



**DRAFT RECOMMENDATION OF THE COUNCIL ON  
GUIDELINES ON INSURER GOVERNANCE**

**ONLINE PUBLIC CONSULTATION**

**DEADLINE FOR COMMENT – 29 AUGUST 2016**

The draft Recommendation of the Council on Guidelines on Insurer Governance has been elaborated by the OECD's Insurance and Private Pensions Committee and may still be subject to modifications, in particular to reflect, as appropriate, the relevant comments received through the public consultation.

Comments should be sent **by 29 August 2016** to [lucie.amour@oecd.org](mailto:lucie.amour@oecd.org). A summary of comments received by that date will be made available to the public unless otherwise requested.

**Introduction**

Good corporate governance is not an end in itself. It is a means to support economic efficiency, sustainable growth and financial stability. It facilitates companies' access to capital for long-term investment and helps ensure that shareholders and other stakeholders who contribute to the success of the corporation are treated fairly. Insurance companies are an important part of the economy, with good corporate governance contributing further to this.

In May 2011, the OECD Council adopted the revised [OECD Guidelines on Insurer Governance](#). The revisions were based on a comprehensive review that included a joint work programme with the International Association of Insurance Supervisors (IAIS), an OECD review and assessment of evolving national and international principles and good practices, and public consultations in 2010. In the context of a review of implementation for the Council, the Insurance and Private Pensions Committee considered that small updates to this guidance could be made to reflect updates to international guidance on corporate governance. The draft Recommendation of the Council on Guidelines on Insurer Governance is aimed at revising the 2011 Recommendation. Once adopted, it would be open for adherence by OECD non-Members.

The G20 and OECD launched the updated Principles on Corporate Governance at the meeting of G20 Finance Ministers and Central Bank Governors and G20 Leaders Summit in 2015. The draft Recommendation updates the Guidelines on Insurer Governance to reflect the revisions to the Principles and other international guidance.

## **DRAFT RECOMMENDATION OF THE COUNCIL ON GUIDELINES ON INSURER GOVERNANCE**

### **THE COUNCIL,**

Having regard to Article 5b) of the Convention on the Organisation for Economic Cooperation and Development of 14 December 1960;

Having regard to the Recommendation of the Council on Core Principles of Occupational Pension Regulation [C(2009)57] and the Recommendation of the Council on Principles of Corporate Governance [C(2015)84];

Considering that OECD Ministers agreed in 2002 that implementation of best practices in corporate and financial governance entails an appropriate mix of incentives, balanced between regulation and self-regulation, and that such governance should be improved to enhance transparency and accountability and thereby strengthen investor confidence and the stability and resilience of financial markets [[PAC/COM/NEWS\(2002\)58](#)], and that OECD Ministers welcomed the revision of the OECD Principles for Corporate Governance in 2015 [C/MIN(2015)14/FINAL];

Considering that the soundness and integrity of financial institutions and their conduct toward consumers depends not only on regulation and supervision, but also on the quality of governance practices within financial institutions;

Considering that the governance of financial institutions, including insurance providers, should be of a high standard and serves as a key element of the regulatory and supervisory framework;

Considering that the specificity of the business activities, risks and responsibilities of insurance providers call for specific guidance on insurer governance in addition to the more general standards provided by the G20/OECD Principles of Corporate Governance [C(2015)84];

Considering that the Guidelines on Insurer Governance (hereinafter called “the Guidelines”) complement the principles on pension fund governance in the Recommendation of the Council on Core Principles of Occupational Pension Regulation [C(2009)57] and the G20/OECD Principles of Corporate Governance, and that the Corporate Governance Committee is of the view that the Guidelines are fully compatible and consistent with the Principles of Corporate Governance;

Considering that efforts have been made by the insurance sector and regulatory and supervisory authorities in recent years to strengthen the governance practices of insurers;

Considering that these Guidelines are meant to provide non-binding guidance to the insurance sector as a whole, including stock companies, mutual insurers or any other type of insurance providers, operating as direct insurers or reinsurers domestically or internationally – (hereafter “insurers”);

Considering that the Insurance and Private Pensions Committee has elaborated these Guidelines on the basis of national experiences and the experiences of relevant international institutions and organisations, in particular the International Association of Insurance Supervisors;

Recognising the review of the 2005 Guidelines on Insurer Governance carried out by the Insurance and Private Pensions Committee and the joint work conducted with and of the International Association of Insurance Supervisors as part of this review;

**On the proposal of the Insurance and Private Pensions Committee:**

**I. RECOMMENDS** that Members and non-Members having adhered to this Recommendation (hereafter the “Adherents”) invite public authorities and insurers to ensure a sound governance framework for insurers, having regard to the Guidelines on Insurer Governance which are set out in the Annex to this Recommendation of which it forms an integral part.

