

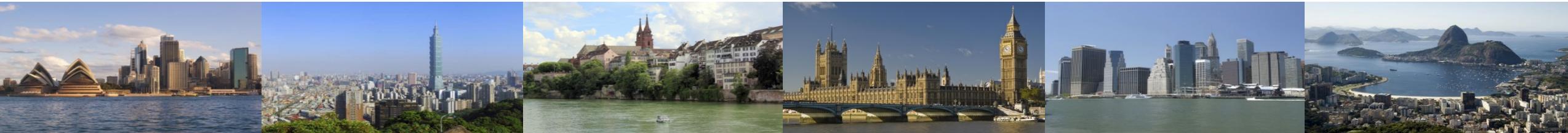


IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Stakeholder Session on IAIS supporting material

30 June 2021, 13:00 – 15:00 CEST



OVERVIEW OF THE STAKEHOLDER SESSION

Overview of the stakeholder session

- **Introduction**
- **Public background session** to provide information on the following consultation documents:
 - **Issues Paper on Insurer Culture**
 - **Application Paper on Supervisory Colleges**
- **Public discussion session** to present the following material, adopted earlier in June, as well as the outcome of the public consultations:
 - **Application Paper on Supervision of Control Functions**
 - **Application Paper on Resolution Powers and Planning**

INTRODUCTION

Introduction

- The IAIS, as the global standard-setting body for insurance supervision, develops supervisory material and supporting material
- **Supervisory material** consists of principles, standards and guidance that are developed for the supervision of the insurance sector:
 - **Insurance Core Principles** (ICPs), which apply to the supervision of insurance legal entities and, unless otherwise specified, to insurance groups
 - **ComFrame**, which focuses on the effective group-wide supervision of Internationally Active Insurance Groups (IAIGs)
- **Supporting material** helps with the practical application of supervisory material, provides background on particular topics or identifies related regulatory and supervisory issues (it does not create new standards):
 - **Issues Papers**
 - **Application Papers**
- Role of the proportionality principle

ISSUES PAPER ON INSURER CULTURE

(PUBLIC BACKGROUND SESSION ON THE CONSULTATION DRAFT)

Emma Curtis, Chair of the Market Conduct Working Group

Anna Jernova, Chair of the Governance Working Group

Information on the process

Issues Paper on Insurer Culture

- Draft Issues Paper released for **2 month** public consultation: **23 June 2021**
- Public consultation comments due: **23 August 2021**
 - The consultation document and further details are available [here](#)
- Expected adoption of Issues Paper: **November 2021**
- Planned public discussion session to present final paper, resolution of public consultation comments and potential follow up work: **November/December 2021**

Background

Issues Paper on Insurer Culture

- Conduct and culture identified in **2020-2024 IAIS Strategic Plan** as a key trend in insurance markets and insurance supervision in the upcoming years
- **Increasing importance of issues relating to culture to conduct and prudential supervisors**, in light of rapidly changing financial markets driven by innovation, shifts in consumer expectations and broader societal challenges, also reinforced as an important theme during the Covid-19 crisis
- Joint project between the **Market Conduct Working Group** and **Governance Working Group**
- Sequential approach adopted:
 - **First phase:** Issues Paper limited to **exploratory observations** on the importance of insurer culture for insurers and supervisors and how key components of corporate culture set out in the ICPs can influence the achievement of prudential and conduct outcomes
 - **Second phase:** Advancing these observations through **further engagement** and potentially **more targeted exploration** of, or **practical supervisory guidance** on, specific cultural drivers

How does the IAIS understand culture?

