



BETTER POLICIES FOR BETTER LIVES

OECD Guidelines on Insurer Governance

*OECD-SVS Seminar on Risk-based Capital Regulation and Corporate
Governance in the Insurance Sector (13 December 2011, Santiago, Chile)*

Background

- Establishment of OECD Guidelines in 2005
- Objective was to enhance policyholder protection
 - Policyholders ultimately depend on good governance for the safeguarding of assets and payment of claims
- Build on general corporate governance principles and address specificities of the insurance sector
 - Complement OECD Principles of Corporate Governance (one of 12 key FSB standards)
- Directed at policymakers, regulators, the insurance industry, and stakeholders
 - Expected that the Guidelines would be taken into account when establishing insurer governance standards and policies

OECD review

- Review initiated in 2008
 - Ensure continued relevance of Guidelines, given developments in insurer governance and regulation
- Joint work on governance with the IAIS
 - Survey of insurer governance, special roundtable, and report published with the World Bank (2008-09)
 - IAIS-OECD Issues Paper (July 2009)
- Assessment of OECD Guidelines in 2009-10
 - Based on IAIS-OECD work and evolving guidance
 - Crisis reports (OECD, Senior Supervisors Group), BCBS, Solvency II
 - Proposals for revision: public consultation in fall 2010

Updated Guidelines

- Revised Guidelines issued in May 2011
 - Raising the bar for insurer corporate governance
 - Comprehensive set of principles that recognise the centrality of governance for the soundness, integrity, and good conduct of insurers
 - Reflection of good practices and regulatory expectations regarding the governance of insurers and other financial institutions
 - Regulation a key driver for improved governance practices
 - Lessons from the financial crisis
 - E.g., fitness and propriety, risk management, group structures, linkage of governance with market conduct

Structure and content

I. GOVERNANCE STRUCTURE

- Board of directors
- Key executives
- Board structures
- External auditor

II. INTERNAL GOVERNANCE MECHANISMS

- Risk management and internal control system
- Control functions
- Compensation
- Management structures
- Communication and reporting
- Whistleblowing

III. GROUPS AND CONGLOMERATES

- Transparency and knowledge of structure
- Comprehensive view
- Governance system
- Communication

IV. STAKEHOLDER PROTECTION

- Mutuals
- Participating policyholders
- Transparency and disclosure
- Market conduct and financial education

Key messages / elements

- **Governance structure**
 - Expected prudent approach to business and financial strategies
 - Expected to have a high level of governance, particularly as managers of risk and key role of reputation (firm, industry)
 - Due consideration to the interests of policyholders
 - Important responsibilities for the board of directors
 - Values, culture, and management of conflicts of interest
 - Overall strategy, objectives, and major plans of actions
 - Risk management and internal control framework, oversight of control functions, and compensation arrangements
 - Assessment of financial condition, risk profile, and capital position, and review and approval of financial disclosures
 - Selection and oversight of management

Key messages / elements

- Importance of key executives in governance
 - Nexus between the board and operations of insurer
 - Key roles and responsibilities within an insurer
- A high level of financial expertise
 - Includes ongoing training and development
- Board structures and independence
 - Committee structures to improve quality of decision-making
 - At a minimum, an audit committee
 - Majority non-executive and, where possible, full independence where there is a potential conflict of interest
 - E.g. related party transactions, financial reporting, nomination of board members, selection of key executives, appointment/dismissal of auditor or actuary, major outsourcing arrangements, compensation

Key messages / elements

- Internal governance mechanisms
 - A well developed risk culture and risk management and internal control systems
 - Effective and independent control functions
 - Implement or ensure adherence to board policies on governance, risk management, internal controls, financial reporting, and compliance, and recommend improvements
 - Linkage with board of directors and relevant committee(s)
 - Integrated firm-wide information and reporting systems
 - Importance of management systems and structures
 - Sound compensation arrangements

Key messages / elements

- **Groups and conglomerates**
 - Transparency of structures and comprehensive view of business, operations, and risks of group/entities
 - Understanding of contagion risks
 - Effective group governance system
 - Independence of decision-making of an insurer within group
- **Policyholder protection**
 - Policies and procedures to ensure proper treatment of customers and policyholders
 - Transparency and disclosure

For further information

- OECD Guidelines on Insurer Governance
www.oecd.org/daf/insurance/governance

ANNEX

For information only

Recent OECD activities

- Insurance market statistics and surveillance
 - Enhanced and more global statistical framework
 - *Global Insurance Market Trends* monitoring report (2011)
- Contribution of insurance to growth and stability
 - Series of roundtables completed (2010, 2011)
 - Analytical report to be prepared in 2012
- Financial management of catastrophic risks
 - High-level seminar on earthquake risks held in association with Chile (June 2011)
 - Initiative to assess need for international work on quantification of CAT losses and risks
- Policyholder protection schemes
 - Recent completion of comparative report
- Annuities and payout phase
 - Policy options paper elaborated; further work to be conducted in 2012
- Possible future work on solvency (2013-14)
 - Committee currently elaborating work programme; if solvency issues pursued, objectives/modalities to be determined, including coordination with other international bodies

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See also: www.oecd.org/insurance