**II. INVITES** Adherents and the Secretary-General to disseminate these Guidelines among public and private insurers.

**III. INVITES** non-Adherents to adhere to this Recommendation.

**IV. INSTRUCTS** the Insurance and Private Pensions Committee to exchange information on experiences with respect to the Recommendation, review that information and report to the Council within five years from its revision and, as appropriate, thereafter.

## ANNEX

### GUIDELINES ON INSURER GOVERNANCE

#### INTRODUCTION

The following guidelines are applicable to any insurer licensed to underwrite life, non-life and reinsurance policies and take into account the specificities of the sector. They are designed in light of the overriding objective of an insurance undertaking, which is to provide benefits to the insured in accordance with the contracts concluded with them, and satisfy its shareholders (member-policyholders in the case of mutual insurers). Given the specificity of the reinsurance business, some guidelines relating to stakeholder protection may not be fully applicable.

The guidelines are organised around four main sections: (i) governance structure; (ii) internal governance mechanisms; (iii) groups and conglomerates; and (iv) stakeholder protection. The guidelines are structured in such a way as to promote clear presentation and comparability with other possible national or international rules or principles. Some specifications to the guidelines have been provided, in grey boxes, to guide implementation. The guidelines are also accompanied by detailed annotations that elaborate more fully on the guidelines and their rationale.

These guidelines are non-binding. They are meant to provide guidance and serve as a reference point for policymakers, insurers and other relevant stakeholders in OECD and non-OECD countries. As such, policymakers and market players may apply them if they so wish in accordance with their regulatory and supervisory framework and the specificities of their jurisdiction (e.g., through corporate law, insurance sector legislation or rules and/or through codes of conduct established by the industry). While the guidelines are largely principles-based and thus should be flexible in their application, due recognition should nonetheless be given to the principle of proportionality; the guidelines may need to be tailored or applied in such a manner as to reflect the nature, scale and complexity of the business of specific insurers and the risks to which they are exposed.

These guidelines are consistent and compatible with the *G20/OECD Principles of Corporate Governance*, which they complement.

## I. GOVERNANCE STRUCTURE

*The governance structure should have an appropriate allocation of oversight and administrative responsibilities, stipulate and delineate clearly the duties, responsibilities and qualifications of persons having responsibilities, and protect the rights of shareholders (or member-policyholders) and the interests of policyholders.*

### A. Board of directors

#### 1. Key duties

- Members of the board of directors (“board members”) should act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the insurer.
- Board members should take into account the interests of policyholders in their decision-making and, as appropriate, the interests of other stakeholders.<sup>1</sup>

#### 2. Responsibilities

- The board should set the direction for and oversee the affairs of the insurer and ensure that it meets its strategic objectives and is managed efficiently and prudently. The board should establish appropriate policies and an effective governance system to achieve these aims.

Board members should set the “tone at the top” by establishing and promoting a proper risk culture and ethical and sound control environment, and by leading by example.

- The board should oversee the implementation of board policies and decisions by management. The board should meet regularly with management to review progress against objectives and assess the implementation of board policies and decisions.
- The board should ensure that it has access to accurate, relevant and timely information and can access relevant persons within the organisation. The board should ensure that an integrated, firm-wide information and reporting system is established.
- Board members should understand their responsibilities and dedicate sufficient time and energy to fulfilling them.

##### a. Values and objectives

- The board should establish the fundamental values and objectives of the insurer, consistent with the expected role and activities of insurers in the financial system and, in some countries, the social security system.
- These values and objectives should be communicated widely throughout the insurer.

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<sup>1</sup> E.g., employees, creditors, consumers and supervisors.

b. Ethics, business conduct and conflicts of interest

- Board members should adhere to high standards of ethics and business conduct and apply such standards to all persons employed by the insurer.
- Board members should avoid any activities or influences that present an actual or apparent conflict of interest and would impede them from fulfilling their key duties.

