



IAIS

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Established in 1994, the IAIS is the international standard setting body responsible for developing principles, standards and other supporting material for the supervision of the insurance sector and assisting in their implementation. The IAIS also provides a forum for Members to share their experiences and understanding of insurance supervision and insurance markets. In addition to active participation of its Members, the IAIS benefits from input in select IAIS activities from Observers representing international institutions, professional associations and insurance and reinsurance companies, as well as consultants and other professionals.

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Application Papers provide additional material related to one or more ICPs, ComFrame or G-SII policy measures, including actual examples or case studies that help practical application of supervisory material. Application Papers could be provided in circumstances where the practical application of principles and standards may vary or where their interpretation and implementation may pose challenges. Application Papers can provide further advice, illustrations, recommendations or examples of good practice to supervisors on how supervisory material may be implemented.

This paper was prepared by the Governance Working Group in consultation with IAIS Members and stakeholders.

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1. Introduction

1.1 Objectives of the Application Paper

1. This Application Paper aims to provide good supervisory practices and examples to address challenges specific to the governance of insurance groups. The purpose of the Application Paper is also to create a common understanding amongst supervisors on how to assess or evaluate the governance frameworks of insurance groups¹. It also provides material for the practical application of existing principles, standards and guidance on group governance; however, it does not set new standards.
2. The recommendations described in this Paper are applicable across supervisory approaches amongst jurisdictions as well as across the spectrum of governance structures. This Application Paper is relevant for all groups, but is particularly useful for the supervisors of internationally active insurance groups, as they usually have more complex structures and require heightened coordination between the group-wide and other involved supervisors.
3. As groups pose specific challenges to supervision, this Application Paper aims to contribute to the effective supervision of group governance by providing guidance on how supervisors can deal with these challenges.
4. This Application Paper aims to provide good practices related to group governance relevant to:
 - the supervision of the corporate governance framework, Board composition and the allocation of management responsibilities between Board at the head of the group and Boards at the level of the insurance legal entities (ICP 7);
 - the supervision of the risk management system and the reporting lines between Control Functions within the insurance group (ICP 8);
 - the allocation of responsibilities between the group-wide supervisor and other involved supervisors (ICP 23); and
 - the cooperation and coordination between involved supervisors with regard to groups (ICP 25).

1.2 Inputs for this Paper

5. This Application Paper relies on the main conclusions of the October 2014 IAIS Issues Paper on Group Corporate Governance, Impact on Control Functions (Issues Paper) and aims to provide supervisory responses and best supervisory practices for the five main areas where insurance groups face challenges as identified in the Issues Paper:
 - setting objectives and strategies;
 - allocation of oversight and management responsibilities;
 - policies and processes;
 - risk management and compliance; and
 - Control Functions.
6. The Issues Paper identified two approaches to group governance structure – more centralised and more decentralised – explaining that both approaches pose challenges but can result in effective governance. This Application Paper also distinguishes between more centralised and more decentralised governance models where appropriate and highlights specific supervisory practices that are appropriate to each approach. The approach of most insurance groups falls somewhere between the two extremes of more centralised and more decentralised; however,

¹ An insurance group may include multiple branch operations, which could give rise to the governance issues discussed in this paper. For details regarding supervision of branch operations please refer to the IAIS Issues Paper on Supervision of Cross-Border Operations through Branches (October 2013).

while the two poles are highlighted in this paper, the whole spectrum of group governance approaches is covered.

7. Lastly, this Application Paper draws upon the results of a survey of IAIS members launched in March 2016, to which 28 jurisdictions responded with descriptions of supervisory practices on group governance.

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2. Glossary

8. Generally, terms used in this Paper are defined terms in the IAIS Glossary. For convenience some of those terms are included here as well as other more general terms defined for the purposes of this paper:
- a) "Board" means the Board of Directors of any entity within the group, a body of elected or appointed individuals ultimately responsible for the governance and oversight of the insurer;²
 - b) "Control Functions" mean those functions that have a responsibility distinct from management to provide objective assessment, reporting and/or assurance. This includes the risk management, compliance, actuarial and internal audit functions;³
 - c) "Governance" means "Corporate governance," a set of relationships between an insurer's Board, Senior Management, customers and other stakeholders; and a structure through which the objectives of the insurer are set, and the means of attaining those objectives and monitoring performance are determined);⁴
 - d) "Group" means "insurance group";
 - e) "Group level" means that the roles and key players of the group are organised somewhere within the group. The term 'group level' does not necessarily mean the insurance legal entity at the level of the head of the group;
 - f) "Group-wide governance" means the governance of the head of the group and the group-wide application of the group governance framework to all material activities and entities of the group;⁵
 - g) "Group-wide supervisor" means the supervisor(s) responsible for promoting effective and coordinated supervision of an insurance group including coordinating the input of insurance legal entity supervisors in undertaking the supervision of an insurance group on a group-wide basis, as a supplement to insurance legal entity supervision;⁶
 - h) "Involved supervisors" means the supervisors engaged in the supervision of an insurance group. Depending on the circumstances of the particular insurance group and the jurisdictions in which it operates, it could include all supervisors engaged in the supervision of entities within the insurance group⁷.
 - i) "Key Persons In Controls Functions" means persons responsible for heading Control Functions;⁸
 - j) "Centralised or decentralised approach" means the type of governance structure a group uses (e.g., a more centralised or a more decentralised model); and
 - k) "Senior Management" means the individuals or body responsible for managing the business on a day-to-day basis in accordance with strategies, policies and procedures set out by the Board.⁹

² See IAIS Glossary and ICP 7, Introductory Guidance 7.0.5 and 7.0.6.

³ See IAIS Glossary.

⁴ See IAIS Glossary.

⁵ Joint Forum Principles for the supervision of financial conglomerates: Explanatory comment 10.3.

⁶ See IAIS Glossary.

⁷ See IAIS Glossary.

⁸ See IAIS Glossary.