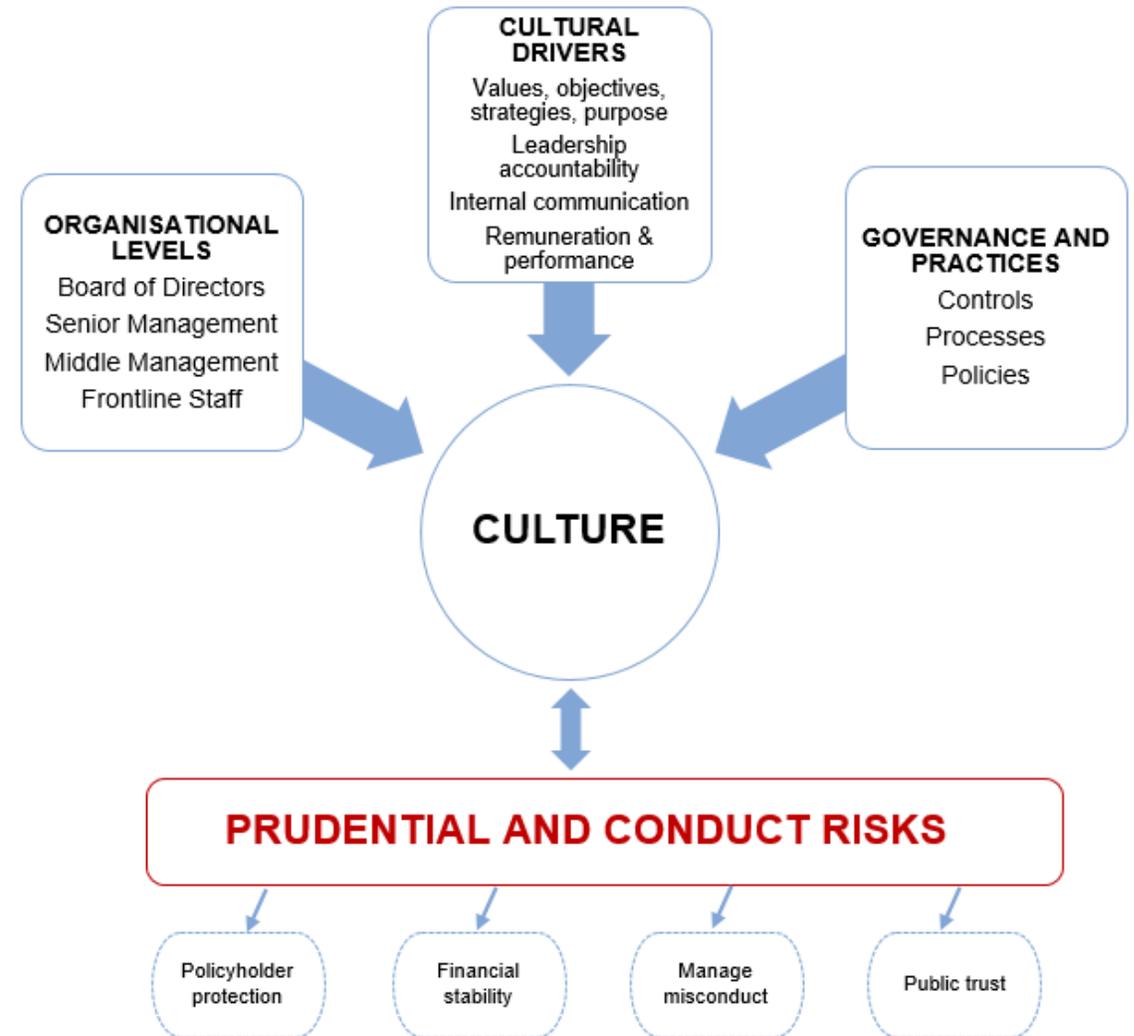
Issues Paper on Insurer Culture

- Corporate culture defined in the **IAIS Glossary** as “[t]he set of norms, values, attitudes and behaviours of an insurer that characterises the way in which the insurer conducts its activities”
- Relevant ICP standards:
 - **ICP 7.2:** “The supervisor requires the insurer’s Board to set and oversee the implementation of the insurer’s corporate culture, business objectives and strategies for achieving those objectives, in line with the insurer’s long term interests and viability”
 - **ICP 8.4:** “The supervisor requires the insurer to have an effective risk management function capable of assisting the insurer to: identify, assess, monitor, mitigate and report on its key risks in a timely way; and promote and sustain a sound risk culture”
 - **ICP 19.2:** “The supervisor requires insurers and intermediaries to establish and implement policies and procedures on the fair treatment of customers, as an integral part of their business culture”
- Two layers of corporate culture:
 - One visible and working on a **conscious or surface** level
 - Another existing on a much **deeper or subliminal** level
- Embedding the cultural tone across the insurer goes **deeper than the tone at the top** set by the Board and Senior Management and filters down through middle management to the staff level (potentially including agents and intermediaries)