*Policies and procedures should be established to:*

- *promote ethical and sound business conduct and identify, monitor and resolve ethical or business conduct problems*
- *identify, monitor and resolve actual or potential conflicts of interest facing board members, management and shareholders*
- *govern related party transactions (including, if applicable, intra-group transactions); such transactions should be conducted at arms' length.*

c. Governance system

- The board should clearly define the insurer's governance system and oversee its internal organisational structure to ensure that there are clear lines of responsibility and accountability as well as proper oversight and transparency.
- The board should define the expected roles and responsibilities of the board and its members as well as the relationship of the board with key executives and management.
- The board should review the governance system and practices on a regular basis and as circumstances warrant in order to ensure their effectiveness.

d. Strategy, business lines and key operational decisions

- The board should develop and establish the overall strategy of the insurer, its business objectives and major plans of action, and monitor performance against them.
- The board should oversee insurance business line activities and product development and related underwriting, pricing, reinsurance strategies and provisioning needs.
- The board should be implicated in any major organisational and operational decisions, including any outsourcing of key operations or functions.

e. Risk management, internal controls and control functions

- The board should establish a comprehensive and well-defined risk management framework or strategy that defines the insurer's approach to risk, sets out the methods employed by the insurer to identify and mitigate risks, clearly identifies those responsible for implementation and reflects expected prudent behaviour on the part of the insurer.

- The board should establish an internal control framework that sets out the policies, processes and procedures (including internal reporting) necessary to ensure the proper observance and execution of board strategies and policies.
- The board should oversee the establishment of a comprehensive risk management and internal control system and ensure its overall effectiveness, soundness and integrity.
- The board should ensure the establishment of appropriate internal oversight functions (“control functions”) charged with implementing or ensuring adherence to board policies on governance, risk management, internal controls, financial reporting and compliance, and recommending improvements where necessary.
- The board should oversee these control functions, including:
  - their mandate, scope of activities, authority, independence and resources
  - their organisational structure, reporting lines and the relationship among the control functions
  - the process for selecting the persons in charge (“heads”) of the control functions
  - their quality and effectiveness

*Policies on underwriting and provisioning, reinsurance, investments, concentrations, asset-liability management, derivatives, liquidity management, business and operational strategies and processes (including business continuity planning and outsourcing), compliance and reputation (including group contagion if relevant) should be established as part of the risk management framework.*

*Policies should be established to define the mandate, scope of activities, authority and independence of the control functions and, as determined by the board, the role of the board with respect to them.*

f. Financial condition, risk profile and capital position

- The board should regularly assess the financial condition, risk profile and solvency position of the insurer and assess capital, borrowing and liquidity needs.
- The board should review and approve borrowing, share issuance and repurchases and dividends, subject to any necessary shareholder (or member-policyholder) approval.
- The board should review and approve the budgets and financial statements and related discussion and disclosures, and ensure that the financial statements are prepared in accordance with the applicable financial reporting framework and high-quality accounting principles and represent fairly the financial condition of the insurer.

g. Selection of key executives, performance monitoring and succession planning

- The board should select key executives on a proper and fit basis and establish a well-defined succession plan, taking into consideration the insurer’s needs and objectives.

- The board should establish performance objectives for key executives, monitor their performance and replace them as necessary.

h. Compensation

- The board should establish compensation arrangements for board members, management and employees that promote prudent behaviour consistent with the insurer's long-term interests and fair conduct toward consumers and policyholders.
- The board should take steps to ensure that compensation is established through an explicit governance process where the roles and responsibilities of those involved are clearly defined and separated. Non-executive board members should play a significant role in this process.

*A compensation policy should be established as the basis for compensation arrangements. Compensation policies and related implementation measures should be submitted to the annual meeting of shareholders (or member-policyholders) for information, with an opportunity provided for discussion.*

i. Disclosure

- The board should oversee the process of disclosure and communications.

3. Composition and suitability

a. Fitness and propriety

- Board members should have the necessary competency, skills, expertise and professional experience to direct and oversee the insurer in a professional manner.
- The board should, as a whole, requisite insurance, financial, accounting, actuarial, management and leadership expertise and skills to provide direction for and oversee the insurer.
- Board members should be of sound character and good repute and have the necessary judgement, leadership, independence and prudence to provide sound, strategic direction to the insurer and perform effective oversight.

b. Independence

- The board should, collectively and individually, demonstrate both formal and perceived independence and exercise objective and impartial judgement in the affairs of the insurer.
- There should be a sufficient number of non-executive board members (at least a majority) to provide the basis for independent decision-making. These board members should be free of any influences that might limit their capacity to act in accordance with their key duties and provide objective oversight.
- The board should establish transparent criteria for independence and identify those

board members who are considered to be independent on this basis.

*In order to promote greater independence and objectivity of decision-making in a group structure, a substantive proportion of non-executive board members should be independent of the group and its management.*

*Separation of the position of chair and chief executive officer may be regarded as good practice. Where the positions are combined, the board should hold sessions without executive members or other management present and consider appointing a lead independent director with a clear mandate and authority. In addition, for large, complex insurers, there should be an explanation of the measures that have been taken to avoid conflicts of interest and ensure the integrity of the chair function.*

#### c. Performance

- The board should review, at least annually, its performance to assess board effectiveness and independence and identify opportunities for improvement.
- The board should possess the right mix of backgrounds and competencies to address the broad spectrum of issues related to the insurer's activities and risks.
- As part of this assessment exercise, the board should conduct an evaluation of individual and board performance, assess the structure and exercise of board leadership, review board composition, identify gaps in skills knowledge and ensure that training programmes are established to respond to training needs.