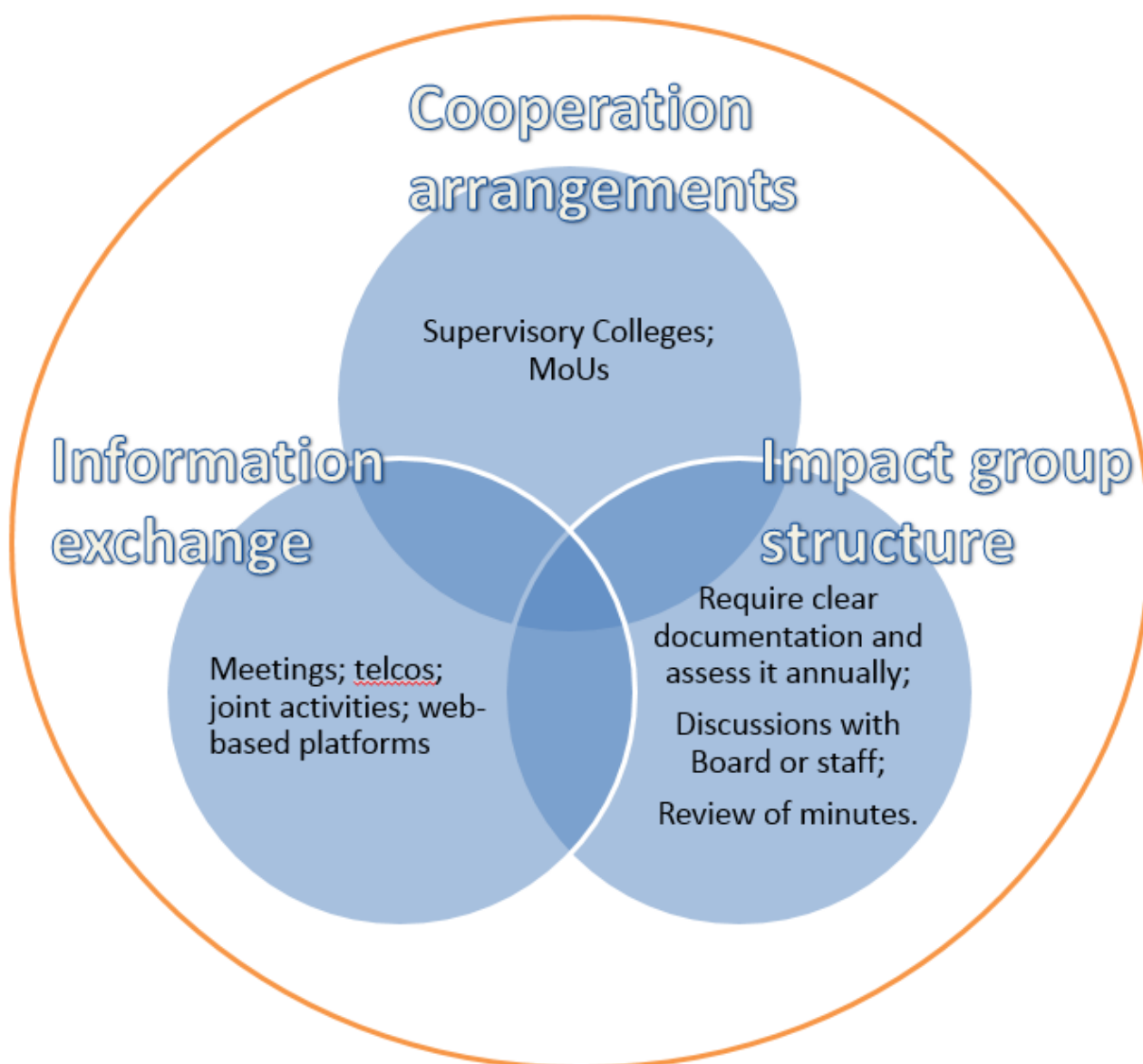
⁹ See IAIS Glossary.

3. Supervision of Insurance Group Governance

9. Effective corporate governance at the group and insurance legal entity level is essential for all insurers, and may help internationally active insurance groups to mitigate the associated risks of carrying on businesses in complex conglomerates or group structures.
10. Groups organise themselves in different ways, including through insurance legal entities or along geographic and/or business lines that cut across insurance legal entity boundaries. The Board of the head of the group has the responsibility to organise the group in a way that is best suited to meet its overall objectives.
11. A group adopts the corporate governance structure which it believes will most effectively support and enhance its ability to manage the business of the group soundly and prudently. As discussed in the Issues Paper, the extent to which the group adopts a more centralised or more decentralised approach will affect its corporate governance structure. This determines the:
 - degree of authority or autonomy given to the group level and to different entities within the group to set the objectives and strategy (section 3.2), policies and processes (section 3.4) and organise the risk management and internal controls (section 3.5);
 - allocation of responsibilities and accountabilities of Senior Management, Board Members and Key Persons in Control Functions and significant owners within the group (section 3.4); and
 - the Control Functions at different levels of the group, how Control Functions at different levels of the group interact with each other and to the group as a whole (section 3.6).
12. It is a good practice for the group-wide supervisor to verify that the head of the group has established, implemented and operates a governance framework appropriate to the business and risks of the group and its entities. To carry out its supervisory responsibilities effectively, the group-wide supervisor should cooperate and coordinate with other involved supervisors. As supervisory cooperation and coordination is a good practice that affects all facets of group governance, it is addressed as an initial matter below.
13. At the beginning of each sub-section, a picture is included to illustrate the main elements of the topic and the tools which supervisors should use to assess these elements (for sub-section 3.1. and 3.6) or the factors for each element which the supervisor should assess (for sub-section 3.2. - 3.7).

