



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

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Application Paper on Supervision of Control Functions

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International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel
Switzerland
Tel: +41 61 280 8090 Fax: +41 61 280 9151
www.iaisweb.org

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1 Introduction

1. Effective control functions with necessary independence, stature and resources help insurers identify and manage risks and are considered a crucial element of the corporate governance framework. In contrast, ineffective control functions may weaken an insurer and require heightened supervisory attention. The work performed by control functions, in particular internal audit, can also assist supervisors in identifying specific areas of concern or patterns of weakness within an insurer, informing the supervisory plan and tailoring its supervisory approach accordingly.

2. This Application Paper describes practices aimed at helping supervisors address issues related to the supervision of control functions as described in the Insurance Core Principles (ICPs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). In particular, the Application Paper supports observance of ICP 8 (Risk Management and Control Functions), and is relevant to ICP 5 (Suitability of Persons) and ICP 7 (Corporate Governance) and supports supervisors in achieving the outcomes stipulated in those ICPs.

3. In addition to relevant literature and other publications, this Application Paper is largely based on the results of a survey among IAIS Members of their experiences and supervisory practices¹. The survey identified challenges in supervision of control functions and effective supervisory practices for addressing these challenges, which largely shaped the content and organisation of this Paper. This Application Paper also takes into consideration the outcome of the Peer Review of Corporate and Risk-Governance relative to the standards set out in ICPs 4, 5, 7 and 8.²

4. The IAIS recognises the need to investigate further challenges to supervision of control functions identified in the survey, the Peer Review Process and other sources, and this paper looks to address those challenges by sharing relevant good supervisory practices.

5. As described in their Introduction, the ICPs establish the minimum requirements for effective insurance supervision and are expected to be implemented and applied in a proportionate manner. Therefore, proportionality underlies all the ICPs, including those related to supervision of control functions, and this Paper should be read in the context of the proportionality principle. Some practical examples of applying proportionality in supervision of control functions are described in this Application Paper.³ In general, supervisors have the flexibility to tailor their implementation of supervisory requirements and their application of insurance supervision to achieve the outcomes stipulated in the Principle Statements and Standards.

- Implementation - proportionality allows the ICPs to be translated into a jurisdiction's supervisory framework in a manner appropriate to its legal structure, market conditions and consumers.
- Application - proportionality allows the supervisor to increase or decrease the intensity of supervision according to the risks inherent to insurers, and the risks posed by

¹ The survey of IAIS Members, to which 28 jurisdictions responded, was launched in June 2019.

² IAIS, [Peer Review of Corporate and Risk-Governance relative to the standards set out in Insurance Core Principles 4, 5, 7 and 8](#), June 2020, p. 23.

³ See, for example, Section 6 (Combination of control functions) and Section 7 (Outsourcing of control functions). See also considerations in subsection 2.2 (Mapping particular control functions to the Three Lines Model).

insurers to policyholders, the insurance sector or the financial system as a whole. A proportionate application involves using a variety of supervisory techniques and practices tailored to the insurer to achieve the outcomes of the ICPs. Such techniques and practices should not go beyond what is necessary in order to achieve their purpose.⁴

6. Risk-based supervision is a related concept but distinct from proportionality; it means more supervisory activities and resources are allocated to insurers, lines of business or market practices that pose the greatest risk to policyholders, the insurance sector or the financial system as a whole.⁵

7. This Application Paper covers the following aspects of supervising control functions of insurers⁶:

- Role of control functions (Section 2);
- Independence of control functions (Section 3);
- Stature of control functions (Section 4);
- Internal audit function (Section 5);
- Combination of control functions (Section 6);
- Outsourcing of control functions (Section 7); and
- Group-wide control functions (Section 8).

2 Role of control functions

2.1 Identification and the role of control functions

8. As stated in ICP 8.2.1, an insurer's internal controls system "should ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported (both internally and externally), and compliance with laws, regulations, supervisory requirements and the insurer's internal rules and decisions."

9. A control function is defined in the IAIS Glossary as a: "Function (whether in the form of a person, unit or department) that has a responsibility in an insurer to provide objective assessment, reporting and/or assurance; this includes the risk management, compliance, actuarial and internal audit functions." A control function is considered an independent component of the insurer's organisation with at least one natural person as a Key Person in Control Function. In addition, a number of other persons may be involved and assist in the work of the control function without being ultimately responsible for its outcome. Whenever

⁴ Introduction to ICPs, para. 9.

⁵ Introduction to ICPs, para. 10.

⁶ According to the [IAIS Glossary](#), the term "insurer" refers to both insurance legal entities and insurance groups (including IAIGs, which are the focus of ComFrame). Therefore, unless stated otherwise, the challenges and good supervisory practices mentioned in this Application Paper apply to supervision of all insurers.

this document discusses requirements for control functions, these are addressed to the Key Persons in Control Functions⁷, unless otherwise indicated.

10. Control functions, which are part of the internal controls system, are an important element in the overall management of an insurer and are critical for promoting good risk and compliance culture within the insurer. The role of a control function is to “add to the governance checks and balances of the insurer and provide the necessary assurance to the Board in the fulfilment of its oversight duties”.⁸ Per ICP 8, an insurer should have control functions that include: Risk Management, Compliance, Actuarial, and Internal Audit. Regardless of where a control function is situated within the organisational structure of the insurer, it should execute its responsibilities so that the internal controls system in aggregate fulfils its objectives.

11. Regardless of the organisational structure adopted by an insurer, the Board should approve the authority and responsibilities of each control function to allow each control function to have the authority and independence necessary to be effective.⁹ A documented and approved description of control functions’ responsibilities allows the internal audit function and the Board (or a relevant committee of the Board) to evaluate their effectiveness and identify any control gaps in the organisation. It is expected that supervisors do a similar evaluation, in addition to assessing the effectiveness of the insurer’s internal audit function.

2.2 Mapping particular control functions to the Three Lines Model

12. Depending on the organisational structure of the insurer, business or other units should own, manage and report on risks and should be primarily accountable for establishing and maintaining an effective internal controls system. Control functions should determine and assess the appropriateness of the controls used by the business or other units. The internal audit function should provide to the Board independent assurance on the quality and effectiveness of the internal controls system. This division of responsibilities between business, risk management and compliance, and internal audit is typically referred to as the Three Lines Model.¹⁰ While there are similarities between this model and the ICP Standards on supervision of the internal controls system, including control functions, the Three Lines Model is not required in ICPs. This model is designed to potentially fit various types of organisations, whereas IAIS supervisory material is aimed at establishing standards focused on achieving objectives of insurance supervision.

