centre exchanges
- Regulatory requirements

Although there is considerable overlap between the supervisory and insurer responses, there are also some practices that are informative in meeting the challenge of effectively operating independence between oversight boards and management. It is clear that the range of proposals indicates that both insurers and supervisors are seeking and implementing mechanisms to advance independence of the oversight role.

Supervisory responses suggest that legal and regulatory requirements for board members and members of board committees to be non-executive and, in the case of conglomerates, not affiliated with other institutions in the group, vary substantially. 11% of respondents indicated that there were no requirements and only 14% indicated that all board members were required to be independent. Other requirements focused on the need for an independent or non-executive chairman or, alternatively, a range of minority requirements such as having at least one, two or three non-executives or, proportionately one-fifth, one-third or two-thirds. In aggregate, the requirements that implied some but less than majority non-executive minima represented just over 19% of responses. Combined with the cases where there is no requirement then, despite the view expressed elsewhere that independent directors were most important, over 30% of regulatory arrangements do not currently require it.

One reason for this divergence can be found in other studies. For example, the IAIS has identified that corporate governance is one of the insurance core principles where supervisors feel their observance is lower than others. This is supported by feedback from the Financial Sector Assessment Program (FSAP) from the IMF and the World Bank. Additionally, supervisory surveys on training needs place corporate governance high on the list of needs. Thus, one way of interpreting the divergence between views and preferences and actual regulation is that this is one area where there is a reflection of this gap in the preferred position of supervisors and the actual situation.

Further, when asked to identify whether there was a specific definition of “independence” in laws, regulations, or guidelines, 44% of supervisors indicated positively and 50% indicated that there was not such a regulatory definition. To an extent, this supports the view that the issue is also material for regulatory and policy making authorities.

Industry responses reflected this absence of supervisory requirement to a fair extent. Whilst many insurers do have independent directors and place considerable value on their contribution to corporate governance, few (14%) reported that the members of the audit committee were independent directors and only 7% reported that the chair of the committee was independent. As many respondents that reported that they had a majority of independent directors were recorded as the number of respondents that advised that they comply with regulatory requirements (18% of respondents in both cases), suggesting that regulation is a key driver of the appointment of independent directors.

### *5.3 Ethical Conduct and Corporate Social Responsibility*

Just over 47 percent of supervisory respondents indicated that boards of directors required or encouraged to set ethical standards or standards for corporate social responsibility compared to 42 percent who indicated that there was no such requirement. Insurers who did respond to the similar question indicated that they do have such standards and policies either explicitly or in their other policies and practices.

Supervisors and insurers were strongly of the view that ethical standards did have an impact on the governance of insurers (61% of supervisory respondents agreed and 86% of insurer respondents had such policies).

In terms of how such standards can be promoted, supervisory responses emphasised that the board and management should establish, implement and promote such standards and ensure that they are monitored (19%) -- the first and most frequent response. Insurers, whilst agreeing, elaborated a range of practices including annual affirmations by staff, publishing the policy internally on the insurer's intranet, staff events to increase awareness, providing a whistle-blowing process and responsibility, and having detailed guidelines incorporated in other business policies and practices such as those relating to claims, underwriting and investments. Some insurers also used their annual report and other publications to ensure that their ethical conduct stance was communicated to all stakeholders noting that it has both a moral as well as a commercial value. Drawing a clear link between the company values and its participation in supporting community projects also reinforced the policy and helped to extend it beyond purely elements of insurance transactions.

Supervisors also noted a role for assessments, staff communication, training and accountability. Some also noted that the transparency of board and management, an appropriate 'tone at the top', demonstrable board level commitment, and, in some responses, regulatory requirements and supervisory review would also promote implementation of such standards.

A number of insurers reported that they had seen changes that were beneficial as a result of their efforts to develop and give effect to policies on ethical standards and CSR. A wide variety of observations were made, most commonly that the process had formalised existing practices, and that the guidelines had changed and improved staff behaviour. Insurers reported initiatives such as the development of or strengthening of policies including an ethical investment policy, environmental policy or staff respect policy. Some insurers noted that they had improved transparency and were issuing reports to the public including sustainable development reports and social responsibility reports. It was reported that the initiatives had also seen more direct business benefits through improved customer service levels and reduced client complaint levels.

## 5.4 *Functions and Responsibilities of Senior Management*

Both supervisors and insurers identified the key functions of senior management when it comes to corporate governance. Most respondents raised elements that suggest that the question was broadly interpreted however; some responses went specifically to the issue of maintaining and supporting the corporate governance system. The results for the most frequently nominated items are in Table 14. These key items appear to be generally consistent between the two groups.