3.1 Supervisory coordination and cooperation

Main elements and tools for each element



3.1.1 Coordination arrangements

14. In order to facilitate the comprehensive oversight of insurance legal entities and on a group-wide basis, supervisors should take steps to put in place adequate coordination arrangements on cross-border issues¹⁰.
15. Whether a group has a more centralised or more decentralised governance approach, cooperation and coordination amongst supervisors is essential to understanding and assessing the inherent risks pertaining to interrelationships, interconnections and interdependencies between the different entities of the group. In a more decentralised group, other involved supervisors can provide the group-wide supervisor with important information

¹⁰ ICP 25.1.

about governance at the insurance legal entity level. In a more centralised group, it is good practice for the group-wide supervisor to keep the other involved supervisors informed of governance concerns. In either case, cooperation and coordination between the involved supervisors helps identify whether the group and all insurance legal entities within the group are meeting governance requirements. In addition, supervisory cooperation helps ensure that groups receive consistent supervisory messages from all involved supervisors.

16. Various mechanisms exist to foster cooperation between supervisors, promote communication and information exchange, and facilitate enhanced coordination of group-wide supervision. However, these mechanisms depend on the willingness of supervisors to engage with them. Supervisors should work together to arrange adequate cooperation and coordination at all levels of the group as appropriate¹¹. Supervisors may also need to work with other relevant authorities (such as law enforcement personnel or other sectoral supervisors).
17. Coordination arrangements, such as supervisory colleges, are tools that can be used to enhance cross-border cooperation and coordination (see IAIS Application Paper on Supervisory Colleges). Coordination arrangements are informed by the nature, scale and complexity of the group and the number and role of involved supervisors, and are established and detailed through unilateral, bilateral or multilateral agreements, such as a memorandum of understanding (MoU). It is important that a strict confidentiality regime exists among all supervisors involved in coordination arrangements and applies to all forms of communication (see ICP 3 Information Sharing and Confidentiality Requirements).

3.1.2 Information exchange

18. Involved supervisors can use a variety of methods to share information about the group. According to the survey responses, mechanisms that are used to ensure effective communication with other involved supervisors when their authority is the group-wide supervisor include supervisory colleges, MoUs, and meetings on an *ad hoc* or regular basis. Involved supervisors can supplement formal mechanisms with informal meetings, teleconferences and secure web-based communication platforms. Such information-sharing methods can also be used by supervisors to share significant events that may affect the group.
19. Where a governance issue involves a particular insurance legal entity within the group, the group-wide supervisor may decide to have a bilateral discussion only with the supervisor of a particular insurance legal entity rather than all of the other involved supervisors. Similarly, it is good practice to facilitate meetings that include the Board and/or Senior Management of both the group and the relevant insurance legal entity within the group, as well as the group-wide supervisor and the relevant involved supervisor.
20. To facilitate ad-hoc sharing of information and opinions it is important to build trust and relationships between involved supervisors. It is a good practice for involved supervisors to aim at building relationships and trust by engaging in joint activities, such as secondments between supervisors.

3.1.3 Impact of group structure

21. Whether an insurance group is more centralised or more decentralised will affect the division of roles between involved supervisors. For instance, in a more centralised group the group-

¹¹ See paragraph 62 of the Issue Paper.

wide supervisor will be best placed to have an overview of the group's objectives and strategies (as these will be centrally set) and should ensure that these are communicated to other involved supervisors, whether through supervisory colleges or other means of coordination arrangements. In more decentralised group structures it is likely that other involved supervisors will be better placed to assess objectives and strategies as these will largely be set at lower levels within the group. However, in such cases the group-wide supervisor will need to assess that the objectives and strategies are consistent with any overall group requirements.

22. Involved supervisors may find that the potential issues arising from group structures also impact on the relationship between supervisors of different parts of the group (for example over the amount of capital held at different levels within the group). Where such issues arise, these should, where appropriate, be resolved for example at college meetings or through bilateral discussions.
23. Certain complex group structures may create risks and can make it difficult for both management and supervisors to have a clear view of the group structure and associated risks, thus hindering effective supervision. For example, the use of multiple holding companies located in different jurisdictions, may make it difficult for involved supervisors to organise appropriate group supervision.
24. Insurance group structures should be sufficiently documented and transparent to reduce the likelihood that gaps or duplication in regulatory oversight between jurisdictions do not occur and so enable effective group-wide supervision. It is a good practice for the group-wide supervisor to take into account the legal and management structure of the group in evaluating its governance framework¹². It is good practice for groups to document and make publicly available the group structure, updating this information when necessary. The group-wide supervisor and other involved supervisors should review this document at least annually. The review of this document, as well as other interactions with the group, such as meetings with the Board of the head of the group and insurance legal entities within the group, should help involved supervisors to assess the risks that might arise from the group structure.
25. It is considered as a good practice for the group-wide supervisor to either approve or be notified of any material acquisitions or disposals of entities or mergers or restructuring within the group. The other involved supervisors should either approve or be notified of any direct or indirect change in the owners of insurance legal entities under their supervision. Such notifications should be made by the relevant entity to its supervisor. The group-wide supervisor should also make other involved supervisors aware of relevant changes and that these are discussed in supervisory colleges where appropriate. To support effective supervision, the group-wide supervisor needs to define clear materiality or threshold levels to obtain consistent and timely information, if not otherwise set by the jurisdiction.
26. Involved supervisors should consider issues like actual and potential conflicts of interest between different legal entities within the group (for example over capital movement and dividend levels) or dependencies of different entities within the group on each other (for example through shared services or financial guarantees). Such conflicts and dependencies may be between insurance legal entities or between insurance legal entities and other legal entities within the group. It is a good supervisory practice to identify and assess the effectiveness of the mechanisms in place within the group to resolve such issues. In a more centralised group, these mechanisms may occur through group level committees, whereas a more decentralised group may place greater reliance on informal co-operation between insurance legal entities and the head of the group. Where a group is reliant on informal co-

¹² See section 2.3 of the Issues Paper for a discussion of the interplay between legal and management structures.

operation mechanisms, more supervisory attention will be necessary to ascertain whether these mechanisms are working effectively. Involved supervisors might assess the effectiveness of such arrangements through discussions with Board members and other staff involved in these arrangements and review of minutes of meetings.