Objective and focus of the Issues Paper

Issues Paper on Insurer Culture

- To explore the concept of the insurer culture as a **key intersection point for managing prudential and conduct risks** and reducing the potential for widespread misconduct
- To highlight that insurer culture helps provide the supervisor with **important insights into the driving forces behind decisions and practices across all levels** within the insurer
- To provide **illustrations of selected cultural drivers** highlighted in the ICPs through the use of jurisdictional examples



Structure of the Issues Paper

Issues Paper on Insurer Culture

- **Section 1: Introduction**

- What is meant by “culture” in a corporate context?
- Why does culture matter for insurers and supervisors?

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

- The role of culture as a linkage between prudential and conduct risks
- The role of culture in mitigating misconduct

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

- Insurer’s values, business objectives and strategies
- Leadership accountability
- Communication within the insurer
- Internal remuneration and performance management structures

Recap of process going forward

Issues Paper on Insurer Culture

Current stage of the process

[Public consultation](#) launched: **23 June 2021**

Next steps

Activities	Timing
Public consultation ends	23 August 2021
Adoption of Issues Paper	November 2021
Public discussion session to present the final paper, resolution of public consultation comments and potential follow up work	November/December 2021

QUESTIONS?

Issues Paper on Insurer Culture

APPLICATION PAPER ON SUPERVISORY COLLEGES

(PUBLIC BACKGROUND SESSION ON THE CONSULTATION DRAFT)

Rob Curtis, Chair of the Insurance Groups Working Group

Information on the process

Application Paper on Supervisory Colleges

- Draft Application Paper released for **2 month** public consultation: **23 June 2021**
- Public consultation comments due: **24 August 2021**
 - The consultation document and further details are available [here](#)
 - Due to the volume of changes, the revised Application Paper is presented only in a clean version.
- Expected adoption of the Application Paper: **November 2021**
- Planned public discussion session to present final paper and resolution of public consultation comments: **November/December 2021**

Background

Application Paper on Supervisory Colleges

- **Rationale of the project:**

- The Application Paper on Supervisory Colleges was adopted in 2014
- The Paper became out of date over time, because of development of supervisory practices and changes in IAS supervisory material

- **Purpose of the revision:**

- To update the Application Paper to reflect:
 - Revisions to ICPs 3 and 25 and adoption of ComFrame
 - Other relevant developments, eg more up-to-date good supervisory practices
- To streamline the Application Paper and to focus its content on aspects most relevant from the insurance industry perspective

- **Objective of the revised Application Paper:**

- To describe processes and practices related to the establishment and functioning of supervisory colleges for insurance groups with cross-border activities
- To foster an understanding of the work of supervisory colleges as well as to explain the role and involvement insurers may have in supervisory colleges

Structure and content of the Application Paper

Application Paper on Supervisory Colleges

Introduction (Section 1)

- General information on the Application Paper

Establishment of supervisory colleges (Section 2)

- Role of the group-wide supervisor in establishing a supervisory college
- Approaches to supervisory college structures and membership

Supervisory college procedures and tools (Section 3)

- Coordination agreements
- Information exchange and confidentiality protection
- IT Tools

Functions and activities of a supervisory college (Section 4)

- Supervisory college as a forum for ongoing cooperation
- Supervisory college planning cycle and workplan
- Supervisory college activities related to the group-wide risk assessment
- Supervisory cooperation in planning for crisis management

Organisation of supervisory college meetings (Section 5)

- Purpose and objective of supervisory college meetings
- Frequency and form of supervisory college meetings
- Involvement of group-wide Senior Management in supervisory college meetings
- Follow-up actions

Recap of process going forward

Application Paper on Supervisory Colleges

Current stage of the process

[Public consultation](#) launched: **23 June 2021**

Next steps

Activities	Timing
Public consultation ends	24 August 2021
Adoption of Application Paper	November 2021
Public discussion session to present the final paper and resolution of public consultation comments	November/December 2021

QUESTIONS?