13. The control functions, as described in IAIS supervisory material, can be broadly mapped to this model in the following way:

- The first line role consists of the insurer’s business operations that own and manage the risks they generate and own the controls; and
- The control functions are within the second and third lines:
 - Risk management, actuarial and compliance functions are considered the second line and are responsible for assessing the appropriateness of the controls used by the first line roles.

⁷ According to the [IAIS Glossary](#), Key Persons in Control Functions are persons responsible for heading control functions.

⁸ ICP 8.3.1.

⁹ ICP 8.3.6.

¹⁰ See the Institute of Internal Auditors (IIA), [The IIA's Three Lines Model](#), July 2020. This is an update of the Three Lines of Defence model, which was originally introduced in 2013, as referenced also in ICP 8.

- The third line is the internal audit function, which is responsible for “providing the Board with independent assurance in respect of the quality and effectiveness of the insurer’s internal controls framework¹¹.” This includes providing assurance and advice on the adequacy and effectiveness of governance and risk management.

14. While well-defined on paper, the distinction between each of the three lines is not always clear in practice, particularly regarding certain first line roles and the second line functions. The clear allocation of responsibilities helps avoid or mitigate bias, conflicts of interest or undue influence of one function on professional or business judgments of another function. This approach also supports objective, independent and accurate preparation and reporting of information. Actuarial activities, in particular, often straddle the first line roles and the second line. The responsibilities related to pricing and product development are within the first line, but assessing the adequacy of the calculation of technical provisions is often considered a second line responsibility. There was a consistent view among survey participants that actuaries developing products and setting prices, and actuaries assessing the adequacy of technical provisions for those products, should be independent from each other. There was also agreement among the survey respondents on the need for independence between those calculating technical provisions and those evaluating the adequacy of technical provisions. Similarly, as regards pricing, the role of the actuarial function as part of the second line should be limited to evaluating and providing advice regarding pricing.¹² The importance of, and reasons for, independence in this case are the same as those discussed further in Section 3. In addition, efficient cooperation and communication among control functions and of control functions with the business is an essential element of an effective system of internal controls. For example, allowing control functions to have a “seat at the table” in relevant business line discussions enables Key Persons in Control Functions to provide valuable input at all stages of the process, including initial discussions on a proposed course of action.

2.3 Role of control functions when business activities are outsourced

15. The responsibilities of Senior Management and control functions are not eliminated or diminished when business activities are outsourced¹³. On the contrary, the effectiveness of control functions is often more important precisely because business activities are outsourced and therefore may be more challenging for the insurer’s Board and Senior Management to oversee. The insurer’s activities that are subject to evaluation by the actuarial function is an area that is commonly outsourced, particularly by smaller insurers. This may create a number of supervisory challenges.

16. If an activity is outsourced, the control functions – within the scope of their responsibilities – have the additional tasks to check whether and how internal quality control mechanisms are applied to the outsourced activity. This includes verifying whether an internal person is involved in assessing if the external provider is carrying out the task properly and whether this internal person has the necessary qualifications and seniority for this task.

¹¹ ICP 8.2.3.

¹² See ICP 8.6 and 8.6.4, 10th bullet.

¹³ Outsourcing is defined in the IAIS Glossary as an arrangement between an insurer and a service provider, whether internal within a group or external, for the latter to perform a process, service or activity which would otherwise be performed by the insurer itself.

17. Supervisors should assess whether control functions understand their control responsibilities related to outsourced business activities. The insurer is responsible for all of its activities, including those that are outsourced, and its control functions should understand and monitor risks created by outsourcing business activities. Depending on the materiality of outsourced business activities, increased supervisory attention may be warranted for the control functions with the responsibilities related to those outsourced business activities.

18. Challenges related to control functions themselves being outsourced are covered in Section 7.

2.4 Importance of independence and stature for effective control systems

19. Assessing whether an insurer has effective systems of risk management and internal controls can be more challenging than supervision of quantitative aspects of an insurer's business model. In order to make the determination that an insurer's control functions are effective, supervisors should be able to observe, among others, two fundamental qualities – independence and stature.

20. A control function with appropriate independence and stature demonstrates both the willingness to identify weaknesses within the organisation and the capability to recommend necessary changes to the Board and Senior Management. Challenges related to assessing independence and stature, along with practices used by supervisors to address challenges, are covered in Sections 3 and 4 respectively.

3 Independence of control functions

21. As noted in ICP 8.3, as part of the effective systems of risk management and internal controls, “the supervisor requires the insurer to have effective control functions with the necessary [...] independence”.

22. The central role and level of independence of control functions may be adversely impacted depending how these functions are considered, established, and positioned in the reporting structure within the insurer. Additionally, remuneration practices and processes for dealing with conflicts of interest may affect the independence of control functions. In this regard, the supervisor should assess how well an insurer's functions align with good practices applied across the insurance sector and are compliant with governance requirements.

23. Below are high-level questions supervisors should consider when assessing the independence of an insurer's control functions:

- Are the appointment, performance assessment, remuneration and dismissal of Key Persons in Control Functions subject to the approval of, or the consultation with, the Board or relevant Board Committees?
- Are Key Persons in Control Functions suitable¹⁴ to perform the function?
- Are reporting lines clear and do they promote independence?¹⁵

¹⁴ According to ICP 5, suitability of Key Persons in Control Functions consists of two components: competence and integrity. Suitability should also be considered in the context of stature, see Section 4.

¹⁵ For more about reporting lines, see subsection 4.4.

- Is remuneration for Key Persons in Control Functions and their staff heavily dependent on the financial performance of the insurer, creating a potential conflict of interest? ¹⁶
- Are conflicts of interest identified and avoided where possible? Where they may be unavoidable, are the risks from conflicts of interest transparent and properly mitigated? For example, in case of internal staff moves into control functions, do policies take into account potential conflicts of interest and, where relevant, are there mitigating controls in place (such as time-limited restrictions when a person responsible for business activities takes over as a Key Person in Control Function responsible for assessing the controls in the same risk area)?
- When the control functions are combined, what is the potential impact of the combination on the independence of those control functions and whether the risk mitigants applied by the insurers are sufficient to address a potential negative influence on their independence?¹⁷
- If the control function is outsourced, is the service provider too dependent on retaining the insurer as a client such that it is wary of being appropriately critical?

3.1 Positioning control functions in the internal structure of the insurer

24. The way in which control functions are established and positioned in the internal structure of the insurer may negatively affect their independence.