3.2 Objectives and strategies

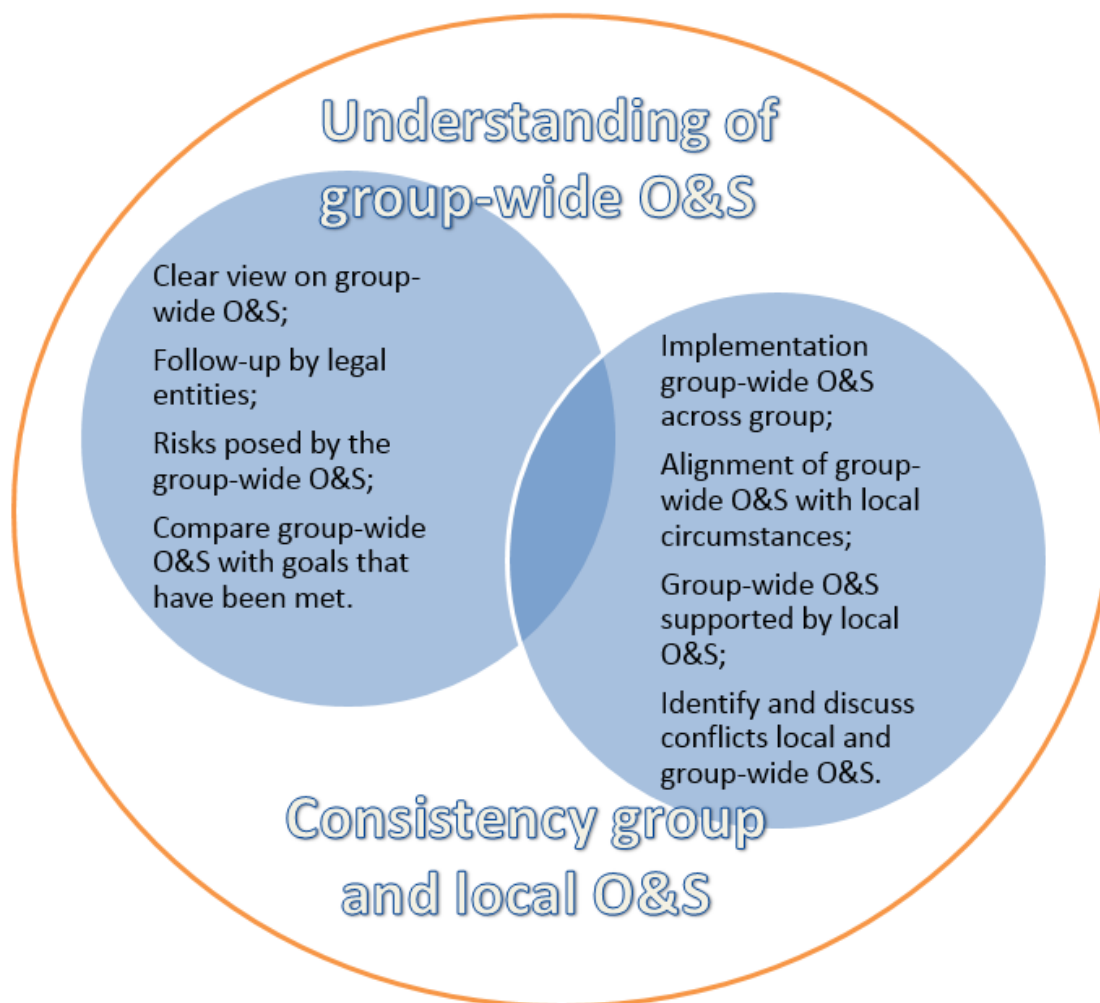
27. The establishment of specific group-wide objectives and strategies for achieving those objectives is a Board responsibility for the head of the group.¹³ These objectives and strategies should be adequately documented and properly communicated to Senior Management and Control Functions at all levels of the group. Among other elements, these objectives and strategies should inform the group risk appetite and risk appetite limits. The Board should review the group's objectives and strategies at least annually and more frequently when required (for example, where the insurer is embarking on a significant new business initiative such as a merger or acquisition or entering new markets).¹⁴

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¹³ ICP 7.2. The Board of an insurance legal entity within a group is responsible for the insurance legal entity's particular objectives and strategies.

¹⁴ ICP 7.2.6.

Main elements and factors to assess each element



3.2.1 Clear understanding of Objectives and Strategies

28. The group-wide supervisor should have a clear view of the group-wide objectives and strategies and how they are followed by the insurance legal entities within the group. Other involved supervisors should have an understanding of the objectives and strategies of the insurance legal entities they supervise, as well as an understanding of overall group-wide objectives and strategies to the extent that this is necessary for their supervision of the insurance legal entities within the group. Further, other involved supervisors should develop a clear understanding of the effect of group-wide objectives and strategies on the insurance legal entities within the group.
29. In particular, it is desirable that the group-wide supervisor and the other involved supervisors have a clear understanding of the risks posed by the group-wide objectives and strategies (e.g., expansion into new product lines or geographic regions).
30. To achieve the above, it is good practice for the group-wide supervisor and the other involved supervisors to review annually clear statements of, respectively, group-wide objectives and strategies and objectives and strategies of insurance legal entities within the group, prepared at appropriate levels within the group. In more centralised groups it is likely that the main statement of strategies and objectives will be prepared centrally with supplementary

statements prepared as necessary by individual insurance legal entities or business units to take account of their specific circumstances. In a more decentralised group it is likely that the main statements will be prepared at insurance legal entity/business unit level with a group statement summarising high-level objectives common across the group. The supervisors should assess these statements to determine the appropriateness and sustainability of the group's objectives and strategies and risks related or arising from such objectives and strategies. This could be done by assessing the proposed objectives and strategies against the group or insurance legal entity's business plan and risk appetite. When there is a consistent disconnect between the objectives and strategies and the results of the group, the group-wide supervisor should assess the process of setting those objectives and strategies.

31. It is good practice to supplement these assessments with continuous monitoring of the group through discussions with the relevant Boards and Senior Management within the group and review of both public documents (e.g., annual reports) and private documents (e.g., business plans and ORSAs). In addition, the group-wide supervisor and other relevant involved supervisors should ask for and assess reviews undertaken by the relevant Board when the group, or an insurance legal entity within the group, embarks on a significant new business initiative.