#### d. Nomination and selection

- There should be a formal and transparent process for the nomination, selection and removal of board members, in compliance with any legal or by-law requirements. The term of office of board members should be specified in order to ensure regular board renewal.
- The process should seek to identify persons with the knowledge, competencies and expertise needed by the board, and place emphasis on the independence of prospective board members.

#### 4. Reporting

- Board members should report on a periodic basis (at least annually) to shareholders (or member-policyholders), including through the general meeting or assemblies of shareholders (or member-policyholders), and to other stakeholders as relevant.

#### 5. Accountability

- Board members are accountable to shareholders (and member-policyholders) for their performance and the general direction and overall management and performance of the insurer.

*The board should consider establishing a board charter that sets out the role, structure,*

*composition and responsibilities of the board.*

**B. Key executives**

1. Key duties

- Key executives should act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the insurer.
- Key executives should take into account the interests of policyholders in their decision-making and the interests of other stakeholders as may be determined by the board.

2. Responsibilities

- Key executives should:
  - Set, with the board, the proper “tone at the top” by supporting the development and implementation of a proper risk culture and control environment throughout the insurer and by promoting and adhering to high standards of ethics and business conduct
  - Recommend and implement board strategies, policies and decisions and efficiently manage the day-to-day operations of the insurer
  - Identify and monitor the key risks facing the insurer and undertake actions to manage, control, or mitigate them
  - Ensure that an effective risk management and internal control framework is implemented and ensure compliance with applicable laws, regulation and standards
  - Develop and manage a comprehensive and operationally oriented risk management and internal control system, ensure its effectiveness, soundness and integrity, and ensure that corporate governance is an integral element of this system
  - Establish sound internal governance practices and effective internal organisational structures
  - Establish control functions, ensure their effectiveness and independence and communicate their importance throughout the insurer
  - Establish appropriate compensation systems and incentive structures to promote prudent behaviour consistent with the long-term interests of the insurer and fair conduct toward consumers and policyholders
  - Promote effective human resource management, including through recruitment policies and activities, training and succession planning
  - Establish an integrated, firm-wide information and reporting system, and monitor the achievement of objectives, strategies, policies and plans approved by the board

3. Fitness and propriety

- Key executives should have the necessary competency, skills, expertise and professional

experience to direct and manage the insurer.

- Key executives should be of sound character and good repute and have the necessary judgement, leadership, initiative, teamwork qualities and prudence to manage the operations of the insurer safely and achieve strategic and operational objectives.

#### 4. Reporting

- Key executives should report to the board and any of its committees on a regular basis and, to this end, should provide accurate, relevant and timely information to the board in a clear and intelligible manner and ensure that this information is well understood.
- Key executives should promptly inform the board of any material matters that come to their attention and deserve or require board consideration, decision or approval.
- Key executives should seek to address the information needs or requests of board members and develop training programmes for them as appropriate.

#### 5. Accountability

- Key executives are accountable for their performance and the direction, management and performance of the insurer.

### **C. Board structures**

#### 1. Committees

- The board should establish committees, where appropriate, to improve the effectiveness, efficiency, quality and independence of board decision-making, and enhance the oversight and governance of the insurer.
- Responsibility for board decision-making should ultimately rest with the board. The board should review the performance of its committees at least annually.

#### 2. Mandate, authority and responsibilities of committees and their composition

- The board should clearly define the mandate, authority and responsibilities of any established committees, as well as their composition and working procedures.

*The board should establish a charter for each of its committees outlining its mandate, authority and responsibilities.*

#### 3. Independence

- Committees of the board addressing matters where there is a potential for a conflict of interest should comprise a majority of non-executive board members in order to ensure the independence of decision-making.

*The independence of decision-making and appropriate safeguard measures should be ensured in relation to reviews of related party transactions, financial and non-financial reporting, the nomination of board members and selection of key executives, the*

*appointment or dismissal of the auditor or actuary, major outsourcing arrangements, and compensation.*

*Board committees addressing such matters should, where possible, be comprised fully of non-executive board members. In order to promote greater independence in a group structure, at least a majority of the board members of these committees should be independent of the group and its management.*

#### 4. Reporting

- Committees should, on a regular basis, report to the board on the conduct of their affairs and provide recommendations to the board on matters delegated to them for review and consideration.