**Table 14: Most Frequently Identified Functions of Senior Management (% of respondents)**

| | By supervisors | Other respondents |
|---|---|---|
| 1. | Planning, conducting and controlling of day-to-day activities of the insurer - 31 | Implementing board policies – 45 |
| 2. | Recommending objectives, strategy, business plans and policies to the board – 22 | Overseeing the operations – 41 |
| 3. | Ensuring that issues/events are promptly identified and brought to the board's attention – 22 | Developing policies for board approval – 14 |
| 4. | Developing, implementing, facilitating corporate governance framework – 22 | Strategic planning / business planning – 14 |
| 5. | Establishing internal control, compliance, monitoring and reporting functions – 22 | Reporting to the board – 9 |

Supervisors also mentioned that senior management should be responsible for implementing the strategies, policies and directives of the board (17%), monitoring operating objectives, strategies and plans approved by the board (14%), maintaining a mapping of risks faced by the company and properly managing these risks (8%), and encouraging and adopting ethical behaviors and professional conduct (8%). All of these represented a number of responses. Less frequently mentioned responses were the need to maintain separation of duties, the necessary competence of staff (taken together as fitness and propriety), ensuring that internal control systems were maintained and well functioning, providing financial management, maintaining transparency and relationships with stakeholders, and supporting the resource requirements for oversight functions, the actuary, compliance and risk management functions. Supervisors also noted that senior management had a role in maintaining an appropriate relationship between insurers and supervisors.

On the issue of boards holding management accountable for their tasks, insurers indicated that the main way that this was done was through the receipt and consideration of reports (48%), monitoring performance against business plans and objectives (23%),clear delegations or charter from the board to management (9%), approving strategic objectives and business plans (11%) and through having senior management attending board meetings (9%). A smaller number also made reference to performance-based remuneration as playing a role in accountability.

Supervisors most frequently indicated that management accountability could be advanced through board reporting and review. Various responses along these lines totaled 80% of all supervisory responses. In addition, some supervisors suggested that audit should periodically examine this issue (22%), remuneration with appropriate long-term objectives (14%), clear lines of reporting and appropriate segregation of duties (11%), board assessment of external audit, internal control, compliance, actuarial, and risk management functions, regular contact between the board and senior management and board oversight of senior management fitness and propriety, recruitment, dismissal, and succession planning were all ways that accountability could be advanced.

While recognising the importance of reporting in board oversight, half of the supervisors indicated that there were requirements or practices pertaining to reports to the board of directors, such as the content, frequency and relevance of management information whereas just under half indicated that there were no such requirements.

### *5.5 Reporting*

Supervisors indicated that they expected a range of types of reporting to be established in insurers. The most frequent response focused on management reporting to the board (39%) and committees to the board as a whole (22%). Supervisors also noted that external and internal audit reports to the board were important (30% each) or to the audit committee (11%) and the reporting of the board to shareholders (19%). All of these were prompted as examples in the question in the survey. Supervisors also noted the relevance of reports from the actuary to the board (14%), the risk management function to management and the board (8%), the external auditor to shareholders, and reporting to supervisors.

Insurer responses regarding actual practices were in line with supervisory expectations and priorities. Additionally, some insurers also noted that reports to the major shareholders may be a feature.

When considering how to ensure that the board of directors can access and receive all relevant information, supervisory and industry responses both indicated a range of mechanisms would be useful. Supervisors highlighted that the board should establish procedures, systems, control and reporting lines as the highest priority (33%). Insurer responses seemed to take the existence of documentary reporting as a given and also highlighted access to staff and management by directors as being most important (30%). Supervisors also emphasised access to staff (17%), the independent auditor, the actuary, and compliance functions.

Regarding the facilities for board members to interpret information, both insurers and supervisors noted that the potential for the board to have closed session meetings was required. Two supervisors mentioned that they have requirements relating to director attendance at meetings to ensure that they remain informed. Fitness and propriety was also raised – recognising that the competence of the directors is a key element in their interpretation and assessment of the information they receive. Most industry responses were consistent with the supervisory responses in this respect, but some added additional mechanisms such as briefings in advance of meetings where required, transparent relations between board and management, and training seminars for board members.

Both supervisors and insurer respondents noted the possibility of providing the board with an independent budget. Whether this was to secure additional independent advice or more generally was open as was the view, from some insurers, that directors would be able to seek such advice regardless of the existence of an independent board budget.

### *5.6 Board Accountability*

To address accountability of the board, collectively and with respect to individual members, regarding their duties and responsibilities, responses indicated a divergence between supervisory and industry views. Supervisors placed great weight on regulatory requirements and did not mention the role of the general meeting whereas, in contrast, insurers saw the general meeting as the ultimate forum for board member accountability and gave a lesser weight to regulatory requirements. It should be noted that this would appear to be an unusual result as both groups had given higher weighting to both issues in other parts of their responses. Table 15 provides the summary.

**Table 15: Most Frequently Proposed Mechanisms to Promote Board Accountability (% of respondents)**

| | By supervisors | Other respondents |
|---|---|---|
| 1. | Regulations – 28 | General meeting - 36 |
| 2. | The board should evaluate itself – 22 | Regulatory requirements – 14 |
| 3. | The board should report regularly any material deficiencies to the regulator – 17 | Board reporting – 11 |
| 4. | The company should disclose all relevant information on current management and corporate governance practices – 17 | Group performance assessment – 9 |
| 5. | The company should clearly define roles, responsibilities and tasks for the board – 8 | Individual member performance assessment - 9 |

Supervisors and insurers also mentioned a range of other mechanisms, albeit with a lower frequency including that accountability was strengthened if meetings had decisions documented effectively. Both sets of respondents also identified that legal obligations also had an impact on accountability.