3.2.2 Consistency between group and insurance legal entity objectives and strategies

32. The Board of the head of the group and the Boards of individual insurance legal entities within the group are responsible for ensuring that group objectives and strategies are clearly set and effectively implemented, and that there is consistency between group objectives and strategies and those of the insurance legal entities within the group.¹⁵
33. Two key challenges in setting group objectives and strategies are (1) balancing the needs and interests of the group as a whole with those of insurance legal entities within the group; and (2) ensuring that entities at all levels in the group are able to comply with relevant jurisdictional requirements. Group objectives and strategies may be set in different ways depending on the manner in which the governance and control of the group is structured. For instance, more decentralised models of governance may result in more general group objectives and strategies than in a more centralised model. Group objectives and strategies may be organised around corporate structures, business lines or geographic locations/divisions within the group.
34. Group-wide supervisor, in cooperation and coordination with other involved supervisors, should review the objectives and strategies in place at group level and at the insurance legal entity level to assess whether these are implemented across the group.
35. It is a good practice for the group-wide supervisor to assess whether the group-wide objectives and strategies are embedded into the group's corporate governance frameworks, and other involved supervisors should assess whether the same is done at the insurance legal entity level within the group. Supervisors should use formal reporting mechanisms, such as annual reviews, for this purpose. It is also good practice for supervisors to require reporting when the group introduces a significant change to its objectives and strategies. Such reporting could be shared between involved supervisors through supervisory college mechanisms if a supervisory college exists.
36. The group-wide supervisor of a more centralised group should bring any concerns about the consistency of objectives and strategies to the Board of the head of the group. One aspect

¹⁵ See particularly ICP 7.0.7 and 7.0.8.

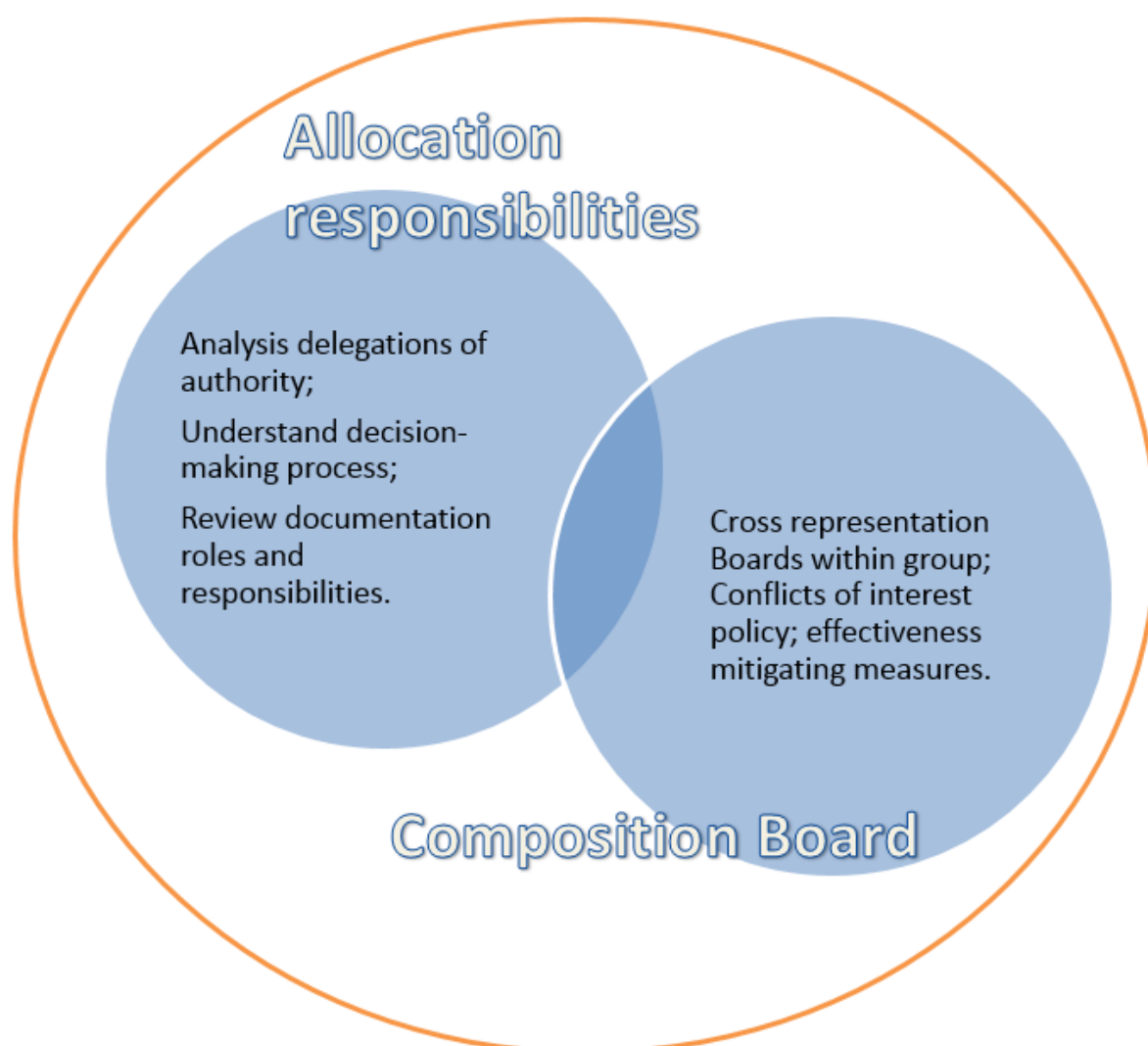
of this is ascertaining whether group objectives and strategies are effectively aligned with the local culture and circumstances of the insurance legal entities within the group. Likewise, the group-wide supervisor of a more decentralised group should assess whether the objectives and strategies of the insurance legal entities within the group sufficiently support the group-wide objectives and strategies. To conduct such assessments, the group-wide supervisor should rely on knowledge and information regarding insurance legal entities of the other involved supervisors.

