

Public background session: consultation on DEI supervisory guidance

The governance, risk management and culture perspective

3 April 2024



Purpose of this public background session



Purpose

1. Introduce this consultation, covering:
 - The IAIS' work on diversity, equity and inclusion
 - What is an application paper, and what are the ICPs
 - Timelines and process of this consultation
2. Present the contents of the ***Draft Application Paper on supervising diversity, equity and inclusion: the governance, risk management and culture perspective***
3. Answer your questions

Introducing this consultation

*Gerry Cross, IAIS DEI Champion
(Central Bank of Ireland)*

IAIS – the global insurance standard setter

The mission of the IAIS is to:

- Promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders
- Contribute to global financial stability

More than **200** jurisdictions,
constituting **97%** of global insurance premiums,
represented by **40** members of our Executive Committee

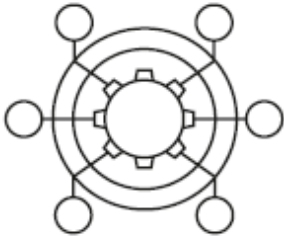
Diversity, equity and inclusion (DEI) is an IAIS strategic theme



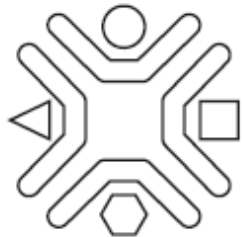
Climate risk



Conduct and culture



Digital transformation



Diversity, equity and inclusion



Financial inclusion



Operational resilience and cyber risk





DEI work in 2024

The IAIS aims to help insurance supervisors further understand the benefits of DEI, the connection between promoting DEI and their supervisory mandates and the range of available supervisory practices to promote DEI in the insurance sector.

This year the IAIS will consult on draft application papers on:

- How DEI within an insurer's institution can influence its governance, risk management and corporate culture, and available supervisory responses;
- How expectations for fair treatment of customers (ICP 19) can be implemented so that a diverse range of consumers experience fair treatment; and
- An update to the 2012 Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets.



Previous DEI work

Stocktake report: In December 2022 the IAIS published a stocktake report giving insight into the actions IAIS member supervisors, international organisations and the insurance industry are taking to advance DEI in the insurance sector. Read it [here](#)

Member-only interim paper: In October 2023 the IAIS released a member-only document exploring how the IAIS sees DEI as relevant to insurer's governance, risk management and corporate culture, and therefore the link to supervisory objectives.

Member-only practices and developments webinar: In December 2023 the IAIS hosted a webinar for member exchange on recent practices or developments in their jurisdiction regarding supervisory activity to promote DEI in the insurance sector.

ICPs and application papers

- The Insurance Core Principles (ICPs) form the **globally accepted framework for insurance supervision**. The ICPs seeks to encourage the maintenance of consistently high supervisory standards in IAIS member jurisdictions.
- **Application papers** provide supporting material related to supervisory material. Supporting material aids IAIS members to put the ICPs into practice.
- Application papers **do not include new requirements**, but provide further advice, illustrations, recommendations or examples of good practice to supervisors on how supervisory material may be implemented.
- The **proportionality principle** applies to the content of application papers.



Timelines and process of this consultation

- The consultation period is 14 March to 14 June 2024.
- Feedback is sought on the application paper – both general comments and comments per section/box of the paper.
- Submit your feedback via the consultation tool accessed via the [consultation page](#).
- A final version of the application paper, informed by consultation feedback, is anticipated in Q4 2024.

The draft application paper

*Lezanne Botha, IAIS member and project lead
(Financial Sector Conduct Authority South Africa)*

Section 1:

- context and objective
- interpretation of terms **diversity, equity and inclusion**
- **related work** and links to ICP 7 (corporate governance) & ICP 8 (risk management).

Section 2 :

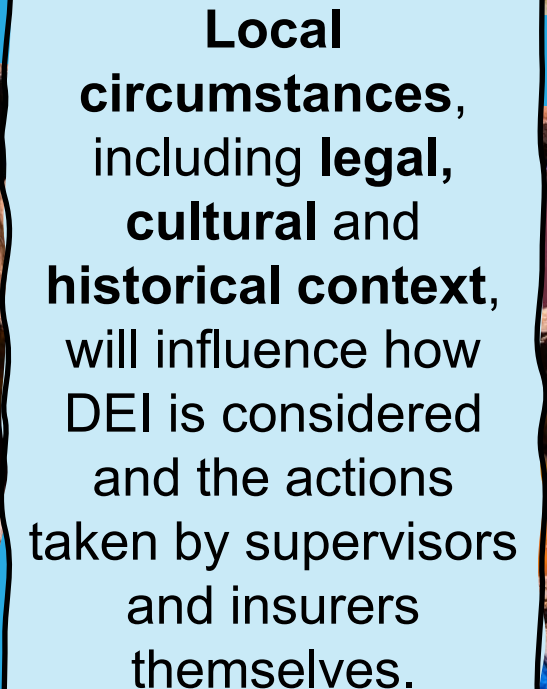
- relevance of DEI to insurer's **corporate governance, risk management** and corporate culture
- high level risks that may arise due to a lack of DEI.