Taking a more positive rather than punitive stance, respondents also suggested that training for directors, consideration of board composition and balance by nominating committees, and guidance and integration of new directors when they commence their appointment would assist in maintaining the fitness and propriety of the board and, through this, its effective delivery of the roles that it has to undertake.

### 5.7 Review of Corporate Governance Structures and Practices

Just as corporate governance structures and practices have developed over time and can be expected to continue to develop in the future, the effectiveness of the structures and practices can also vary and the nature of an insurer's business can also change. As a result, no respondents indicated that review was not required and elaborated different practices regarding these reviews.

Although the responses were varied, the substance of the variation is less material. The most frequent response was that the frequency and nature of the review should be initiated 'as required', and reflect proportionate obligations. Secondly, the review should be initiated and reported back to the board. Third, although not universal, some respondents indicated that reviews of parts of the governance structure (most frequently citing internal audit and external audit) may occur at different times or on different cycles.

Regarding frequency, where one was suggested, supervisory responses tended to favor annual review although periods up to five years were also suggested. Insurer responses ranged from quarterly to four years in practice.

### 5.8 Fitness and Qualifications

Supervisory responses regarding how insurers should ensure that individual board members and the board collectively have enough knowledge to monitor and oversee the activities of the insurer appropriately identified regulatory requirements for board members to be fit and proper as their most frequent response (33%). Although drawing a smaller proportion of responses, regulation was also frequently nominated proposition from insurers (32%) after the value of ongoing training (39%).

More specifically, tactics to help to deliver the objective were suggested.

- Orientation and ongoing director training (Supervisors 19%, Insurers – Initial training 30%, ongoing training 39%);
- The nominating committee, or if there is not one then some other review, should assess the composition of skills on the board and recommend actions to fill any gaps that are identified (Supervisors 13%, Insurers 20%)
- Periodic review of individual directors (Supervisors 30%, Insurers 2%)
- Appropriate written policies (Supervisors 3%, Insurers 9%)
- Access to independent advice if necessary (Supervisors 6%)
- Independent nominating committee process (Supervisors 3%)
- Provision of information to directors (Insurers 9%)

Supervisors indicated that they had specific requirements in their regulations covering board composition, and director terms and tenure, in 80% of cases. Other elements that were seen as part of the criteria that would enhance decision making nominated by supervisors were:

1. Fit and proper test / Qualification requirements. 42%
2. Board size. 33%
3. Number of independent non-executive directors. 28%
4. Residential or citizenship requirements. 11%
5. Maximum number of board memberships each board member can hold. 11%
6. Maximum years of tenure. 8%
7. Supervisory approval. 6%

A similar number of responses (67%) indicated that there were regulatory requirements that further defined fitness and propriety and required particular functionaries to be fit and proper. Supervisors advised that the evaluation of fitness and propriety was required to be undertaken before appointment in 53% of responses, during the term of appointment in 25% of responses, and in isolated cases, for subsets of the functionaries before appointment only (naming main shareholders, CEO, and CFO in particular).

Insurers are reported to be required to notify supervisors of changes of main shareholders, board members and senior management in most cases. 86% of respondents indicated that such notification was required. 8% indicated that notification was required for material change in ownership. This would be consistent with the requirements of the IAIS insurance core principles with respect to change of control where some materiality trigger is recognised in such cases. Five of the supervisory respondents indicated that no reporting requirement applied in the case of senior management.

This reporting obligation fell to insurers in most cases (39% of respondents), to a named official of the insurer (33%), or to the board (25%). In 15% of cases, respondents indicated that the main shareholders or the external auditor would have reporting obligations, although this would relate to matters relating to their position and not all reports.

### *5.9 Remuneration and Benefits*

The relevance of having incentives and benefits ‘aligned’ so that senior management and directors fulfill their functions appropriately with the long-term interests of the insurer in mind is both relevant to corporate governance and, more recently, has become more topical.

Supervisors felt that (in decreasing order that the proposals were suggested – single responses are not reported):

1. Remuneration policies and performance incentives should be linked to long term; (44%)
2. Criteria for these benefits should be defined clearly and based on measurable performance (31%)
3. The company should ensure senior management and directors buy company shares as part of their fee (8%)
4. The senior management should purchase an equity interest in the insurer (8%)

5. The remuneration committee should review and recommend the remuneration of senior management and other key personnel. (6%)
6. The senior management and directors should be compensated similarly to their peer group of insurers (6%)

A number of insurers noted that, in practice, they did not have such a challenge in aligning interests as they did not have a strongly incentive-based remuneration system. Of those that do, they indicated that it was important that incentives be based on both short and long-term objectives rather than just short-term objectives (11%) or solely on longer term objectives (11%), or based on a mixture of individual and company performance rather than too heavily weighted to individual performances (11%). On procedural elements, having a board policy on remuneration, conflicts of interest, and the possibility of an active remuneration committee were all equally popular.