25. According to ICP 8.3.9, “insurers should organise each control function and its associated reporting lines into the insurer’s organisational structure in a manner that enables such function to operate and carry out their roles effectively.”

26. There are a variety of signs that an insurer’s control functions may be lacking independence, such as:

- The reporting position of the Key Persons in Control Functions within the organisational structure causes interference from other parts of the insurer;
- The Key Persons in Control Functions are not given the opportunity to meet directly with the Board or the relevant Board committees and committee Chairs to discuss their work and identify concerns, if any;
- The Key Persons in Control Functions are involved in other tasks and projects that could introduce bias in their professional judgment to carry out their roles with independence (for example, active participation in operational business lines’ executive decision making);
- The roles and responsibilities of Key Persons in Control Functions are not clearly defined or potential conflicts of interest involving those persons are not properly identified or managed;
- The control function lacks the resources and stature necessary to fulfil its responsibilities¹⁸;

¹⁶ For more about remuneration, see subsection 3.2.

¹⁷ For more about the combination of control functions, see Section 6 and subsection 5.1 regarding the combination of the internal audit function with the second line control function.

¹⁸ Section 4 of this Application Paper describes issues related to stature of control functions.

- The Key Persons in Control Functions are unsuitable to perform the function; and/or
- The Key Person in Control Function has a weak stature, or the person in charge of the business line exercises an overly dominant personality.

27. Another factor that may adversely impact the independence of control functions is pressure from the first line roles. This can happen when the first line role places the financial performance of the insurer above the importance of effective risk management and internal controls within the insurer. Such a situation may be difficult to detect. To detect and assess the potential pressure, the supervisor should have a clear understanding of how the plans, strategies and profit targets of the business line can affect risk management and internal controls, and in this way give rise to such pressure. Additionally, special circumstances could also generate pressure from the production line. For example, in a situation where an insurer is losing market share, the emphasis of the insurer could be on boosting production at the expense of weaker controls. A clear allocation of execution and control responsibilities is of primary importance in this case. In addition, assessing whether the Key Persons in Control Functions exhibit comfort with speaking out may help supervisors to detect if such pressure from the first line roles is occurring.

28. The independence of the control function may be confronted in particular when one person is responsible for more than one control function. Another situation is when different people are responsible for particular control functions, but the responsibilities assigned to control functions are not clearly defined and potentially conflict with responsibilities of other functions. For example, the responsibilities of the risk management function and the actuarial function could conflict as regards quantitative risk assessments, such as model risk. Overlapping or underlapping responsibilities could create uncontrolled or grey areas, which may result in inefficiencies or gaps that become a concern for the supervisor.

29. Another challenging situation with independence could be created when a control function is overshadowed by another control function having relatively more stature and resources. This may be the case for a newly established control function, when additional time may be required to establish, embed and adequately delineate the responsibilities of the respective control function in the organisation. In order to address this challenge, cooperation amongst different control functions should be promoted, where more mature control functions support the less mature ones and share historical learnings for setting up an independent control function.

30. The above mentioned challenges can be mitigated to a certain extent by following guidance ICP 8.3.7: “The authority and responsibilities of each control function should be set out in writing and made part of, or referred to in, the governance documentation of the insurer. The Key Persons in Control Functions should periodically review such documentation and submit suggestions for any changes to Senior Management and the Board for approval, where appropriate.”

31. In case of an overlap between control functions’ responsibilities, which cannot be eliminated or avoided, the supervisor should expect control functions to cooperate while maintaining their independence and be mindful of potential gaps. Under these circumstances, control functions should harmonise their activities to form a coherent system, ensuring appropriate control coverage of all relevant areas and that an effective flow of information is in place. Clearly setting out in writing the authority and responsibilities of each control function, as described under ICP 8.3.7, provides the necessary basis to harmonise responsibilities and

to identify potential overlaps or gaps between activities. However, the supervisor should be attentive to situations where actual duties and responsibilities do not match the written policies and allocation procedures.

32. The independence of control functions can be jeopardised in case of a combination of a control function with (i) other second line control functions, (ii) first line and other business responsibilities or (iii) Senior Management responsibilities. These particular challenges are discussed in more detail in the section 6.

3.2 Remuneration of control functions

33. According to ICP 7.6.2: “As a part of effective risk management, an insurer should adopt and implement a prudent and effective remuneration policy. Such a policy should not encourage individuals, particularly members of the Board and Senior Management, Key Persons in Control Functions and major risk-taking staff, to take inappropriate or excessive risks, especially where performance-based variable remuneration is used.” It is also important to have relevant checks and balances in place, with proper Board engagement.¹⁹

34. As indicated in ICP 7.6.10: “To better align performance-based incentives with the long term value creation and the time horizon of risks to which the insurer may be exposed, due consideration should be given to the following: [...] There should be an appropriate mix of fixed and variable components, with adequate parameters set for allocating cash versus other forms of remuneration, such as shares.” As part of this, supervisors should gain comfort that variable remuneration of the Key Persons in Control Functions is not overly tied to shorter-term business performance.

35. Supervisors may review the insurer’s approach to remuneration and its remuneration policy to assess whether its scope includes Key Persons in Control Functions and that it does not improperly rely on incentives that could result in conflicts of interest.²⁰ To avoid any conflicts of interest and assure independence, the approach to control functions’ remuneration should be defined with the approval of, or after consultation with, the Board or a relevant committee of the Board. When analysing the remuneration policy, supervisors should assess whether remuneration of the control functions is:

- Predominantly based on the effective achievement of objectives appropriate to such control functions.²¹ Supervisors should pay very close attention to criteria used to determine the variable share of remuneration of Key Persons in Control Functions in order to make sure that these are closely related to their missions and not to financial results, otherwise conflicts of interest are likely to arise. These criteria should be approved by the Board and/or Senior Management;
- Where applicable, not tied to the performance of any business units subject to their control or oversight²² but rather to the insurer’s overall performance taking into account all relevant risks to the insurer; and

¹⁹ For more details, see ICP 7.6.3 – 7.6.8.

²⁰ See ICP 7.6.

²¹ ICP 7.6.7, 1st bullet.

²² ICP 7.6.7, 2nd bullet.

- Adequate to attract and retain staff with the requisite skills, competencies, knowledge, and expertise to discharge those control functions effectively²³.

4 Stature of control functions

36. While independence supports the control function's willingness to identify issues and bring them to the attention of the Board and Senior Management, stature supports their ability to do so. Appropriate stature within the organisation ensures that the control function's concerns and recommendations are given proper consideration within the insurer by the Board, Senior Management and other functions/business units. Stature within the organisation requires that those within the control function, particularly Key Persons, have the appropriate skills, competence, knowledge, experience and level of authority to effect change. It is also crucial that control functions are sufficiently staffed with appropriately trained individuals.