Section 3:

- what should supervisors look for
- non-exhaustive list of possible **warning signs** that an insurer might need to work on its DEI.

Section 4:

- potential steps that a supervisor can take:
- industry-wide or insurer-specific
- ranging from soft powers to more formal interventions.



Local circumstances, including **legal, cultural** and **historical context,** will influence how DEI is considered and the actions taken by supervisors and insurers themselves.

Box 1: Interpretation of the terms diversity, equity and inclusion in this paper

- IAIS does not seek to *define* 'DEI', recognising the particular importance local legal and cultural context.
- Uses interpretation based on the practices in different IAIS supervisory authorities, which may be helpful for supervisors to consider:

- **Diversity:**

A reflection of the **differences** between people within an organisation or wider society. Includes different perspectives, abilities, knowledge, attitudes, skills, experience, *ways of thinking* and demographic characteristics.

Demographic characteristics may include age, disability, ethnicity, gender, national origin, religion and sexual orientation, and cultural, educational and/or socio-economic background. **Different ways of thinking** may include different ways of reasoning, processing information, making decisions, problem solving, learning, creating and innovating. Differences between people can lead them to think differently from one another, therefore have varying perspectives to contribute to an organization. (called '*diversity of thought*' or '*cognitive diversity*').

- **Equity:**

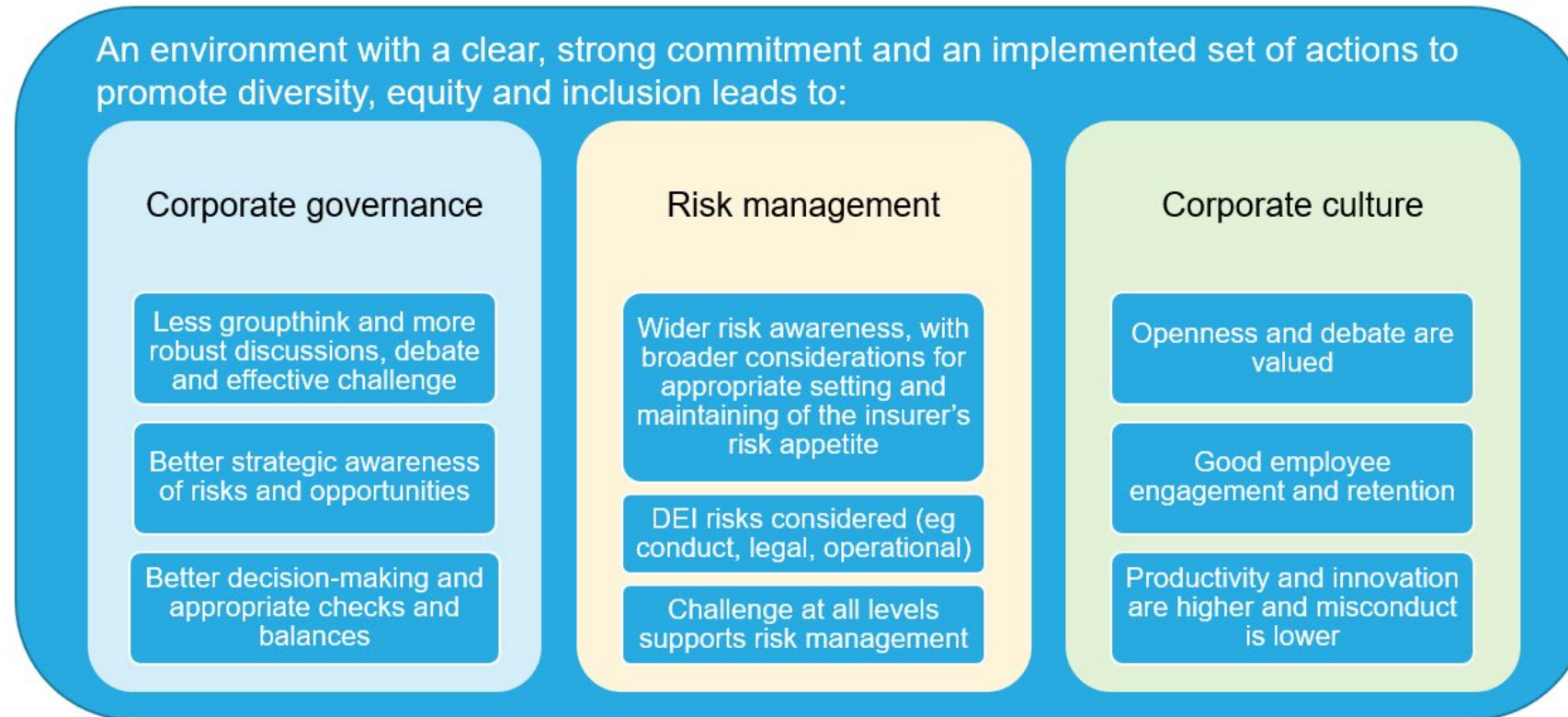
Seeking to achieve **fairness** for all through **allocating resources** and **opportunities** in a way that recognises the different circumstances and needs of different groups of people, particularly where there is evidence of disadvantage amongst certain groups. *Equity* is different from *equality*: equality offers the same resources and opportunities to everyone, while equity helps remove barriers in accessing resources and opportunities.