Supervisors indicated that insurers should disclose their remuneration policy (36%) in their annual report (28%) to shareholders (8%). Similarly, 8 percent indicated that the remuneration plan should be reviewed or approved in the shareholders' meeting and reported to the supervisory authority. Some supervisors advised that the requirement for disclosure of the remuneration policy was limited to publicly listed insurers (11%). In a very limited number of cases, it is routine or a requirement for insurers to disclose their policy to the supervisors and / or on their website.

Actual practice regarding disclosure reported by supervisors indicated that the annual report was the most frequent place for such disclosures of directors' fees (25%) and senior management remuneration (23%). Those that mentioned the annual report without describing further (25%) and 'disclosure as per regulations' (20%) also indicated an element of disclosure as did those that indicated that remuneration was available on the website (5%). At the same time, 20% of those that responded to the question indicated that there was no disclosure related to remuneration.

# 6 The External Auditor, Actuary and the Actuarial Function

## *6.1 General*

Almost all supervisory responses reported that insurers are required to have an actuary or an actuarial function (94%). 61% of respondents indicated 'yes', two respondents indicated that insurers were required to provide an actuarial report even though they did not require an official actuary, and the balance (28%) indicated that the requirement only applied to life insurance companies. Insurers who responded to the question were unanimous that they did have an actuarial function, most often including one or more individuals with an official role.

## 6.2 The Actuarial Function

The list of tasks identified as being conducted by actuaries / the actuarial function showed that a range of roles and functions were given to actuaries in different jurisdictions. Supervisors were asked to identify separately between actuarial duties to policyholders and other functions. Insurers were asked to identify tasks of actuaries. These lists overlapped considerably and it is most useful to report insurer responses here in Table 16. Insurers clearly responded regarding the roles that they assigned to actuaries and most did not restrict their answers to those responsibilities specifically associated with regulatory requirements.

**Table 16: Functions Given to Actuaries**

| | Other responses |
|---|---|
| Determining / recommending to the board / advising on the level of technical provisions | 48 |
| Report to directors on fair treatment of participating policyholders including surplus distribution | 9 |
| Product development and pricing | 50 |
| As per regulatory requirements | 30 |
| Providing actuarial opinions on asset liability management | 14 |
| Actuarial modeling / forecasting | 23 |
| Monitoring capital / solvency | 11 |
| Observing actuarial and / or financial standards | 14 |
| Regulatory reporting | 16 |
| Reviewing / overseeing risk management | 9 |
| Appraisal or economic valuations | 9 |
| Reporting to the board (unspecified details) | 9 |
| Whistle blowing | 7 |
| Overseeing underwriting and / or reinsurance policies | 9 |

Regulatory roles are specified with requirements that actuaries have specified qualifications. This was indicated by 83% of supervisory respondents, who indicated that in all cases where there was a regulatory responsibility, this aspect of fitness and propriety was included in the requirements. In addition, supervisors reported that, in 17 percent of respondent cases, insurers needed to set transparent and fair qualification / selection criteria and selection processes for actuaries. 56% the supervisory respondents indicated that no such processes and criteria are required under regulatory rules with respect to actuaries. Where such criteria and processes did exist, they were largely undisclosed to policyholders (8% of respondents) and only one respondent indicated that there was a disclosure. 58% of supervisory respondents indicated that actuaries were ‘required’ or ‘expected’ to play a supervisory role.

41 percent of supervisors indicated that there was no difference between life and non-life requirements. Half of respondents indicated that there was a difference.

In 19 percent of cases, supervisors indicated that there was no system of regulatory oversight of the actuarial profession. The balance indicated that supervisory oversight did exist, with 50% of respondents indicating that it involved the professional association in the oversight function. For 11% of supervisory respondents, this oversight included a peer-review process. 58 percent of supervisors indicated that they felt the oversight arrangements for the profession were effective with a small number indicating that there was scope for improvement.

### *6.3 External Audit and Auditors*

Reporting the regulatory arrangements, supervisors indicated that the insurer, or particular parts of its governance structure, was responsible for making the appointment. They indicated that the insurer (22%), the annual meeting / general assembly (31%), the board (36%), the audit committee / independent committee (5%), and in other cases the board and management together or specifically the supervisory board in a two-tier board case. In other words, this appointment was not necessarily a management appointment.

Overwhelmingly (94%), supervisory respondents indicated that there were qualification requirements for external auditors. For one-third of supervisory respondents, regulations placed a duty to policyholders on the external auditors whereas, for just over half of the respondents, no such explicit responsibility existed. At the same time, half the responding supervisors reported that auditors were ‘required’ or ‘expected’ to play a supervisory role and 23% of supervisory respondents did not have such a requirement or expectation. Both supervisors and insurers were invited to suggest ways that the independence of the external auditor could be maintained. Table 17 sets out the most frequent responses. The extent of overlap between supervisors and other respondents is particularly strong with respect to this issue.