37. Where a supervisor identifies an issue with consistency between its supervised insurance legal entity's objectives and strategies and the group objectives and strategies, it should raise the issue with the insurance legal entity and, if necessary, inform the group-wide supervisor. In these circumstances it is good practice to facilitate a meeting to resolve such an issue between the Boards and/or Senior Management of the group and the insurance legal entity with the group-wide supervisor and the other relevant involved supervisor.
38. Involved supervisors should use the supervisory college, to the extent one exists, to explore conflicts between group objectives and strategies and local culture and circumstances. Alternatively, the group-wide supervisor can have bilateral or multilateral discussions through formal or informal means with other involved supervisors if a concern regarding local culture or circumstances arises.

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3.3 Allocation of oversight and management responsibilities

Main elements and factors to assess each element



3.3.1 Allocation roles and responsibilities of Board and Senior Management

39. ICP 7.1 provides that the supervisor requires that an insurer's Board: (1) ensures that the roles and responsibilities allocated to the Board, Senior Management and Key Persons in Control Functions so as to promote an appropriate separation of the oversight function from management responsibilities; and (2) provides oversight of the Senior Management.
40. A clear allocation of roles and responsibilities assists the group in objectively holding individuals within the group accountable to the risk appetite set out by the Board of the head of the group as well as the Boards of the insurance legal entities within the group. Thus, formal documentation of roles and responsibilities provides clear communication and accountability in a group. While groups with a more decentralised approach may increase the risk that communication and accountability is not aligned across its entities, it is equally important for groups with a more centralised approach to provide clear lines of authority and effective communication of decisions.

41. It is a good practice for involved supervisors to assess the appropriateness and effectiveness of delegations of authority from the Board of the head of the group to the Senior Management of the group or the Senior Management of individual entities set forth in group policies.
42. The group-wide supervisor should understand the decision-making process of the group, including where in the group decisions are made, who is involved in making decisions, the functional responsibilities of the Board and Senior Management, and how decisions are communicated throughout the group.
43. The group-wide supervisor should work with other involved supervisors to identify and understand (1) Board and Senior Management structures, including committees, and (2) whether responsibilities and roles are allocated in a more centralised or more decentralised manner.
44. In order to achieve this, the group-wide supervisor should review the group's documentation of decision-making and responsibilities and roles for governance of the group as a whole, as well as all insurance legal entities within the group – whether insurance legal entities are inside or outside of the group-wide supervisor's jurisdiction. If the group-wide supervisor is unable to obtain documentation from the head of the group, the group-wide supervisor should obtain the information from the other relevant involved supervisor(s) who have access to such documentation. The group-wide supervisor can use the supervisory college – where one exists – to coordinate with other involved supervisors or coordinate on a bilateral basis.