#### 5. Audit committee

- An audit committee should be established to review proposed financial reporting and related disclosures and oversee internal and external audit.
- The responsibilities should include:
  - Reviewing the insurer's financial statements and related discussion and disclosures prior to their submission to the board, reviewing and assessing the insurer's accounting policies and practices, ensuring appropriate internal controls over financial reporting and reviewing any financial or actuarial returns or reports provided to supervisor
  - Recommending the appointment of the external auditor, ensuring his/her fitness, propriety and independence, approving the audit plan and audit fees, reviewing and approving any non-audit services and fees, reviewing audit findings and assessing their implications for financial reporting and internal controls and taking necessary corrective actions, and reviewing the external auditor's performance
  - Reviewing and discussing internal audit plans and reports prepared by the internal audit function and taking necessary corrective actions
- The audit committee should have unfettered access to all key executives, the head of the internal audit function, the actuary and other relevant persons, as well as to all relevant data, reports, documents and information.

#### 6. Other structures

- The board should consider the merits of establishing other possible structures to enhance the governance of the insurer.

## **D. External auditor**

### 1. Role and responsibilities

- An external auditor should perform an audit of the accounts of the insurer at least annually to assure the board and shareholders (and member-policyholders) that the financial statements fairly represent the financial position and performance of the insurer in all material respects, in accordance with the applicable financial reporting framework and high-quality accounting principles.
- The external audit should be conducted in accordance with high-quality standards of auditing that are subject to independent public oversight.
- As part of the external audit, the external auditor should verify the insurer's internal controls over financial reporting.
- The external auditor should verify the value of the insurer's policy liabilities and the appropriateness of its technical provisions.
- The external auditor should perform all other duties as specified by external audit requirements in the country, which may include conducting a review of the insurer's risk management and internal control system.

### 2. Appointment

- The shareholders (or member-policyholders or their representatives), the board or the audit committee should appoint the external auditor.
- The dismissal or resignation of the external auditor should be reported to the supervisory authority and, as appropriate or required, be publicly disclosed.

### 3. Fitness and propriety

- The external auditor should have the necessary competency, skills, expertise (particularly accounting, audit and actuarial) and professional qualifications and experience to act in accordance with his/her duties and responsibilities as an external auditor of an insurer.
- The external auditor should be a member in good standing in a professional association that requires adherence to sound standards of auditing, quality control and ethics, and is subject to independent public oversight.

### 4. Independence

- The external auditor should exercise his/her duties independently, free from influences of the board, management and controlling shareholders.

### 5. Access

- The external auditor should have access to all relevant persons (including those performing the actuarial function) and information in order to carry out his/her duties.

#### 6. Reporting

- The external auditor should report his/her findings to the board or its audit committee and, as may be required or as appropriate, to shareholders (or member-policyholders). The external auditor should discuss significant matters or disagreements with the audit committee. The external auditor should report material adverse findings on internal controls over financial reporting or material irregularities to the audit committee, as well as any findings raising questions about the insurer's viability.
- If the external auditor, in the course of his/her duties, becomes aware of any material irregularities (accounting or otherwise), actual or likely non-compliance with applicable laws and standards, or any matter uncovered in the performance of his/her duties that has or is likely to have a material adverse affect on the financial condition of the insurer, he/she should inform the supervisory authority promptly.

#### 7. Accountability

- The external auditor should be accountable to the shareholders (or member-policyholders) and owe a duty to the insurer to exercise due professional care in the conduct of the audit.
- His/her term of office should have a specific duration. The performance of the external auditor should be subject to a board review prior to any reappointment.

## II. INTERNAL GOVERNANCE MECHANISMS

*Insurers should have appropriate control, incentive and communication mechanisms and internal organisational structures that encourage sound and prudent internal decision-making and promote the efficiency and transparency of operations.*

### A. Risk management and internal control system

- An insurer should have a strong, comprehensive and integrated risk management and internal control system that fully and effectively:
  - Implements the risk management framework or strategy
  - Implements the internal control framework
  - Considers risks arising from compensation arrangements and incentive structures
  - Ensures effective communication and reporting of risks across the organisation
- The risk management and internal control system should be well integrated into the insurer's overall system of governance.