**Table 17: Most Frequently Proposed Mechanisms to Support Auditor Independence (% of respondents)**

| | By supervisors | Other respondents |
|---|---|---|
| 1. | Regulations should impose conditions on audit roles and these roles should be subject to supervisory oversight – 36 | Disclosure of appointment / fees – 23% |
| 2. | Audit firm and teams subject to rotation – 22 | Shareholder level appointment – 20 |
| 3. | The supervisory board or audit committee must review independence of the auditor – 17 | Regulatory obligations – 20 |
| 4. | Professional association membership, rules, and structures, and educational qualifications – 14 | Audit committee review- 16 |
| 5. | Insurers must inform supervisors of the resignation, revocation and non-renewal of their external auditors - 14 | Defined term of appointment / rotation – 14 |

Supervisors suggested several other mechanisms to support independence. These included: the dangers of allowing an auditor to take a role in management or at board level in an insurer shortly after relinquishing the audit role and the risks of auditors having personal or firm financial arrangements and dealings (for example investing in insurer shares). Disclosure of audit fees, non-audit services (if permitted at all) to the general meeting / assembly was promoted by 6% of respondents. Eight percent indicated that the appointment by the general assembly itself rather than the board was supportive of independence. Supervisory approval and powers to have the auditor removed was noted by 6% of supervisors as relevant when responding to this question.

Insurers also made the same suggestions such as disclosure, professionalism, and supervisory approval / oversight. Some indicated that it was useful to have a written policy on the issue of 'other activities', and written terms of engagement for the audit.

Supervisors felt that the quality of the external auditor was assisted by the system of regulation (17%), system of self-regulation (19%) or both (53%). Insurers emphasised quality assurance processes that included the oversight of the Audit committee, professional associations (20% and 27% respectively), peer review, regulatory obligations, audit standards, and supervisory oversight. A number of insurers also indicated that the use of major audit firms would be a factor (16%). 78% of supervisors felt that the separation between audit and non-audit services in their jurisdiction was appropriate.

The majority (56%) of supervisory responses indicated that disclosure of selection criteria and or processes for the external auditor, or reporting this to the supervisor was not required. The balance did require this disclosure or reporting.

It is particularly frequent that auditors have formal obligations to report irregularities. Note that only two-thirds of supervisors noted a regulatory role for actuaries as being required whereas, for external auditors, 92% indicated that they should inform shareholders or the board or both in the event that they detect illegal activities, fraud, or abuse and, in 83% of cases, external auditors had a legal obligation to report to supervisors.

### *6.4 Relationship Between the Actuary and the Auditor*

Reported roles between actuaries and auditors varied slightly between the responses of insurers and supervisors although this may reflect the level of detail in the responses. The key outcome is that the external auditor did have a responsibility to assess the valuation of the liabilities and could do this through reviewing the work of the actuary in a small number of cases and, in most, to perform a more rigorous review to verify or even revisit the calculation efforts of the actuary. Respondents did not indicate that the auditor would simply take the work of the actuary and accept it.

However, when the work of the auditor considers the work of another auditor, perhaps as a separate auditor has already audited a subsidiary, then 20% of jurisdictions indicated that the auditor could arrange to rely on that work and 30% indicated that they could do so after some due diligence.

## 7 Supervision

Nearly 70% of supervisory responses considered that corporate governance played ‘an important role’ in their prudential framework. Another 11% in total advised variously that the role was less significant in their prudential framework, that the rules were not relied upon exclusively, or that the legal framework did not include corporate governance at the time.

That said, there can be supervisory challenges or difficulties associated with corporate governance in the insurance sector. In response, the most frequent indication was that there were no particular concerns (16%). Where there were potential concerns, supervisors volunteered the following items:

1. Boards of directors that lack fitness and propriety, and senior management that lack the necessary skills and experience (11%)
2. Establishing the independence of the board. (8%)
3. Regulatory reform (6%)
4. The application of proportionality (6%)
5. The treatment and protection of policyholders (6%)
6. Ensuring compliance (6%)

Other complications nominated by one jurisdiction or another included implementation by small and medium-sized insurers, assessing financial and investment risks, outsourcing agreements, regulation of solvency, secondary legislation regarding internal audit, quality of actuarial analysis, lack of reliable and consistent company data, conflicts of interest, training of, and sufficient supervisory staff regarding monitoring of corporate governance implementation, lack of fit and proper requirements for controlling owners, and reputational risk management.

That said, 86% of supervisors indicate that corporate governance standards and practices at insurers were regularly reviewed and enforced.

## 8 Other Issues Raised

A number of other issues were canvassed in the survey. These covered additional disclosure commentary, lessons from the recent market turmoil, the role of associations and self-regulation, and proportionality.