37. Below are high-level questions supervisors should consider when assessing the stature of an insurer's control functions:

- Do the Key Persons in Control Functions and their staff have the appropriate skills and experience needed to be effective?
- Do control functions have appropriate quantity of skilled staff?
- Does the control function, and in particular the Key Person, have the ability to effectively advise and challenge the insurer, including Senior Management and the Board?
- Does the insurer have in place adequate policies and processes to address recommendations issued by control functions?
- Are the concerns and recommendations of the control functions taken seriously and acted on in a timely manner?
- Are the findings of the control functions always or mostly positive, which could suggest those being reviewed regularly pushed back on potential issues identified?

38. Supervisors should be mindful of these signs and be ready to challenge insurers to provide information on each control functions' stature.

4.1 Skills and experience

39. According to ICP 5.2, in order to be suitable to fulfil their roles, Key Persons in Control Functions are required to possess competence²⁴ and integrity²⁵. In case of Internationally Active Insurance Groups (IAIGs), the group-wide supervisor also requires Key Persons in Control Functions to have the necessary competence to fulfil their role, taking into account the complexity and international nature of the IAIG, any specific features of the jurisdictions where the IAIG operates and the risks to which it is exposed.²⁶

²³ ICP 7.6.7, 3rd bullet.

²⁴ As per ICP 5.2.1, competence is demonstrated generally through the level of an individual's professional or formal qualifications and knowledge, skills and pertinent experience within the insurance and financial industries or other businesses. Competence also includes having the appropriate level of commitment to perform the role.

²⁵ As per ICP 5.2.2, integrity is demonstrated generally through character, personal behaviour and business conduct.

²⁶ CF 5.2.a.

40. ICP 8 also addresses the need for control function staff to have qualifications necessary to fulfil their responsibilities.²⁷ Given limited resources, it may happen that insurers choose to allocate staff with specialised skills first to business operations. This can leave a shortfall of necessary skills and expertise for the control function. It may also happen that the control function, particularly the internal audit function, is expected to carry out reviews on multiple areas while lacking all necessary expertise.

41. It can be difficult for the Board and Senior Management to assess whether the control functions have the necessary skills and expertise. In this regard, supervisors may need to question insurers on the appropriateness and adequacy of staffing for control functions, including in the context of succession planning for Key Persons. This not only ensures that the control function can properly identify issues, but also supports the stature of the control function throughout the organisation.

42. Assessing a control function's stature is not straightforward for most supervisors. When questioned how they assess whether the control functions possess the stature, relevant skills, and experience needed to challenge Senior Management and business units (in particular as business models and risk profiles of insurers evolve and make greater use of FinTech, Artificial Intelligence and outsourcing), most supervisors responded that they use a combination of methods. These methods include primarily suitability assessments and on-site assessments that are either control function-specific or as part of broader governance and risk management reviews. Some supervisors focus primarily on document review, paying particular attention to assessment of governance arrangements of control functions.

43. The summaries below expand on some of the supervisory methods and focus-points adopted for assessing stature:

- Document review, including reports from control functions, or other relevant governance materials and policy documents of the insurer (eg minutes, agendas, terms of reference documents);
- Periodic reviews of the control functions, including through meetings with key individuals such as Key Persons in Control Functions, and observations of Board and relevant committee meetings;
- Requirement that an external expert undertakes assessments of the effectiveness of control functions when supervisors have strong concerns;
- Suitability assessments:
 - In the area of control functions' activities, most commonly undertaken for the Key Persons in Control Functions and in some instances the Chairs of the relevant Board committees with oversight responsibilities. Factors typically considered include skills, education and experience;
 - Consideration of the overall skills mix, or collective suitability, of oversight bodies and the control functions; and
 - Many supervisors have a role in reviewing the suitability assessments that are conducted by the insurer or have further powers for pre-approval of individuals and/or assessments, including interviewing candidates.

²⁷ ICP 8.3.13.

- Reviewing the clarity of allocation of responsibilities to the senior individuals in control functions and individuals with oversight responsibilities;
- Reviewing the remuneration policy covering staff in control functions for inappropriate incentives (see also subsection 3.2); and
- Reviewing the frequency and effectiveness of training for Key Persons in Control Functions and staff supporting control functions' activities.

44. Assessing whether insurers' control functions have the requisite skills and experience to be effective can be difficult for supervisors who often face the same issues. Supervisors that lack specialists like those needed to assess insurers' IT and actuarial controls, can find it difficult to challenge insurers for their lack of expertise. More broadly, a lack of expertise can make performing thorough assessments impossible. In order to address this challenge, supervisors should consider recruiting relevant specialists and/or providing specialised training to its staff. In some situations supervisors, similar to insurers, may need to rely on external resources, even if only temporarily, to fill these shortfalls in expertise.

4.2 Resource stretch

45. In addition to assessing whether control functions possess staff with the necessary skills and experience, it is also important to assess whether they have appropriate quantity of skilled staff. Insufficient staffing, even if the available resources are highly skilled, can weaken the control function's ability to perform effectively. This can be particularly challenging for smaller insurers, where the oversight responsibilities of multiple control functions are often combined. Supervisors should be aware of these cases and the potential strain this situation can put on the control functions. If necessary, supervisors should emphasise to the Board and Senior Management the importance of appropriate staffing levels. Key Persons in Control Functions should also have the stature within the organisation to raise concerns related to staffing levels and to have those concerns appropriately addressed by the Board and Senior Management.

46. Staffing issues in control functions (and within supervisors) can also happen quickly as the adoption of new business practices and the development of new products may create new risks and require additional knowledge. Control functions and supervisors should keep themselves aware of these changes and be agile in their approach.

47. Supervisors should also be cognisant of control function resources stretched thin when insurers combine the responsibilities of multiple control functions. The Board and Senior Management should understand that a scarcity of resources is not an acceptable reason for ineffective control functions. As indicated in Section 6, control functions should not be combined if doing so results in one or more of the functions being ineffective.

4.3 Ability to challenge and raise concerns by control functions

48. Stature includes the ability of Key Persons in Control Functions to challenge Senior Management and to raise awareness of concerns to relevant persons throughout the organisation. Stature is also evidenced by the way and the urgency with which the organisation responds to concerns raised by Key Persons in Control Functions.