- **Inclusion:**

When all people in an organisation, regardless of their differences, **feel a sense of belonging** and **unimpeded by barriers** (both physical and non-physical barriers) and are enabled to *fully participate* in and *contribute* to the organisation.

Includes a culture in which a mix of people, at all levels of seniority, feel empowered to speak up and express their views -feel confident that their views will be heard and that it is extremely unlikely they will suffer negative repercussions for challenging the prevailing views.

Why DEI matters to ICPs 7, 8 and corporate culture



The Principle Statement of **ICP 7** is: The supervisor requires insurers to establish and implement a [corporate governance framework](#) which provides for [sound and prudent management and oversight](#) of the insurer's business and [adequately recognises and protects the interests of policyholders](#).

The Principle Statement of **ICP 8** is: The supervisor requires an insurer to have, as part of its overall corporate governance framework, [effective systems of risk management and internal controls](#), including [effective functions](#) for risk management, compliance, actuarial matters and internal audit.

What should a supervisor look out for?

Explanation of *relevant matters* to look at on D, E and I

Two distinct lists of *warning signs* that an insurer might need to enhance its DEI efforts:

- Concerns that are observable when examining governance, risk management and corporate culture at an insurer which may be rooted in DEI issues.
- - Illustrates how DEI issues could be causing impacts that raise supervisory concerns – *relevant to all supervisors*
- Indications that DEI initiatives being implemented by an insurer involve problems which may make them ineffective in driving real change.
- - *Relevant for supervisors who already (or planning to) examine the DEI*

Box 3 on “What is DEI-washing?”

Box 4 on “Indicators of positive action on DEI at an insurer”

Governance, risk management, culture observations that may be rooted in DEI issues

- **Lack of challenge** in board discussions and key decision-making processes
- Resistance to **change**
- Lack of **open communication** between levels
- **Breaches** that persist for a long time
- Insufficient consideration to views of control functions
- **High employee attrition** levels and/or retention challenges
- High or **long-term vacancy rates** and poor recruitment outcomes
- Employment tribunals/**discrimination** cases in favour of employees

Signs of shortcomings/problems with embedding of DEI initiatives

- Disparaging or dismissive attitude to promoting DEI
- Lack of DEI efforts to drive change
- Unclear **accountability**
- Limited or stagnant **diversity metrics**
- Insufficient attention given to **inclusive** attitudes and behaviour
- All talk and no substance / **DEI-washing**
- Lack of an **informed DEI strategy**
- Poor internal **communication** on DEI
- **Limited employee feedback** channels
- Absence of a **holistic** approach
- Focusing on increasing diverse representation **only at senior leadership**

What can a supervisor do in response?

- The potential actions available to supervisors in this section must be considered in the *jurisdictional context* of the supervisor, mindful of the *powers and mandate* of a supervisor to undertake such action.
- Supervisory action related to DEI will be informed by *legal remit* of the supervisor, the broader *legal and cultural context* of the jurisdiction, and the *size, location and nature* of the insurer.
- ***Industry wide-approaches***
 - Use of soft powers
 - Incorporating DEI themes into supervisory approaches
 - Develop requirements
- ***Insurer-specific engagement***
 - Understanding an insurer’s approach to DEI
 - Undertake review work to examine DEI related arrangements and plans
- Box 5 on “***Collecting and using data as part of a DEI strategy***”

Q&A

- *Gerry Cross, IAIS DEI Champion*
- *Lezanne Botha, IAIS member and project lead*
- *Bheki Mkhize, Chair of IAIS' Governance Working Group
(Prudential Authority, South Africa)*
- *Lauren Eckermann, IAIS Secretariat*



Thank you

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