### *8.1 Disclosure*

The requirement for additional disclosures ‘beyond providing market disclosures as may be required by securities laws, or general disclosures to stakeholders as may be required by corporate governance legislation’, the survey sought information on other disclosures that ‘should be’ (in the opinion of the supervisors) or ‘are’ (in the opinion of the sector) made by insurers. Interpreting the responses is complicated as it suggests that all responses are being compared to varying base level benchmarks. For example, where general requirements are strong then there may be little more available to disclose whereas when requirements are generally low, then there is considerable scope for suggestions.

The responses most frequently nominated are reported in Table 18. This was one question where the free form, and the 'additionality' qualification in the question to the extent that it was observed, led to a particularly diverse set of proposals.

**Table 18: Most Frequently Identified items for Disclosure 'in addition' to General Requirements (% of respondents)**

| | by Supervisors | other respondents |
|---|---|---|
| 1. | Risk management strategies and practices – 14 | CSR / ethics report on website – 14 |
| 2. | Corporate governance policy – 11 | A range of stakeholder communications to supplement and improve reach – 14 |
| 3. | The selection, functions, responsibilities, and composition of the board of directors – 6 | Reports to supervisors – 11 |
| 4. | Consumer complaints and claims – 6 | Use of websites - 11 |
| 5. | All corporate governance issues related to the treatment and protection of policyholders – 6 | Public announcements of material matters - 7 |

The wide range of other elements suggested by supervisors covered disclosure of code of ethics practices, compliance, establishment of committees, functions and responsibilities of senior management, investment strategies, material related party transactions, material transactions that require board approval, ownership structure, ownership interests of the directors and management, remuneration policy, auditor's fees, and the underlying assumptions of the work of the life actuary.

To make these disclosures, supervisors and insurers emphasised inclusion in the annual report (55% and 50% respectively), websites (25% and 45%), and supplementary statements to policyholders and / or shareholders (13% and 20%). The media was also a possible vehicle. Insurers also noted shareholder and policyholder forums and special meetings for communication, email newsletters, call centres, and regulatory returns that find there way into supervisory publications.

Supervisors noted that, in most jurisdictions, insurers and their boards of directors are required to disclose and explain their governance structure to the public (58%). A further 17 percent had this requirement for publicly listed insurers. A smaller proportion of respondents were required to explain how their governance structure takes into account the interests of policyholders (25%) compared to 56 percent of respondents where there was no such requirement but, in 6% of cases supervisors noted that insurers do make such disclosures or are encouraged even though there is no formal requirement.

When considering whether there were any governance practices that, in the opinion of supervisory respondents, can best be supported though disclosure rather than through specific supervisory requirements four elements were noted -- information about the board of directors and committees, corporate structure, remuneration policy, and conflict of interests / related party transactions.

### 8.2 Lessons from the Recent Market Turmoil

Supervisors and insurers were asked to indicate their thinking regarding lessons learned from the recent market turmoil with regard to the corporate governance. Table 19 provides the more frequent responses although it should be noted that many respondents indicated that they felt that the lessons to be learned were still emerging. Although 25% of supervisors indicated that they did have plans to enhance corporate governance, 33% indicated that they did not have specific plans and a further 19% indicated that they were still investigating lessons. Some insurers also noted that expectations for new practices was something that they were considering implementing in the context of other regulatory reforms such as, in particular in Europe, Solvency II.

**Table 19: Most Frequently Identified Lessons from Recent Market Turmoil (% of respondents)**

| | By supervisors | Other respondents |
|---|---|---|
| 1. | Investment strategies and risk appetite – 22 | More focus on risk management – 11 |
| 2. | Complex products and lack of corporate oversight – 17 | |
| 3. | Early communication and flow of the information to firms' management of concerns about risk – 14 | |
| 4. | Having tight internal control and risk management function – 11 | |

Although with a lesser frequency, some insurers indicated that they were reviewing their risk tolerance, monitoring or revisiting the way that they manage investment risks, and ensuring focus on insurance rather than non-insurance products. The need for speed of reaction to events with more effective and responsive processes was also mentioned.

Supervisors in a small number of jurisdictions in each case mentioned that they were conscious of the relevance of increased disclosure, whistle-blower protection, remuneration policies with long term perspectives, international standards, credit ratings and their use in investment decisions and risk management, more frequent reporting, supervisory capacity to examine financial innovation, fitness and propriety, independent directors, supervisory cooperation across jurisdictions, and outsourcing.

### 8.3 Self-regulation

The survey explored views on the current or potential role that trade associations could play to supplement and deepen legal requirements for corporate governance.

Supervisors highlighted the following possibilities although it should be noted that not all supervisors felt that they could see that a role was appropriate in their jurisdiction:

1. Issuing guidelines and setting standards for their members - (31%)
2. Offering training for board members - (17%)
3. Providing exchange of experience and developing recommendations for best practices – (14%)
4. Monitoring and periodically evaluating the qualifications of members especially in corporate governance matters - (11%)
5. Coordinating communication between industry and supervisors – (8%)

Associations were perceived to usefully develop such things as corporate governance codes, codes of conduct, and industry wide consumer complaint handling schemes that could be shared by association members from the perspective of some supervisory respondents.