49. Key Persons in Control Functions should not only have a title and position within the organisation structure commensurate with their responsibilities, but they also need to have the skills needed to effectively challenge the business. This is often difficult for supervisors to

assess, but can be done, for example, by meeting with Key Persons in Control Functions, relevant members of the Board (eg Chair of Audit and Risk Committee) and Senior Management. The supervisor may also analyse meeting minutes and other relevant records to determine whether Key Persons in Control Functions are bringing concerns to the attention of the Board and Senior Management, whether these concerns are discussed at the meeting and how they are addressed. In this regard, the supervisor should expect the insurer to cover those aspects clearly in meeting minutes and other relevant records. Patterns of the Board and Senior Management ignoring the concerns of control functions, particularly if those concerns are identified by internal audit, are a key red flag for supervisors.

4.4 Board engagement and reporting

50. “[T]he Board is ultimately responsible for ensuring that the insurer has in place effective systems of risk management and internal controls and functions to address the key risks it faces and for the key legal and regulatory obligations that apply to it”.²⁸ The insurer’s system of internal controls “should be designed and operated to assist the Board and Senior Management in the fulfilment of their respective responsibilities for oversight and management of the insurer”.²⁹

51. “The Board should grant the head of each control function the authority and responsibility to report periodically to it or one of its committees.”³⁰ “In addition to periodic reporting, the head of each control function should have the opportunity to communicate directly and to meet periodically (without the presence of management) with the Chair of any relevant Board committee (eg Audit or Risk Committee) and/or with the Chair of the full Board.”³¹

52. A challenge cited by supervisors in the survey was difficulty in assessing whether reporting to the Board included the right volume of information, the right level of detail, and whether the information provided the right message about the insurer’s risks.

53. Reporting to the Board should include all key risks, but those risks that are most material should be clearly prioritised. The supervisor should expect the control functions to present realistic risk assessments to the Board and avoid overly positive messages. Relevant information should be provided to the Board by the control function in a timely manner. Key Persons in Control Functions should be given sufficient time to present issues to the Board, with time for discussion and challenge to Senior Management. Reporting should also be actionable with risk metrics being compared to the risk appetite defined in the risk management strategy. Standardised and coordinated reporting can help ensure that the information presented by different control functions is consistent, objective, and forward-looking.

54. Supervisors often rely on the same or similar reporting as that provided by control functions to the Board, making these challenges relevant also for supervisors. This also highlights the difficulty supervisors face if they have to make an assessment based on document review alone. Many supervisors included in their survey response the value of complementing a review of documents prepared by control functions with on-site investigations, including interviews with Key Persons in Control Functions and the non-

²⁸ ICP 8.0.1.

²⁹ ICP 8.2.1.

³⁰ ICP 8.3.16.

³¹ ICP 8.3.17.

executive directors with oversight responsibilities. In order to be able to carry out comprehensive analysis, supervisors may seek input from both the control functions presenting their findings and the Board committees receiving these reports.

55. Additionally, in some jurisdictions, the supervisor attends Board meetings and Board committee meetings as an observer. This may help the supervisor assess the way in which the Key Person in Control Function communicates with, reports to, and is regarded by the Board and Board committees. Meeting observations – which can provide evidence on the quality of discussions, challenge, and broader dynamics – can be complemented with interviews with relevant individuals.

5 Internal audit function

56. As stated in ICP 8.7, the supervisor requires the insurer to have an effective internal audit function capable of providing the Board with independent assurance regarding the quality and effectiveness of the insurer's corporate governance framework.

57. ICP 8.7.2 indicates that the internal audit function should provide independent assurance to the Board through general and specific audits, reviews, testing and other techniques.³²

58. For the internal audit function, the emphasis is on effective challenge, or the Key Person in Control Function's ability to provide informed critical analysis on risk management policies and processes, and the status to elevate the analysis to the appropriate level within the insurer to effect change. Whether through on-site inspection or other engagements, the supervisor should assess whether the internal audit function has the necessary attributes (stature and independence) to challenge Senior Management to adopt effective controls, including appropriate policies and processes.

59. There may be a variety of indicators of problems related to effectiveness of the internal audit function, such as:

- The insurer uses the internal audit function only for performance or quality assessments and not as a control function that provides independent assurance in respect of the quality and effectiveness of the insurer's corporate governance framework;
- Restricted areas of internal audit universe, including insufficient depth or scope of audit work in higher risk or technical areas such as Information Technology, actuarial valuation and fraud;
- Lack of internal audit findings or/and audit recommendation follow-ups;
- Poor scoping and planning of internal audit activities, using inexperienced teams and poor quality reports;
- Execution of the audit plans not being completed or running very late;
- Lack of involvement and/or indifference by Senior Management;

³² More details on the responsibilities of the internal audit function are provided in guidance supporting ICP 8.7, in particular ICP 8.7.7 and 8.7.8.

- Limited access to information within the insurer;
- Internal audit findings and conclusions are diluted to the extent that they no longer reflect the true severity of an issue or are consistently positive and support the business unit's goals, plans and strategies;
- Internal audit reviews demonstrate a lack of relevant technical skills; and
- Audit recommendations do not address root causes.

60. In most cases, these matters can be addressed by the supervisor meeting with the insurer, in particular with the Board. Some jurisdictions intensify their focus on the internal audit function and/or require independent reviews.

5.1 Combination of the internal audit function with second line control functions³³

61. ICP 8.7.3 states that, in order to help ensure objectivity, the internal audit function is independent from management and other control functions and is not involved operationally in the business.

62. Survey responses highlighted that the internal audit function should only be combined with other control function in exceptional circumstances. In these cases, specific safeguards should be implemented to avoid conflicts of interest. In some jurisdictions, a combination of the internal audit function with other control functions or business responsibilities is prohibited, given that an internal audit function should be capable of providing the Board with independent and objective assurance.

63. As part of supervisory consideration in assessing whether combination of the internal audit function with the second line control function is justified and appropriate, supervisors should consider how the insurer will safeguard the independence and objectivity of the internal audit function. Furthermore, the insurer should demonstrate that the effectiveness of the internal audit function would not be compromised with having these functions combined. The insurer should demonstrate to the supervisor that the roles of the combined activities are transparently communicated throughout the entire organisation and explicitly defined within the approved audit charter to avoid any ambiguity regarding the roles of internal audit and the second line control function.

64. When considering a combination, the supervisor's decision should be based on proper consideration of both advantages and disadvantages, as well as potential consequences, including the impact on objectivity and independence of the internal audit function.

65. In particular, the insurer should demonstrate a clear allocation of the internal audit function-related responsibilities or roles, which should uphold the principle of independence (eg the internal auditor responsible for a particular item in another capacity should refrain from auditing that objective).