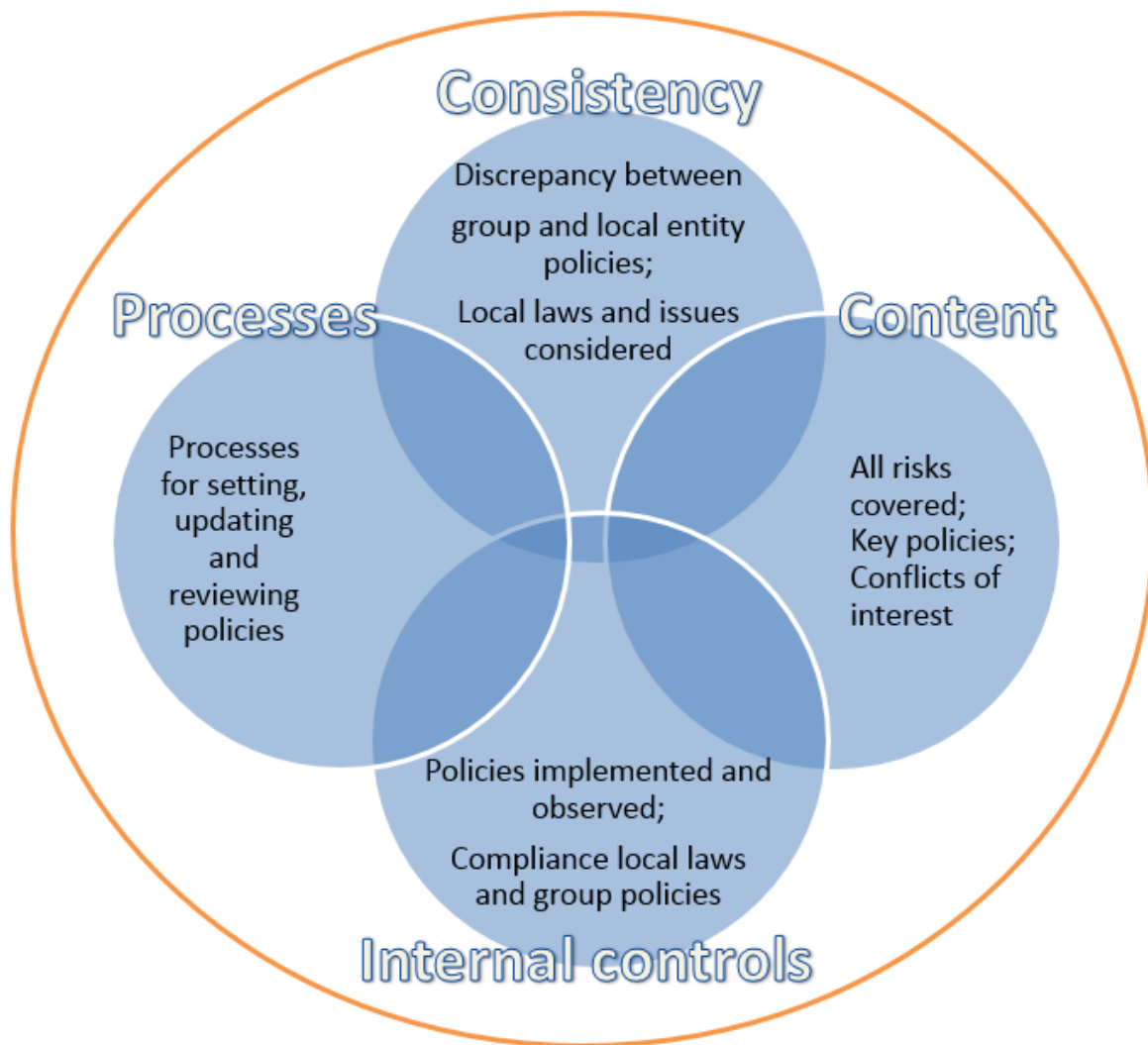
3.3.2 Composition of Board

45. It is important for the group-wide supervisor and the other involved supervisors to understand the composition of the Board of the head of the group and of the insurance legal entities within the group and determine if there are any potential causes of conflicts of interest between the group and the insurance legal entities within the group.
46. The group structure can give rise to potential conflicts of interest between decision makers for the group and the insurance legal entities within the group. Conflicts of interest for decision-makers can also be caused by both internal and external factors. For example, insurers often have cross representation of Board and Senior Management members within the insurance legal entity and group structure to ensure consistency between the group and the insurance legal entities within the group. However, such cross-representation can result in conflicts of interest between the group and the insurance legal entity. The composition of the group's Board(s) and Senior Management can potentially exacerbate or or minimise these risks.
47. It is a good practice for the group-wide supervisor and other involved supervisors to review minutes of the Board meetings of the head of the group and of the insurance legal entities within the group to determine if strategic decisions are aligned between insurance legal entities and the group. Particularly in the case of cross-representation of individuals on the Board of both the head of the group and insurance legal entities within the group, supervisors should encourage insurers to have a sufficient number of independent Board members at the insurance legal entity level as well as group-wide level to promote objectivity. As part of their fiduciary duty to the legal entity that they serve as a director, independent members of Boards should help identify when another Board member may have a conflict. It is good practice for supervisors to speak with these independent directors to gain their perspective.
48. In addition, the supervisor should expect the Board members to assess their roles outside of the group to identify if they have any conflicts of interest caused by external factors, and whether the Board members can allocate sufficient time to carry out their role.

49. The group-wide supervisor should assess the policy on conflicts of interest and whether measures taken to mitigate conflicts are effective. It is good practice to discuss these issues with Senior Management and the Board. As other involved supervisors can obtain information on the entities within their jurisdiction, they should provide this to the group-wide supervisor where appropriate and in accordance with the confidentiality rules of the concerned jurisdiction.

3.4 Policies and processes

Main elements and factors to assess each element



3.4.1 Supervision of policies

50. The supervisor requires an insurer to have appropriately documented policies which describe the processes and procedures to be followed within the insurer, from operational employees to Senior Management and the Board. Notably, policies should address the risk appetite framework, asset-liability management, investment, and underwriting risk at both entity and

group level¹⁶. Misleading or unclear policies can lead to operational and other errors that could potentially threaten the insurer's financial soundness or reputation.

51. Policies are important in the context of a group, as group policies have to describe the allocation of tasks and responsibilities between insurance legal entities and the head of the group. The group-wide supervisor should assess group policies, and may need to review the policies for insurance legal entities within the group. Other involved supervisors only need to review policies for the group and for the insurance legal entities within their jurisdiction. The way in which policies are supervised should vary whether the structure of the group is more centralised or more decentralised. In a more centralised group, supervisors should assess how policies are implemented by insurance legal entities within the group, and verify that those insurance legal entities have enough flexibility to deal with their specific environment, risks and challenges. In a more decentralised group, supervisors should assess how policies are defined at the insurance legal entity level, and verify that policies set effective reporting lines between insurance legal entities and the head of the group, create a common culture across the group, and align practices amongst insurance legal entities within the group.
52. However, according to the survey responses, although group-wide supervisors usually have access to the policies of the head of the group and to the policies of the entities that operate in their jurisdiction,¹⁷ they rarely receive policies from insurance legal entities located in other jurisdictions, either on a regular basis or upon request.
53. When the group-wide supervisor has difficulty in obtaining a policy from an insurance legal entity outside of its jurisdiction, it should coordinate with the other relevant involved supervisors to obtain the policy in accordance with the confidentiality rules of the concerned jurisdiction. Where applicable, supervisory colleges or multilateral meetings can be used to facilitate the exchange of policies between involved supervisors.
54. The group-wide supervisor could also consider requiring the head of the group to regularly review the policies of each insurance legal entity within the group, either by entity or by theme across all entities. The supervisor would then verify that the review is planned or has been done, and that the Board has had access to the findings of the review, and where necessary, adopted an action plan to ensure that all policies are properly implemented across the group.

3.4.2 Setting of policies

55. It is a good practice for supervisors to understand how group policies are set. Group-wide supervisors can assess the process for establishing group policies, and other involved supervisors can review that for insurance legal entities. To do so, supervisors should look at the minutes of the relevant Board meeting at which policies are discussed or adopted. Such minutes provide relevant information on how policies are adopted and can reveal if the Board challenges the processes that establish policies (by, for example, whether Senior Management consulted interested parties in setting those policies). By looking at minutes of the Board meetings, supervisors can assess whether insurance legal entities are involved in the process of setting group policies. In addition, supervisors also can organise meetings with the relevant key functions, at either the group or insurance legal entity level, to understand how policies are set.
56. It is a good practice for the group-wide supervisor to assess whether group policies are regularly updated to adapt to the groups's business environment (such as changes to regulations, macro-economic factors, or risks). The supervisor should encourage the group

¹⁶ ICP 8.1.12

¹⁷ For 88% of the supervisors who respond to the GWG survey in April 2016

to update policies both regularly (for instance, annually) and on an ad hoc basis (as necessitated by external factors).

57. The policies should set out the triggers that result in an update, as well as the processes and procedures that govern the update. It is good practice for group-wide supervisors to review these triggers and procedures and discuss them with the group's Board or Senior Management. The group-wide supervisor should also verify that the group effectively revises its policies after a significant change in its environment.