### B. Control functions

- Control functions should be established within an insurer to implement or ensure adherence to board policies on governance, risk management, internal controls, financial reporting and compliance, and recommend improvements where necessary.
- These control functions should include a risk management function, actuarial function, a compliance function and an internal audit function.
- The independence and effectiveness of the control functions should be promoted:
  - The control functions should have authority and status within the insurer
  - The control functions should be well-resourced and be staffed by persons possessing appropriate integrity, competence, skills, expertise and relevant experience and professional qualifications
  - The control functions should be separate from business operations or other influences that would or might affect their ability to perform their responsibilities objectively
  - The control functions should, in addition to any internal reporting lines, have a reporting relationship with the board and any relevant committee and be able to participate in relevant board or committee meetings
  - The control functions should report their findings (including non-compliance with policies and identification of problems or emerging risks) to the board and any relevant committee on a regular basis and as circumstances warrant; if necessary, the control functions should be able to request a meeting of the board or relevant committee

- The control functions should be able to access any persons, data, reports or documents and obtain any other information relevant for their responsibilities
- The control functions of an insurer should assess the appropriateness of the policies, processes and procedures over which they have oversight, identify and follow up on any identified deficiencies, and propose any necessary amendments.
- The control functions should be informed of and understand all relevant legal and regulatory requirements.
- The mandate, scope of activities, authority and independence of the control functions, their organisational structure and reporting lines, the relationship among the control functions, and the process for the selection of the heads of the control functions, should be clearly laid out and documented.
- The mandate and authority of the control functions should be communicated throughout the insurer.

*The independence of the actuarial and internal audit functions should be especially promoted.*

*The external auditor and the heads of the control functions should meet periodically (at least annually) and as circumstances warrant with the non-executive members of the relevant board committee(s) or of the board without management present.*

#### 1. Risk management

- A risk management function, independent where possible, should be established to:
  - Identify, assess, monitor and appropriately mitigate risks or oversee such risk mitigation activities
  - Support the development, coordination, implementation of or adherence to risk management policies, processes and procedures throughout the insurer and report on non-compliance
  - Assess the appropriateness and effectiveness of the risk management policy, framework or strategy and of the risk management and internal control system, and recommend improvements as necessary

#### 2. Actuary /actuarial function

- Insurers should have an actuary or actuarial function to estimate insurance risks, calculate policy liabilities and determine, or provide an opinion on, the appropriate technical provisions to cover these obligations.
  - a. Roles and responsibilities
    - The actuary (or the actuarial function) should perform sound actuarial valuations and determine, or provide an opinion on, the appropriate level of technical provisions.

- For mutual insurers or stock company insurers with participating policyholders, the actuary<sup>2</sup> should determine, or provide an opinion on, whether the distribution of policy dividends is fair and equitable.
- The actuary or those performing the actuarial function should adhere to sound standards of actuarial practice and conduct.

b. Appointment/designation

- The actuarial function should preferably be filled by an appointed actuary. Where the board does not appoint the actuary, the board should be informed of, and have a say over, the appointment or dismissal of the actuary.
- The dismissal or resignation of the actuary should be reported to supervisors and, as appropriate or required, publicly disclosed.

c. Fitness and propriety

- The actuary should, in addition to having requisite integrity and expertise, be a member in good standing in a professional association that requires adherence to sound standards of actuarial practice, quality control and ethics.

d. Independence

- The actuary should be free of influences that may compromise his/her ability to undertake actuarial valuations in a fair and objective manner.

f. External reporting

- The actuary should be able to report to the external auditor.
- If the actuary, in the course of his or her duties, become(s) aware of any matter that has or is likely to have a material adverse effect on the insurer's financial condition, or aware that the insurer does not or is unlikely to comply with relevant requirements or standards, he/she should inform the board and the external auditor and, if no suitable action is taken, the supervisory authority.

3. Compliance

- A compliance function should be established to monitor adherence to internal policies and codes and legal and regulatory requirements of applicable jurisdiction(s).

4. Internal audit

- An independent internal audit function should be established to monitor the insurer's implementation of, and adherence to, internal controls, assess the adequacy and effectiveness of these controls, and recommend improvements.
- The internal audit function should be able to report any major findings or material problems directly to the external auditor.

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<sup>2</sup> Or, equivalently, key designated persons performing the actuarial function.

- In the absence of independent risk management and compliance control functions, or as a supplement to such functions (“last line of defence”), the internal audit function may monitor the insurer’s implementation of, and adherence to, governance, risk management and compliance policies, assess the adequacy and effectiveness of these policies, review and assess the risk management system, and recommend improvements, as well as report material findings or problems on these matters to the board or relevant board committee.

### **C. Compensation**

- Compensation arrangements should promote long-term, firm-wide profitability, be adjusted for all types of risks and symmetric with outcomes, reflect the time horizon of risks and discourage excessive short-term risk taking.
- The risk management and internal control system should consider any risks arising from compensation arrangements and incentive structures.
- Compensation arrangements should appropriately remunerate those belonging to the control functions to ensure that these functions attract necessary expertise, have appropriate status within the insurer and exercise independent judgement.