5.2 Supervisory use of the work of the internal audit function

66. The majority of survey participants indicated that they use the work performed by the internal audit function as one of the ways to identify and measure risks within the insurer. In

³³ See also Section 6, which is focused on the combination of the second line control functions, also with business responsibilities and Senior Management responsibilities. Some of the challenges and good supervisory practices described in that section may also be applicable to the combination of the internal audit function with second line control functions.

some cases, supervisors request the internal audit function to perform specific ad-hoc or bespoke reviews with the scope set by the supervisor. This could be done after supervisors have gained a positive assessment of the effectiveness of the internal audit function itself.

67. External auditors also can place reliance on internal audit, after having confirmed that the work of the internal audit is suitable. In this context, the supervisor can verify areas of internal audit that overlap with external audit before placing reliance on the work of internal audit.

68. Supervisors use a variety of methods to assess the work of the internal audit function (both overall and to determine its ability to provide assurance on the work of other control functions), such as:

- Suitability (competence and integrity) assessments of the Key Person in the internal audit function and in some instances of the Chair the audit committee, or combined audit and risk committee. In some jurisdictions, the head of the internal audit control function is approved by the supervisory authority;
- On-site assessments specifically of the internal audit function or as part of broader supervisory assessments, including regular meetings with the head of the internal audit function;
- Document reviews – notably reviewing reports on audits of the other control functions;
- Review of internal audit plans and, in many cases, the Board audit reports;
- A review of independent third-party assessments of the internal audit function. In some jurisdictions, the internal audit function is subject to periodic required independent reviews and these inform the supervisor of internal audit's effectiveness;
- Interviews with the Chief Audit Executive and the senior audit managers; and
- Requiring the audit committee to review the overall performance and effectiveness of the head of the internal audit function and the function as a whole.

6 Combination of control functions

69. Typically, an insurer has Key Persons in Control Functions and control function staff performing their duties without simultaneously performing the duties of another control function or assuming first line or other business responsibilities. A decision about combining control functions should take into account the risk and size of the insurer. For example, in case of a large insurer with a complex business model, the supervisor might not allow any combination of control functions, whereas in the case of smaller and less complex insurers, it may be appropriate for more than one control function to be carried out by a single person or organisational unit.

70. To appropriately assess the effectiveness and performance of a combined control function, supervisors may find it helpful to make a distinction between three situations:

- A single person simultaneously performs several second line control functions, covered by subsection 6.1;
- A single person simultaneously performs control function and business responsibilities, covered by subsection 6.2; and

- A single person simultaneously performs control function and Senior Management responsibilities, covered by subsection 6.3.

6.1 Combination of second line control functions

71. As noted in ICP 8.3.10: “Notwithstanding the possibility for insurers to combine certain control functions, a control function should be sufficiently independent from Senior Management and from other functions to allow its staff to:

- Serve as a component of the insurer’s checks and balances;
- Provide an objective perspective on strategies, issues, and potential violations related to their areas of responsibility; and
- Implement or oversee the implementation of corrective measures where necessary.”

72. In the case of IAIGs, ComFrame 8.3.c states: “The group-wide supervisor requires the IAIG Board to ensure that the group-wide control functions [...] are not combined, unless exceptional circumstances apply.”³⁴

73. The majority of supervisory approaches allow combinations of second line control functions in insurers other than IAIGs. When it occurs, where necessary, the supervisor may require that certain conditions be fulfilled, such as:

- There are no conflicts of interest from a functional point of view between the second line control functions performed simultaneously, which implies that the insurer should avoid having the person who is developing a service assess the adequacy of the said service (maker/checker principle);
- The Key Person combining multiple second line control functions possesses the knowledge and expertise needed to perform the responsibilities of the different control functions effectively; and
- The Key Person combining multiple second line control functions has the necessary time and resources needed to perform the responsibilities of the different control functions effectively.

74. A vertical combination of control functions, ie the combination of control functions between the head of the group and an insurance legal entity, may be allowed. This approach may be efficient from a resourcing perspective and in terms of facilitating consistency across the group. However, a pure legal entity view may be missing. Allocation of duties, competences and responsibilities to the insurance legal entity may need to be maintained. In this case, supervisors should take into account the underlying circumstances of the combination, such as the:

- Size, scope and nature of the insurance legal entity’s business;
- Governance model of the group (centralised / decentralised);
- Degree of strategic and operational dependence between the insurance legal entity and the group;
- Insurance legal entity’s recovery and resolution plans, if any; and

³⁴ See also guidance supporting this ComFrame standard.

- Effectiveness of the governance of the insurance legal entity to take decisions in the interests of the safety and soundness of that entity.

The difficulty may be resolved by requiring the clear allocation of duties for both the head of the group and the insurance legal entity, and requiring arrangements that facilitate proper reporting to the Board of the insurance legal entity. In such a situation, the identification and management of conflicts of interest remains crucial.

6.2 Combination of control function and business responsibilities

75. Combining business and control responsibilities should be avoided, as it raises a number of issues related to risk management and conflicts of interest. However, this may not be realistic for smaller insurers with more limited resources. When business and control responsibilities are combined, most supervisors exercise proportionality when assessing the risks from potential conflicts of interest and the insurer's techniques to identify, manage and mitigate these risks.

76. For small and medium size insurers, issues related to the independence of the Key Persons in Control Functions from the business units represent a challenge. Supervisors find it difficult to require full segregation of functions for these entities but seem to still expect independence, requiring explicit separation of risk management and risk-taking decisions for the same risks.

77. When a Key Person in Control Function also holds business responsibilities, it may be easier for supervisors to gain comfort if these responsibilities are less risk-generating, like Legal or Human Resources.

78. Where necessary, supervisors may address issues created by the combination of control function and business responsibilities by requiring risk mitigation measures, such as:

- Performing an independent review;
- Suggesting modifications in the structure to avoid a situation where work done by one person responsible for a certain business area is assessed by the same person, who is at the same time a head of a control function;
- Requiring the establishment of a formal reporting process to the Board in the event of conflicts of interest; and
- Having more regular contact with the control function to assess its effectiveness.

6.3 Combination of control function and Senior Management responsibilities

79. Depending on their position in the organisational structure of the insurer, Key Persons in Control Functions may be considered as separate from, or as part of, Senior Management.³⁵ In the latter case, the individual's Senior Management role would typically only involve control responsibilities. Regardless of the organisational structure, where it is justified, the supervisor may allow for combining a Key Person in Control Function and (other) Senior Management roles. When this occurs, the supervisor may require that certain conditions be fulfilled, such as:

³⁵ According to the [IAIS Glossary](#), the term "Senior Management" means the individuals or body responsible for managing an insurer on a day-to-day basis in accordance with strategies, policies and procedures set out by the Board. See ICP 7.10 for more details about responsibilities of Senior Management.