Insurers advocated the role of identifying and exchanging information on best practices and the association's role as an advocate to regulatory agencies regarding the appropriateness of regulatory reforms.

### *8.4 Proportionality*

Half of supervisors felt that they did apply a proportionality principle in their regulation and supervision of corporate governance and that the principle did contribute to a level playing field rather than detract from it particularly in terms of compliance costs.

Many insurers did not respond to this question and those that did favoured a view that their jurisdiction did not have such a principle. Regarding the comments provided by those that did respond, it was considered that some element of cost justification had been achieved but, at the same time, there was a basic level of governance and associated cost that had to be borne for an effective system and, therefore, this would always imply a cost challenge for smaller insurers.

## 9 Additional Documentation Provided

Question 4b invited respondents to provide additional documents to assist the IAIS and OECD in their future work with respect to Corporate Governance. A considerable volume of material was received from supervisors and provides a body of examples of laws, regulations and supervisory guidelines on the issues explored in the survey. Some insurers provided their own examples of policies and reports. In the main, these documents are all publicly available but the collection of them through the survey will assist and provide a valuable reference.

## 10 Annex: Acknowledgement of Survey Participants

As part of the survey, respondents were asked if they wished to remain anonymous or have their participation acknowledged. Those that did wish to be recognized are listed in this annex.

### *10.1 INSURERS*

| | |
|---|---|
| Austria | Niederösterreichische Versicherung AG |
| Bahrain | Saudi National Insurance Co. B.S.C. |
| | Trade Union Insurance Company B.S.C. |
| | Takaful International Company |
| | Solidarity Family Takaful B.S.C. |
| | Solidarity General Takaful B.S.C. |
| | Arab Insurance Group B.S.C. |
| | Medgulf Insurance & Reinsurance |
| | Life Insurance Corporation (International) B.S.C. |
| | Bahrain Kuwait Insurance Company B.S.C. |
| | Saudi Arabian Insurance Co B.S.C. |
| | Gulf Union Insurance & Reinsurance Co. |
| Belgium | P&V Assurances SCRL |
| | Securex Vie |
| Canada | SSQ Financial Group |
| | ACE INA Insurance |
| | Desjardins Financial Security Life Assurance Company |
| | Desjardins Groupe d'assurances générales (DGAG) |

| | |
|---|---|
| Chinese Taipei | Shin Kong Life Insurance Co., Ltd |
| Finland | Tapiola General Mutual Insurance Company |
| France | MAIF (Mutuelle Assurance des Instituteurs de France) |
| | LA MONDIALE Société d'assurance mutuelle |
| | CGPA |
| | MAAF (Mutuelle d'assurance des artisans de France) |
| | MMA (Mutuelles du Mans Assurances) |
| | GMF (Garantie mutuelle des fonctionnaires) |
| | MACIF (Mutuelle Assurance des Commerçants et Industriels de France et des cadres et des salariés de l'Industrie et du Commerce) |
| Hong Kong, China | MassMutual Asia Limited |
| Hungary | Generali-Providencia Biztostó Zrt. |
| | Közlekedési Biztosító Egyesület, KÖBE Traffic Insurance Mutual Co. |
| India | DLF Pramerica Life Insurance Company Limited |
| | Royal Sundaram Alliance Insurance Company Limited |
| | Cholamandalam MS General Insurance Co. Ltd |
| | United India Insurance Company Limited |
| Italy | ITAS Mutua |
| Japan | Nippon Life Insurance Company |
| | NIPPONKOA Insurance Co., Ltd. |
| | The Dai-ichi Mutual Life Insurance Company |
| | Sumitomo Life Insurance Company |
| | Meiji Yasuda Life Insurance Company |

| | |
|---|---|
| | Sompo Japan Insurance Inc. |
| | Aioi Insurance Co., Ltd. |
| Macau, China | Luen Fung Hang Insurance Company Limited |
| Malaysia | Great Eastern Life Assurance (M) Berhad |
| | American International Assurance Berhad |
| | ING Insurance Berhad |
| Netherlands | AEGON N.V. |
| | ING Verzekeringen N.V. (ING Insurance) |
| Russia | Ingosstrakh |
| | ROSNO |
| | MAKS |
| Slovenia | Vzajemna mutual health insurance company |
| South Africa | Federated Employers' Mutual Assurance Company Limited |
| | Discovery Life Limited |
| | Legal Expenses Insurance Southern Africa Limited |
| | Sanlam Developing Markets Limited |
| | Momentum Group Limited |
| | FirstRand Insurance Services Company Limited |
| | PSG FutureWealth Limited |
| | Allianz Insurance Limited |
| | Old Mutual Life Assurance Company Ltd (OMLAC(SA)) |
| | ABSA Life Limited |