### **D. Management structures**

- Insurers should establish, as appropriate and necessary, internal organisational structures such as management committees to address specific issues on a firm-wide basis (e.g., risk management) and enhance information flows and reporting. These structures should properly integrate the views of the control functions to ensure sound decision-making.

### **E. Communication and reporting**

- Effective communication and reporting among all the persons involved in the administration of the insurer, and with those responsible for its oversight, should be established with the insurer. Reporting should include the generation, analysis and timely transmission of relevant and accurate information and appropriate escalation mechanisms.

### **F. Whistleblowing**

- Appropriate mechanisms should be established within an insurer so that employees (including key executives and management), their representative bodies (if any) and outside stakeholders can bring matters to the attention of the board with respect to inappropriate actions and behaviour and to identify and mitigate risks within or by the insurer.
- Those providing this information should benefit from adequate protections and confidentiality to assure the effectiveness of such disclosure or “whistleblowing” mechanisms.
- The board should have oversight of the whistleblowing policy and ensure that senior management addresses legitimate issues that are raised.

### III. GROUPS AND CONGLOMERATES

#### A. Transparency and knowledge of structure

- Group or conglomerate (hereafter “group”) ownership, structures, arrangements and relations should be transparent to all entities within the group and related shareholders as well as to external stakeholders, and should be well understood by boards of directors and key executives.

*The purpose, function and activities of all the major entities within a group, and the jurisdiction out of which they operate, should be disclosed.*

#### B. Comprehensive view

- The boards and key executives of controlling and controlled entities within a group should have a comprehensive view of the business, operations and overall risks of the group and of the major entities within it, and promote a strong culture of compliance across the group.
- The boards and key executives of controlling and controlled entities within a group should have an understanding of any contagion risks within the group so that appropriate mitigation measures can be adopted.

#### C. Governance system

- A coherent, well-functioning and transparent governance system should be established within the group to ensure sound governance practices, with clear lines of responsibility and accountability across the group consistent with applicable legal requirements.
- This governance system should recognise the responsibility of the board of any insurer within a group to exercise independent decision-making and ensure the soundness and performance of the insurer. It should ensure that intragroup arrangements and transactions are carried out in a fair and transparent manner.
- The control functions of the controlling entity in the group should appropriately consider a group-wide perspective in their activities and support, as appropriate and as may be requested, the control functions within controlled entities.
- The essential components of the control functions of an insurer within a group should be retained, permitting independent oversight of the insurer’s operations and the identification and mitigation of contagion risks.

#### D. Communication

- There should be adequate group-wide flows of information to ensure that transparency and a comprehensive view can be brought to group arrangements, operations and risks, and that the risks related to group structures can be identified and mitigated.

#### IV. STAKEHOLDER PROTECTION

*The governance framework for insurers should ensure an appropriate protection of the interests and rights of stakeholders (including policyholders, employees, creditors, supervisors and consumers) through proper disclosure and market conduct, effective governance and redress mechanisms, and respect for the rights and expectations of shareholders (or member-policyholders) and participating policyholders<sup>3</sup>.*

##### A. Mutuals

###### 1. Participation and voting

- Member-policyholders should have the opportunity to participate actively in the governance of the mutual insurer.
- Member-policyholders or their representatives should have the opportunity to participate effectively and vote in general meetings and be informed of the rules, including voting procedures, that govern these meetings.
- The election process for any representatives of member-policyholders should be fair and transparent. Adequate information should be provided on candidates for election.
- Members should be able to waive their interests in the mutual insurer by ending their insurance contract, subject to the terms and conditions of that contract.

*Member-policyholders (or their representatives) should be furnished with sufficient and timely information on the date, location and agenda of general meetings and on the issues to be decided at the meeting.*

*Member-policyholders (or their representatives) should be given the opportunity to pose questions to the board.*

*All member-policyholders should have an opportunity to place items on the agenda at general meetings, subject to reasonable limitations and thresholds.*

*Member-policyholders (or their representatives) should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia.*

*Member-policyholders should be appropriately informed of material decisions reached at the general meetings.*

*Mutual insurers may seek to promote appropriate balance and diversity in the representatives elected by member-policyholders (e.g., in terms of class of insurance, occupation, age, region, gender, etc).*

*Mutual insurers in which representatives of member-policyholders are elected should consider efficient ways to learn the views of policyholders.*

<sup>3</sup>

In the case of insurers taking a corporate form, reference should be made to Principles II and III of the *OECD Principles of Corporate Governance* dedicated, respectively, to the rights of shareholders and key ownership functions, and the equitable treatment of shareholders.

a. Election of board

- Member-policyholders or their representatives should elect the members of the board of directors.

b. Fundamental changes

- Member-policyholders or their representatives should be sufficiently informed of and make decisions on fundamental changes, such as: (i) amendments to the statutes (e.g., demutualisation, re-organisation by creating a mutual holding entity); (ii) authorisation to issue participating securities or issue bonds or subordinated instruments if this decision has a material impact on member-policyholders; (iii) the transfer of all or part of the policy portfolio.