- The role of a Key Person in Control Function is not combined with risk-generating responsibilities;
- Such a person has the necessary time and resources to correctly perform the tasks conferred upon this person as a Key Person in Control Function; and
- Such a combination is accompanied by specific policies and processes to avoid conflicts of interest (providing in particular for escalation to the Board).

80. Outcomes from the survey indicate the following are ways supervisors overcome challenges that may be created by a combination of a Key Person in Control Function and (other) Senior Management roles:

- Maintaining relevant reporting lines: in this regard, the person combining those two types of responsibilities continues to have a direct reporting line to the Board and is able to escalate directly issues to the Board in the capacity of a Key Person in Control Function;
- Specifying limited assignment tasks when dealing with Senior Management responsibilities: in this regard, a good practice can be to consider that a person can only be responsible for the control function to the extent that control function and Senior Management responsibilities are exercised separately from each other; and
- Specifying that in case of combining the responsibilities of a control function with those of Senior Management, the control function's responsibilities should always be prioritised.

7 Outsourcing of control functions

81. In general, the reasons for outsourcing may include cost savings, improving performance and access to skills, expertise and resources that are not available in-house. Another driver of outsourcing are stretched resources caused by the insurer's inability to keep up with growth. Small insurers may not need a full time equivalent for performing their control activities and therefore may consider outsourcing control functions to a third party.

82. There are different supervisory approaches towards the extent of outsourcing control functions. Some supervisors do not allow control functions to be completely outsourced, whereas other supervisors apply the principle of proportionality, including allowing smaller insurers to outsource control functions. For small insurers, for example, it may be sufficient that, instead of maintaining a separate Key Person in Control Function in the insurer outsourcing the control function, a member of executive management of such an insurer has assigned responsibility for control functions and non-executive staff perform control tasks. Some supervisors impose limitations of outsourcing in terms of content and extent (eg only certain operative tasks of the control function may be outsourced).

7.1 Challenges related to supervision of outsourced control functions

83. As stated in ICP 8.8: "The supervisor requires the insurer to retain at least the same degree of oversight of, and accountability for, any outsourced material activity or function (such as a control function) as applies to non-outsourced activities or functions." Supervision of outsourced control functions creates a number of challenges, such as:

- Supervision of the process of outsourcing control functions;

- The assessment of the effectiveness of the outsourced control functions; and
- On-site inspections of control function that have been outsourced to other jurisdictions, whether within or outside the group. These include logistical, resource-related and potential legal challenges.

84. The supervisor should also be mindful of the potential challenges for the insurer that can be created by outsourcing of control functions:

- Assessment and determination of which control function activities may be outsourced, while ensuring that the overall responsibility for the control function remains with the insurer;
- Identification and mitigation of potential conflicts of interest of the third-party service provider (for example, the control function is outsourced to a service provider that also provides other services to the insurer);
- Efficiency of cooperation between the outsourced control function and other control functions, business lines, Senior Management and the Board;
- Ensuring that the external auditor remains independent if the insurer also outsources its internal audit function to the same provider; and
- A lack of understanding of local circumstances, for example in cases where an insurance legal entity's control function is outsourced to the group level or to an external service provider in another jurisdiction.

7.2 General good supervisory practices

85. According to ICP 9.3: "The supervisor reviews outsourced material activities or functions to the same level as non-outsourced material activities or functions." Challenges with supervising material activities or functions that have been outsourced, including those listed in the previous subsection, may be addressed by supervisors in a variety of ways, such as those listed below.³⁶

- Supervision of the selection of the service provider:
 - Before entering into an outsourcing arrangement for a material activity or function, request the insurer to perform suitability assessments of service providers;
 - Before entering into an outsourcing arrangement for a material activity or function, request the insurer to provide an appropriate exit plan for a planned or unexpected end to the outsourcing; and
 - Assess whether the insurer's due diligence process is comprehensive and effective.
- Activities related to the outsourcing contract:
 - Require any outsourcing agreement to give the supervisor the same access to the outsourced provider as to the insurer;

³⁶ The list reflects a number of relevant examples of good supervisory practices provided in the Peer Review of Corporate and Risk-Governance relative to the standards set out in ICPs 4, 5, 7 and 8, referenced in footnote 1.

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- Require the insurer to report material outsourcing contracts to the supervisor before inception. This may include a copy of the service level agreement if the supervisor considers it appropriate in order to assess whether the insurer has sufficient oversight rights; and
 - Review the content of the agreements in regard of specific clauses, in addition to checking the existence of an appropriate outsourcing agreement (eg to address the insurer's monitoring and control). In some cases, for example, where control functions are outsourced to a significant extent, supervisors perform a more granular assessment of the outsourcing agreement (eg clause-by-clause review).
 - Supervision of internal arrangements related to ongoing management of material outsourced functions:
 - Review whether the insurer has integrated the outsourced functions into its risk management and the internal control system;
 - Assess whether the outsourced function is included in the scope of internal audit's work;
 - Assess the ongoing supervision by the insurer over the service provider's performance;
 - Interview the service provider to assess how the insurer monitors the service provider's performance; the expertise, knowledge and skills of the service provider; as well as its service capability and financial viability;
 - Assess reporting to Senior Management and the Board covering the outsourced control function and the insurer's oversight of the outsourced control function;
 - Require that the Key Person in Control Function be employed by the insurer and maintain overall responsibility for the outsourced control function;
 - Assess whether a nominated individual of sufficient seniority within the insurer has responsibility for outsourced functions. The responsible person should be suitably qualified and have sufficient time to carry out the role; and
 - Require mitigation measures if the outsourcing of control functions has the potential for creating conflicts of interest or otherwise jeopardising the independence of the control function.
 - Supervision of how risks associated with outsourcing of material activities or functions are managed:
 - Assess the risks associated with outsourcing and reflect the results of such an assessment in the supervisor's risk rating of the insurer. In some cases, supervisors compare the risk assessment with the insurer's assessment of relevant aspects of operational risks in the insurer's Own Risk and Solvency Assessment (ORSA);
 - Check whether and how the insurer has carried out a risk analysis when outsourcing;

- Require insurers to maintain a rigorous third party risk management programme;
- Discuss with the Senior Management, the Board and the service provider the ongoing management of the risks associated with the outsourcing arrangement; and
- Request assessment reports by the insurer on the performance of the service provider.