| | |
|---|---|
| | Centriq Insurance Company Limited |
| | Metropolitan Life Ltd |
| | Lion of Africa Insurance Company limited |
| | Rand Mutual Assurance Limited |
| | Resolution Insurance Company (PTY) Ltd |
| Spain | MUSAAT, Mutua de Seguros a Prima Fija |
| Sweden | Folksam Mutual |
| Switzerland | Swiss Reinsurance Company Ltd |
| | Zurich Financial Services |
| | Swiss Mobiliar Holding Ltd. |
| Tanzania | The Heritage Insurance Company Tanzania Ltd |
| Turkey | Yapi Kredi Emeklilik A.Ş. |
| | AKSIGORTA A.Ş. |
| | SBN Sigorta A.Ş. |
| | Demir Hayat Insurance Co. |
| | DEMİR SİGORTA A.Ş. |
| | ERGOİSVİÇRE Sigorta A.Ş. and ERGOİSVİÇRE Emeklilik ve Hayat A.Ş. |
| | AIG HAYAT Sigorta A.Ş. |
| | GUNES Sigorta |
| | Milli Reasürans T.A.Ş. |
| | FINANS EMEKLILIK ve HAYAT A.Ş. |
| United Kingdom | National Farmers Union Mutual Insurance Society |

The Prudential Assurance Company Limited (PACL)

Royal & Sun Alliance Insurance plc

## 10.2 TRADE ASSOCIATIONS

| | |
|---|---|
| China | NLIA (The Non-Life Insurance Association of the Republic of China) |
| Czech Republic | Czech Insurance Association (CAP) |
| France | Groupement des Entreprises Mutuelles d'Assurances (GEMA) |
| | Fédération Nationale de la Mutualité Française (FNMF) |
| | Groupe de Sociétés d'assurance mutuelles régies par le code des Assurances (MACSF) |
| | Fédération Française des Sociétés d'Assurance Mutuelles (FFSAM) and Réunion des Organismes d'Assurance Mutuelles (ROAM) |
| | Fédération Française des Sociétés d'Assurances (FFSA) |
| Japan | General Insurance Association of Japan (GIAJ) |
| | Life Insurance Association of Japan (LIAJ) |
| Malaysia | General Insurance Association of Malaysia |
| | Life Insurance Association of Malaysia |
| Russia | All Russian Insurers Association (ARIA) |
| South Africa | South African Insurance Association |
| Spain | Asociación Empresarial del Seguro (UNESPA) |
| Turkey | Association of the Insurance and Reinsurance Companies of Turkey (AIRCT) |

| | |
|---|---|
| United Kingdom | Association of Friendly Societies (AFS) and Association of Mutual Insurers (AMI) (jointly) |
| U.S.A | America's Health Insurance Plans (AHIP) |
| | American Insurance Association (AIA) |

### 10.3 SUPERVISORS

| | |
|---|---|
| Albania | Albanian Financial Supervisory Authority |
| Argentina | Superintendencia de Seguros del la nacion Argentina |
| Australia | Australian Prudential Regulation Authority (APRA) |
| Austria | Financial Market Authority (FMA) |
| Bahrain | Central Bank of Bahrain |
| Belgium | Banking, Finance and Insurance Commission (CBFA) |
| Bermuda | Bermuda Monetary Authority |
| Cabo Verde | Insurance Supervisory Authority in Cape Verde |
| Canada | Financial Services Commission of Ontario |
| | Office of the Superintendent of Financial Institutions (OSFI) |
| | Autorité des marchés financiers AMF (Quebec) |
| Chile | Superintendencia de Valores y Seguros (SVS) |
| Chinese Taipei | Financial Supervisory Commission |
| Colombia | Superintendencia Financiera de Colombia |
| Czech Republic | Czech National Bank |
| El Salvador | El Salvador |
| France | ACAM |
| Germany | Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) |
| Guernsey | Guernsey Financial Services Authority |
| Hong Kong, China | Office of the Commissioner of Insurance |
| Iceland | Financial Supervisory Authority |
| Ireland | Financial Regulator |
| Japan | Financial Services Agency |
| Kenya | Insurance Regulatory Authority |
| Lebanon | Insurance Control Commission |
| Malaysia | Bank Negara Malaysia |
| Malta | Malta Financial Services Authority |
| Mexico | Comisión Nacional de Seguros y Fianzas |
| Morocco | Direction des Assurances et de la Prevoyance Sociale |
| Netherlands | De Nederlandische Bank |

| | |
|---|---|
| Norway | Kredittilsynet |
| Serbia | National Bank of Serbia |
| Singapore | Monetary Authority of Singapore |
| Slovak Republic | National Bank of Slovakia |
| Spain | Dirección General de Seguros y Fondos de Pensiones |
| Sudan | Insurance Supervisory Agency |
| Switzerland | Swiss Financial Market Supervisory Authority (FINMA) |
| Uruguay | Superintendencia de Seguros y Reaseguro Banco Central de Uruguay |
| United States of America | National Association of Insurance Commissioners (NAIC) |
| | New Jersey Department of Banking and Insurance |

## *10.4 OTHER RESPONDENTS*

| | |
|---|---|
| Italy | HERMES Equity Ownership Services Ltd. |
| Switzerland | Swiss Institute of Certified Accountants and Tax Consultants (SICA&TC) |