

Corporate Governance for Insurers: Impact of changes to IAIS core principle on corporate governance

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Overview

- IAIS's role as the international regulatory standard setter for insurers
- Scope of IAIS's current project in revising Insurance Core Principles (ICPs)
- Content and structure of the new ICP on Corporate Governance

IAIS's role as the international regulatory standard setter for insurers

- IAIS was created in 1994
- It:
 - represents insurance regulators and supervisors in 190 jurisdictions in nearly 140 countries, constituting 97% of the world's insurance premiums.
 - has about 120 observers.
- Its objectives are to:
 - coordinate and contribute to improved supervision of the insurance industry at domestic and international level
 - promote the maintenance of efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders
 - promote the development of well-regulated insurance markets
 - contribute to global financial stability

IAIS' Insurance Core Principles (ICPs)

- What are Insurance Core Principles (ICPs)?
 - Minimum requirements that must be met by all insurance supervisors to meet IMF's FSAP assessment
- What do the current ICPs cover?
 - 28 ICPs covering:
 - supervisory aspects (eg supervisor's objective, authority and process);
 - the supervised system (eg licensing of insurers, corporate governance and internal controls);
 - on-going supervision (eg on-site inspections, enforcement and sanctions);
 - prudential requirements (eg risk assessment and capital adequacy);
 - market conduct (intermediaries and consumer protection); and
 - AML/CFT

IAIS current project in reviewing ICPs

- To strengthen the insurance supervisory framework by:
 - addressing issues identified in the aftermath of the recent financial market crisis (eg inadequate governance, weak internal controls and poor remuneration practices); and
 - ensuring closer coordination among the Financial Services Board and the three international standard setters, i.e Basel, IOSCO and IAIS.
- Tight timeframe – revised ICPs to be finalised and adopted by IAIS by October 2011.

Structure of new ICPs

- Core Principle – i.e. the overarching mandatory principle
- Standards – i.e. mandatory requirements to meet the core principle;
- Guidance – measures and expected standards to meet the Standards

Draft ICP 9

“The supervisor must require insurers to establish and implement a corporate governance framework which provides for sound and prudent management of the insurer’s business. The supervisor must ensure that the corporate governance framework adequately recognises and protects the interests of policyholders and other beneficiaries.”

Standard 1 - The Board's oversight and accountability

- Insurers to have a written corporate governance framework (“CPF”) that:
 - establishes clear accountability and effective oversight of the insurer’s business by its Board of Directors; and
 - promotes an appropriate degree of transparency of the insurer’s operations to relevant stakeholders.
- Aspects to be covered in the CPF – overall business strategy, adequate and effective internal controls and risk management, establishment of Board Committees, clear accountability framework, appropriate financial reporting channels and remuneration policies.

Standard 2 – Board composition

- The requirements for the insurer's Board to comprise an appropriate number and mix of members (individuals) so that:
 - there is an overall adequate level of knowledge, skills and expertise available at the Board level as appropriate to the governance structure, and the nature, scale and complexity, of the insurer's business; and
 - there is objective and independent decision making relating to the insurer's business and oversight of its operations.

Standard 3 -Duties of individual Board members

The individual members of the Board being required to:

- act in good faith, honestly and in accord with reasonable standards of fair dealing;
- exercise the degree of due care, diligence and skill that a reasonably prudent person in a like position would exercise in comparable circumstances; and
- act in the best interests of the insurer, taking due account, in his decision making, of the interests of the insurer, policyholders and other beneficiaries as appropriate.

Standard 4 - Duties of the Senior Management

- The Senior Management of the insurer being required to:
 - act in good faith, honestly and in accord with reasonable standards of fair dealing;
 - exercise the degree of due care, diligence and skill that a reasonably prudent person in a like position would exercise in comparable circumstances;
 - carry out the day to day operations of the insurer effectively and in accordance with the strategies, policies and procedures approved by the Board;
 - promote a culture of sound risk management and compliance within the insurer;
 - provide to the Board adequate and timely information to assess the performance of the insurer and its Senior management; and
 - provide to the relevant stakeholders, including the supervisor, material information

Standard 5 - Role of the Supervisor

The supervisor having the necessary powers to:

- require the insurer to demonstrate how expectations of sound governance have been met; and
- require the insurer to take appropriate remedial action where failures or inadequacies are identified,

and the supervisor exercising those powers effectively.

Conclusion

- Current ICPs continue to apply for FSAP assessment purposes.
- When the revised ICPs are adopted by IAIS in October 2011 (after due public consultation), they will need to be met by insurance supervisors to get the FSAP endorsement;
- ICPs and Standards are mandatory, while Guidance provides means to achieve compliance; and
- There is adequate flexibility in the ICPs and Standards so that they can be applied taking into account the size, nature and complexity of the insurance activities.

Upcoming Triannual 2010 in Dubai

- Some parts of the revised ICPs to be finalised at the Dubai Triannual (eg the ICPs on licensing and suitability)
- The Triannual will take place in Dubai from 24 – 26 October 2010, in advance of the IAIS Annual Conference, which will be held from 27 – 29 October 2010
- The full programme for the IAIS Annual Conference is available on the Conference website www.iais2010.org