8 Group-wide control functions

86. Most of the challenges described in previous sections of this Application Paper apply to both insurance legal entities and insurance groups. In addition, group-wide supervisors may encounter challenges that are specific to supervision of group-wide control functions.³⁷

8.1 Inadequate or inconsistently applied group policies

87. Challenges specific to group-wide supervision include: group policies that are inadequate or applied inconsistently throughout the group³⁸; and insufficient time and resources allocated to the group-wide control functions. Supervisors address these challenges in various ways, including by:

- Discussing with the Key Persons in Control Functions the group's approach towards coordination of control function responsibilities between the group and business lines, to assess whether there is appropriate consistency between policies of all the entities within the group;
- Requesting rationale for specific decisions that may cause supervisory concerns during these conversations;
- Making sure that suitability assessments of group-wide control functions are performed at the level of the group, ie taking into account the broader perimeter of the business model and complexity of the group;
- Reviewing the documented roles and responsibilities of the group-wide control functions, including how the group-wide and insurance legal entities' control functions are meant to interact³⁹, how the group-wide control functions, in their own fields, ensure the harmonisation of the group's methods and assess the proper implementation of policies defined at group level, and compare them with observed practices. If inadequate, requiring more comprehensive policies;

³⁷ See also the IAIS [Application Paper on Group Corporate Governance](#), in particular Section 3.7 Control functions.

³⁸ Group policies might be inadequate if they do not take into account the obligations of its insurance legal entities to comply with local laws and regulations.

³⁹ As indicated in para. 62 of the [Application Paper on Group Corporate Governance](#), while there should be consistency between insurance legal entity and group policies, insurance legal entities within a group also need to define their own policies and processes to face local requirements and challenges. This tension should prompt different supervisory responses for more decentralised groups and more centralised groups. See also paragraph 41 of the [Application Paper on Group Corporate Governance](#), which states that involved supervisors should use the supervisory college (if one exists) to explore conflicts between group objectives and strategies and local specificities, such as culture.

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- Requiring the group-wide internal audit function to include in its audit plan a specific assessment of individual insurance legal entity's/business line's compliance with group-wide policies; and
 - Carrying out on-site inspections and off-site reviews, for example:
 - Organising interviews with Senior Management of the head of the group to assess whether they have sufficient knowledge of the organisational structure of subsidiaries and the relationships between these entities; and
 - Obtaining evidence of communication between group-wide control functions and legal entities' control functions and a continuous feedback loop between them.

8.2 Cross-sectoral and international groups

88. Specific challenges may arise from the existence of different types of activities in different parts of the group (ie life and non-life insurance, as well as other financial sector activities, such as banking or asset management). For international groups, jurisdictional differences can create additional challenges, in particular for the group-wide control functions.

89. Groups often enact minimum expectations in group-wide guiding policies and then create bespoke policies and processes in each of the business lines or insurance legal entities. The process of adopting these policies at the insurance legal entity's level can be hindered if the group is slow to provide the insurance legal entity with relevant information on certain business lines. It may also happen that the lines of business in particular insurance legal entities do not fully understand the policies. Group-wide supervisors may address these challenges in various ways, including by:

- Verifying whether there is effective and timely cooperation and information sharing between all the control functions active in different sectors or lines of business of the group; and
- When suspecting issues in this regard, analysing internal audit reports, which may point out these issues.

90. Group-wide control functions of international groups often need to understand businesses in a range of jurisdictions as well as legal and regulatory frameworks of those jurisdictions. This can be a challenge in terms of finding the right skills and expertise. Sometimes the group-wide control functions do not have sufficient oversight of the insurance legal entity's businesses or the insurance legal entity's control functions are under-resourced or do not have sufficient stature in the context of the group.

91. The group-wide supervisor may need to communicate to the head of the group concerns regarding the allocation of sufficient resources with relevant skills and expertise to group-wide control functions. Other involved supervisors can also discuss these concerns with their insurance legal entity's Board and Key Persons in Control Functions to gain assurance about their skills and independence. Involved supervisors may also discuss these issues collectively, in order to reach a common understanding of existing challenges and potential ways of addressing them.

8.3 Inadequate communication

92. Maintaining adequate communication between the group-wide control functions and the insurance legal entities' control functions can be a challenge for insurance groups. A group's specific organisational model may create additional challenges with communication. For example, in groups with a more centralised governance model, supervisors have seen cases of information diluted as it is communicated from the insurance legal entity to the head of the group, which can take time. In cases of more decentralised governance models, the lack of a central point of responsibility can sometimes lead to inefficiencies in the internal control systems if certain areas are not covered by any specific entity in the group. These challenges can be addressed in various ways, including by:

- Verifying that the tasks and responsibilities of each control function at the entity or group-wide level are clearly established within group-wide policies and internal audit reports and that there is appropriate and effective reporting from insurance legal entities to the head of the group;
- Verifying that there are effective channels for coordination and regular information exchange between the group-wide control functions and the insurance legal entities' control functions;
- Verifying that the Key Person in Control Function at the group-wide level has the necessary authority reflected in the insurers' organisational structure and direct access to the Board and Senior Management of the head of the group; and
- Confirming that the corporate culture within the group allows for transparent reporting of information to the upper level without fear of retaliation.

8.4 Outsourcing of control functions within the group

93. Some supervisors indicated that outsourcing of control functions, if allowed, may pose challenges. Conflicts of interest may arise when a Key Person in Control Function at the group-wide level also performs the control function outsourced by the insurance legal entity to the head of the group.

94. Supervisors may take various actions to address challenges created by outsourcing of control functions within the group, such as:

- Consider which roles for different insurance legal entities' control functions are held by one person at the group-wide level (especially their availability to assume all their respective functions);
- Require the head of the group to have a clear view and documentation showing which control functions relate to which insurance legal entity within the group;
- Check that the tasks and responsibilities of control functions are clearly distinguished and justified, in case of a combination of control functions of an insurance legal entity and the ones of the group;
- Assess whether the insurance legal entity, whose control function has been outsourced to the group level, has authority over the Key Person in Control Function at the group-wide level as to the functioning of this insurance legal entity;

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- In case of outsourcing of a group-wide control function to an insurance legal entity, assess whether the team assigned to the insurance legal entity is performing adequately the coordination tasks belonging to a group-wide control function; and
 - Require that outsourcing of control functions within the group (either to the head of the group or another legal entity in the group) or outside the group to be subject to a notification to the relevant involved supervisor.