Application Paper on Supervisory Colleges

APPLICATION PAPER ON SUPERVISION OF CONTROL FUNCTIONS

(PUBLIC DISCUSSION SESSION ON THE OUTCOME OF THE PUBLIC CONSULTATION)

Anna Jernova, Chair of the Governance Working Group

Background

Application Paper on Supervision of Control Functions

- **Rationale of the project:** recognition of control functions as a crucial element of the effective systems of risk management and internal controls:
 - Effective control functions with necessary independence, stature and resources help insurers identify and manage risks
 - Work performed by controls functions can assist supervisors in identifying specific areas of concern or patterns of weakness within an insurer
 - Ineffective control functions may weaken an insurer and require heightened supervisory attention
- **Objective of the Paper:**
 - To describe practices aimed at helping supervisors address issues related to the supervision of control functions as described in mainly ICP 8 (Risk Management and Control Functions) and ComFrame, as well as in ICP 5 (Suitability of Persons) and ICP 7 (Corporate Governance)
- **Input to the Paper:**
 - Mainly results of a survey among IAIS Members regarding challenges in supervision of control functions and effective supervisory practices for addressing these challenges
 - 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 (the report published on the [IAIS website](#) in June 2020)
 - Stakeholder feedback received on the draft Application Paper during public consultation

Structure and content of the Application Paper

Introduction (Section 1)	<ul style="list-style-type: none">○ General information on the Application Paper
Role of control functions (Section 2)	<ul style="list-style-type: none">○ Mapping control functions to the three lines of defence (Three Lines Model)○ Role of control functions when business activities are outsourced
Independence of control functions (Section 3)	<ul style="list-style-type: none">○ Positioning control functions in the internal structure of the insurer○ Remuneration of Key Persons in Control Functions
Stature of control functions (Section 4)	<ul style="list-style-type: none">○ Skills and experience (quality of resources) and resource stretch (quantity of resources)○ Ability to challenge and raise concerns○ Board engagement and reporting
Specific challenges related to supervision of the internal audit function (Section 5)	<ul style="list-style-type: none">○ Combination of the internal audit function with second line of defence control functions○ Supervisory use of the work of the internal audit function
Combination of control functions (Section 6)	<ul style="list-style-type: none">○ Combination of second line of defence control functions○ Combination of a control function and an operational function○ Combination of a control function and a Senior Management function
Outsourcing of control functions (Section 7)	<ul style="list-style-type: none">○ Challenges related to supervision of outsourced control functions and good supervisory practices to address those challenges
Specific challenges related to supervision of group-wide control functions (Section 8)	<ul style="list-style-type: none">○ Role of control functions in case of inadequate or inconsistently applied group policies○ Specific challenges in cross-sectoral and international groups○ Inadequate communication between the group-wide control functions and the insurance legal entities' control functions○ Outsourcing of control functions within the group

Outcome of the public consultation

Application Paper on Supervision of Control Functions

- Consultation period: **25 January – 26 March 2021**
- **350 comments** received from **15 Participants**
- Application Paper adopted by the Executive Committee on 22 June 2021 available on the IAIS website ([here](#))
- Public consultation comments with their resolution available on the consultation page ([here](#))