2. Distribution of surplus

- The board or member-policyholders or their representatives should make decisions on proposals on rebates, supplementary contributions and distribution of surplus earnings.

3. Information and disclosure

- Member-policyholders should receive relevant, sufficient and reliable information on the insurer on a timely and regular basis.

*Member-policyholders should have free access to the mutual's annual report.*

**B. Participating policyholders**

1. Governance

- The board should respect the rights of participating policyholders and give due regard to their interests in its decision-making.
- Participating policyholders should be able to exercise any governance rights attached to their contract effectively and receive the information necessary to exercise such rights.

2. Dividend policy

- The board should establish a dividend policy that explains the decision-making process and principles in relation to the allocation of the participating policyholder surplus.

3. Fair and equitable allocation

- The allocation of the surplus should be done fairly and equitably with due consideration to all participating policyholders and the financial risks borne by the insurer in providing any guarantees to participating policyholder policies.

#### 4. Disclosure

- Participating policyholders should receive relevant, sufficient and reliable information in connection with their participation rights on a timely and regular basis.

*Participating policyholders should have free access to the insurer's annual report.*

### C. Transparency and disclosure

- Insurers should accurately and clearly disclose relevant information on a timely basis in order to give stakeholders (particularly shareholders (or member-policyholders) and policyholders) a proper view of their strategy and objectives, business activities, governance, ownership structure, compensation, performance and financial position, and facilitate an understanding of the risks to which they are exposed.
- Channels for disclosure should provide for equal, timely and cost-efficient access to relevant information by users.

*The main elements of disclosure should include:*

- *Strategic objectives, business lines and major plans of action as well as public policy commitments (if any).*
- *Financial and operating results, financial condition and solvency position, risk profile, main risk management actions, current and foreseeable risk factors, and related analysis and discussion*
- *Governance structures and policies, including: the allocation of oversight and administrative responsibilities between the board and management; selection of board members and performance evaluation process; codes of conduct; conflicts of interest; the mandate, composition and working procedures of the board and its committees; the risk management and internal control framework; and the authority and organisation of control functions*
- *Organisational structure, including general organisational chart, business lines and management committees*
- *Board members, their expertise, qualifications, employment history, other directorships held, whether they are regarded as independent and related criteria for determining independence*
- *Key executives and their background and expertise*
- *The different roles and responsibilities of the CEO and/or Chair and, where a single person combines both roles, the rationale for this arrangement.*
- *Compensation policies and arrangements for board members, key executives and employees (including the mechanisms for ensuring alignment with long-term interests), the governance process used to determine compensation, and compensation outcomes*

- *Major share ownership structure and voting rights (if relevant) and any participation of such ownership interests in the board or key executive positions*
- *Group structures (including (i) upstream ownership and voting rights; (ii) subsidiaries and ownership stakes and voting rights retained by the insurer, including through other subsidiaries; and (iii) affiliated companies and ownership stakes and voting rights held by parties related to the insurer) and group relations and organisation, including the nature and objectives of the group and the extent to which group policies apply to the insurer*
- *Material related party transactions (including intra-group transactions)*

#### **D. Market conduct and financial education**

##### 1. Know customer

- Insurers should assess the level of prospective clients' understanding of insurance products and risks. This assessment should apply in particular to contracts that are complex, involve commitments that are long-term or represent a substantial proportion of current and future income, or involve an important transfer of risks to policyholders.
- Where appropriate in light of the nature and complexity of the contract, insurers should seek to understand the needs, risk tolerance and risk capacities of their customers.

##### 2. Fair treatment

- Insurers should treat their customers and policyholders fairly and follow proper standards of market conduct in all stages of an insurance contract.

##### 3. Tailored disclosures

- Insurers should provide customers and policyholder with appropriate, relevant and specific information relating to insurance products and contracts, including coverage, benefits, obligations, charges and other matters linked to the policies.

#### **E. Redress**

- Insurers should establish fair, efficient and transparent complaint-handling and resolution policies and procedures to resolve disputes and, absent their resolution, to identify alternative avenues of redress for policyholders.
- Policyholders should have access to statutory redress mechanisms to settle disputes with insurers, at a minimum through the courts or the regulatory/supervisory authority.