General comments and their resolution

Application Paper on Supervision of Control Functions

General comment	Resolution
Principle of proportionality	<p>The proportionality principle is explained in the Introduction. Additional changes have been made on page 2 and in para. 5 to further emphasise the application of proportionality.</p> <p>Examples of possible application of the proportionality principle are provided in different parts of the Paper.</p>
Nature of Application Papers	<p>It has been stated on page 2 of the paper that Application Papers do not include new requirements.</p> <p>The Paper has been reviewed to ensure that it does not give the impression of introducing new requirements.</p>
Supervisory practices described in the Application Paper	<p>Description of some supervisory practices has been revised, to ensure that the language used in the Paper is well balanced (for example, see paras. 40, 43, 66-67, 81).</p> <p>The Paper provides a supervisory toolkit aimed at facilitating supervision of control functions. Supervisors are encouraged to apply described supervisory practices as needed and relevant, and in consideration of all relevant factors.</p>

Main issues raised in comments and their resolution (1)

Application Paper on Supervision of Control Functions

Issue	Resolution
Three Lines Model	Changes made in paras. 12 and 13: <ul style="list-style-type: none">• Explanation of the internal controls system as described in ICPs;• Clarification that the Three Lines Model is not required in ICPs.
Early involvement of control functions in relevant discussions	Change made in para. 14 to highlight advantages of allowing control functions to have a “seat at the table” in relevant business line discussions, including initial discussions on a proposed course of action.
Focus on cooperation, collaboration and communication instead of segregation of responsibilities	<p>In the IAIS view, a clear allocation of control functions’ responsibilities supports effective collaboration between control functions and of control functions with the business.</p> <p>The reference to “segregation of responsibilities” has been replaced by “allocation of responsibilities”.</p> <p>The importance of cooperation and communication has been highlighted in para. 29. The need for cooperation is also mentioned in para. 31.</p>

Main issues raised in comments and their resolution (2)

Application Paper on Supervision of Control Functions

Issue	Resolution
Materiality aspect in the context of outsourcing	Materiality aspects reflected in para. 85, describing ways of addressing challenges with supervising activities or functions that have been outsourced.
The relationship between control functions and Senior Management	<p>It has been recognised in para 79 that, 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 (in the latter case, the individual's Senior Management role would typically only involve control responsibilities).</p> <p>Further changes made in para. 79-80 to clarify the language.</p>
Group-wide control functions	Additional explanations added, including references to relevant parts of the Application Paper on Group-wide Corporate Governance, to address comments about the position of the insurance legal entity within the group.

Examples of textual changes based on comments received

Application Paper on Supervision of Control Functions

Issue	Resolution
Time-limited restrictions	<p>In para. 23, 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) have been presented as an example of addressing potential conflicts of interest.</p>
Remuneration	<p>It has been clarified in para. 34 that supervisors should gain comfort that variable remuneration of the Key Persons in Control Functions is not overly tied to shorter-term business performance.</p> <p>In para. 35 the approach to remuneration of control functions has been referred to.</p>
Staffing of control functions	<p>It has been clarified in para. 41 that 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.</p> <p>In para. 45, the language has been focused on assessment of whether control functions have appropriate quantity of skilled staff.</p>
Language	<p>A number of other textual changes made across the Paper, based on the comments received (see, for example, changes made in para. 27, 48-49, 59, 64, 66-67, 90, 91, 92).</p> <p>Changes made across the Paper to clarify the language and for consistency (for example, “operational” / “operational functions” replaced by “business” / “business responsibilities”).</p>

QUESTIONS?

Application Paper on Supervision of Control Functions

APPLICATION PAPER ON RESOLUTION POWERS AND PLANNING

(PUBLIC DISCUSSION SESSION ON THE OUTCOME OF THE PUBLIC CONSULTATION)

Alex Hart, Chair of the Resolution Working Group

Background

Application Paper on Resolution Powers and Planning

- **Rationale of the project:**

- Recovery and resolution requirements help reduce the likelihood of disorderly failures of insurers, as well as the potential adverse impacts on policyholders and/or financial stability of such failures.
- The Paper is part of a broader project to help insurance authorities apply the new standards on recovery and resolution as agreed in November 2019. An earlier Paper on [recovery planning](#) was published in 2019.

- **Objective of the Paper:**

- Providing guidance for supervisors and resolution authorities in implementing a resolution framework, including setting up powers, as well as planning and issues around coordination and cooperation.
- Related to ICP/CF 12 (Exit from the Market and Resolution), and parts of ICP/CF 25 (Supervisory Cooperation and Coordination), (the part related to crisis management planning only, ICP 25.7)

- **Input to the Paper:**

- Inputs from 22 IAIS Members, who participated in a Member Survey in Q4 2019
- Other public and non-public material related to resolution frameworks, including from the FSB
- Stakeholder feedback received on the draft Application Paper during public consultation

Structure and content of the Application Paper

Introduction (Section 1)	<ul style="list-style-type: none">• General information on the Application Paper
Objectives and concepts of resolution of insurers (Section 2)	<ul style="list-style-type: none">• Background on the different concepts and the objectives of resolution, including policyholder protection and financial stability
Entry into resolution (Section 3)	<ul style="list-style-type: none">• Further guidance on setting concrete criteria for determining the circumstances in which the supervisor and/or resolution authority initiates resolution of an insurer (“entry into resolution”).• List of illustrative examples based on jurisdictional practices
Resolution powers (Section 4)	<ul style="list-style-type: none">• Guidance for using the resolution powers which are listed under ICP 12.7, its intended benefits and use and considerations in its application
Resolution plans (Section 5)	<ul style="list-style-type: none">• Guidance on defining the scope of the requirement• Guidance and examples on the key elements of a resolution plan, such as a resolution strategy, a communication strategy, etc.
Resolvability Assessments (Section 6)	<ul style="list-style-type: none">• Considerations related to the evaluation of the feasibility and credibility of available resolution strategies• Considerations related to the possible need to resolve impediments to resolution
Cooperation and Coordination (Section 7)	<ul style="list-style-type: none">• Guidance on ensuring good cooperation and coordination between involved supervisors and/or resolution authorities, both in normal and crisis times
Examples of relevant existing and proposed legislation on resolution powers (Annex)	<ul style="list-style-type: none">• Examples of resolution frameworks and powers established in IAIS Member jurisdictions

Outcome of the public consultation

Application Paper on Resolution Planning and Powers

- Consultation period: **9 November 2020 – 5 February 2021**
- **> 250 comments** (of which some were confidential) received from **16 Participants**
- Application Paper adopted by the Executive Committee on 22 June 2021 and available on the [IAIS website](#)
- Public consultation comments with their resolution available on the [consultation page](#)

Outcome of the Public Consultation

Application Paper on Resolution Powers and Planning

- Request to provide more detail describing resolution for specific business models
 - *Inclusion of additional box with considerations relating to the resolution of reinsurers*
- Request to provide clarity around certain terms (eg non-viability, solvent run-off, essential services and functions)
 - *Some updates made to the Paper (e.g. essential functions) to better clarify*
 - *But no detailed guidance as this is often dependent on actual circumstances and jurisdictional specificities*
- Various technical comments and suggestions provided, including on resolution powers
 - *Various updates from a technical nature made throughout the Paper*

Outcome of the Public Consultation

Application Paper on Resolution Powers and Planning

- Concerns raised related to certain issues which are already embedded in the ICP and ComFrame material, eg on the importance of financial stability analysis, need for ex ante planning, as well as the potential costs of ex-ante changes to improve resolvability
 - *The Paper does not set out new requirements, and consistency with ICP/ComFrame material is ensured*
- Suggestion to have a more comprehensive list of jurisdictional examples and references to relevant resolution-related legislative initiatives
 - *Annex was updated accordingly*
- The consultation confirmed interest from stakeholders on the next ReWG project on the role of Policyholder Protection Schemes (PPS) in resolution
 - *This Application Paper discusses some of the roles that a PPS, if established in a jurisdiction, may have in relation to certain resolution powers and in relation to the resolution authority. It does not, however, aim to provide a comprehensive overview on the role of PPSs in resolution*

QUESTIONS?

Application Paper on Resolution Powers and Planning

THANK YOU