3.4.3 Consistency of policies

58. While there should be consistency between insurance legal entity and group policies, insurance legal entities within a group also need to define their own policies and processes to face local requirements and challenges. This tension should prompt different supervisory responses for more decentralised groups and more centralised groups.
- In a more decentralised model, the group-wide supervisor and other involved supervisors should pay specific attention to potential discrepancies between group and insurance legal entity policies. Other involved supervisors of insurance legal entities within a group should verify that group policies are duly taken into account in the establishment of local policies. A comparison between the group and local policies could be made, preferably by other involved supervisors, to assess the consistency between insurance legal entity policies and the group ones.
 - In a more centralised model, the group-wide supervisor and other involved supervisors should assess whether that policies of local entities are not a simple repetition of the group policy. Supervisors of insurance legal entities within an insurance group should check that local issues, context and environment are duly taken into account in the policy.
59. It is a good practice for the group-wide supervisor to establish a process to assess the consistency between the policies, such as regular review of policies by theme.
60. Other involved supervisors should establish similar practices to assess that the policies of the insurance legal entities within their jurisdiction are consistent with group policies. Where distinctions exist between the policies of the insurance legal entity and the group, the relevant involved supervisor should assess whether the insurance legal entity's deviations result from local challenges or requirements. In that case, involved supervisors should inform the group-wide supervisor. If the deviation is not due to local challenges or requirements, involved supervisors should ask the group and the insurance legal entity to confirm their respective policies.

3.4.4 Policy content

61. The group-wide supervisor and other involved supervisors should assess whether the group has appropriate policies for all relevant issues. In some instances, certain policies may be required by legislation, like risk management or investment policies¹⁸. In addition to these policies, the group-wide supervisor should verify that the group has prepared appropriate policies addressing the risks it faces. Such policies need not be reported to supervisors on a regular basis¹⁹; rather, they can be obtained by the group-wide supervisor on an ad hoc basis during an on-site inspection or during thematic assessments.
62. Both the group-wide supervisor and the other involved supervisors should assess whether the policies clearly state objectives and the way to achieve them. Written policies are

¹⁸ ICP 8.1.12.

¹⁹ For example for the remuneration policy ICP 7.9.2.

expected to describe governance processes, and the allocation of tasks and reporting lines that permit the group to accomplish its objectives²⁰. In addition, the group-wide supervisor should assess whether: 1) local entities are involved in the processes described by the group policies; and 2) group policies implement effective reporting lines between local entities and the head of the group. This can be determined, for example, by reviewing who signed relevant policies and discussing with them as appropriate.

63. It is a good practice for both the group-wide supervisor and the other involved supervisors group-wide to pay particular attention to certain key policies. By way of example, supervisors should assess whether the group has policies and processes in place to ensure the suitability of the members of the Board, the Senior Management, Key Persons in Control Functions and major risk-taking staff in the group:
- Supervisors should verify that policies identify and set a framework for the management of conflicts of interest (for example if the head of the group nominates one of his Board member as Executive Director of one insurance legal entity within the group). Supervisors should assess the processes established by those policies to manage such conflicts of interest. In a more centralised model, the Board or the Senior Management play a role in the appointment of Key Persons within individual entities. Group and insurance legal entities' policies should state the group's role in the appointment of Senior Management of an individual entity. As other involved supervisors may have the power to reject a nomination, coordination between other involved supervisors and the group-wide supervisor is needed.
 - In a more decentralised model, individual entities will be more independent in appointing Senior Management and Board Members. Regardless, supervisors of those entities should assess whether appointments are in compliance with suitability policies.
64. In assessing the content of the policies, supervisors could use a list identifying both the substantive topics a policy is expected to cover (e.g., the risk management policy should at least cover asset-liability management, investment, underwriting risks²¹, and how insurance legal entity risks are reported up to the head of the group) and the processes that should govern the policy (e.g., how often policies are to be revised). Such a list ensures that different examiners look at similar issues for different groups and insurance legal entities within a jurisdiction.
65. Supervisors at both group-wide and insurance legal entity level should pay attention to how conflicts of interest are addressed within a group's policies and processes. For example, a good supervisory practice is to review policies for how they address intragroup transactions, and then assess whether intragroup transactions are done in a manner consistent with the group's policy. To facilitate this review, the group-wide supervisor could obtain an annual report from auditors on transactions between entities of the same group or entities with common board members and the conditions on which these transactions are concluded.
66. Group-wide supervisors should assess whether the policies and processes of the group foster a common culture across the group. For example, a risk management policy at the group level setting the risk appetite limit or a common compensation policy may help to create a group culture. The group-wide supervisor should seek the input of other involved supervisors, whether in a supervisory college or some other multi- or bilateral basis, in making this assessment.

²⁰ ICP 8.0.4.

²¹ ICP 8.1.12.

3.4.5 Internal controls for policies

67. In addition to having well-established and updated policies, insurers should have internal controls in place to ensure that those policies are observed²². Each policy should also describe who in the group (or insurance legal entity) is responsible for making sure it is actually implemented. According to ICP 8, the compliance function may be responsible for this²³. Furthermore, the compliance function can also have a role in verifying that the group or the insurance legal entities respect the internal policies. The compliance function at the head of the group should check that the group has adopted all policies required by regulation. Likewise, the compliance functions of the insurance legal entities should verify that the insurance legal entities established policies in accordance with the local regulation and the group policies (especially in a more centralised model).
68. To assess how the insurer monitors compliance with its internal policies, supervisors at both group-wide and insurance legal entity level should discuss these policies at least annually with the internal audit function for the group and the insurance legal entities within the group. In doing so, the group-wide supervisor should :
- ask for the group internal audit plan and verify that the group policies are included in this plan;
 - review the group internal audit reports to check for issues related to group policies and to verify that the group internal audit function effectively controls the observance of the group policies.
 - ask for the group compliance plan and report and check that group internal policies are taken into account.

Likewise, other involved supervisors should do the same at the legal entity level.

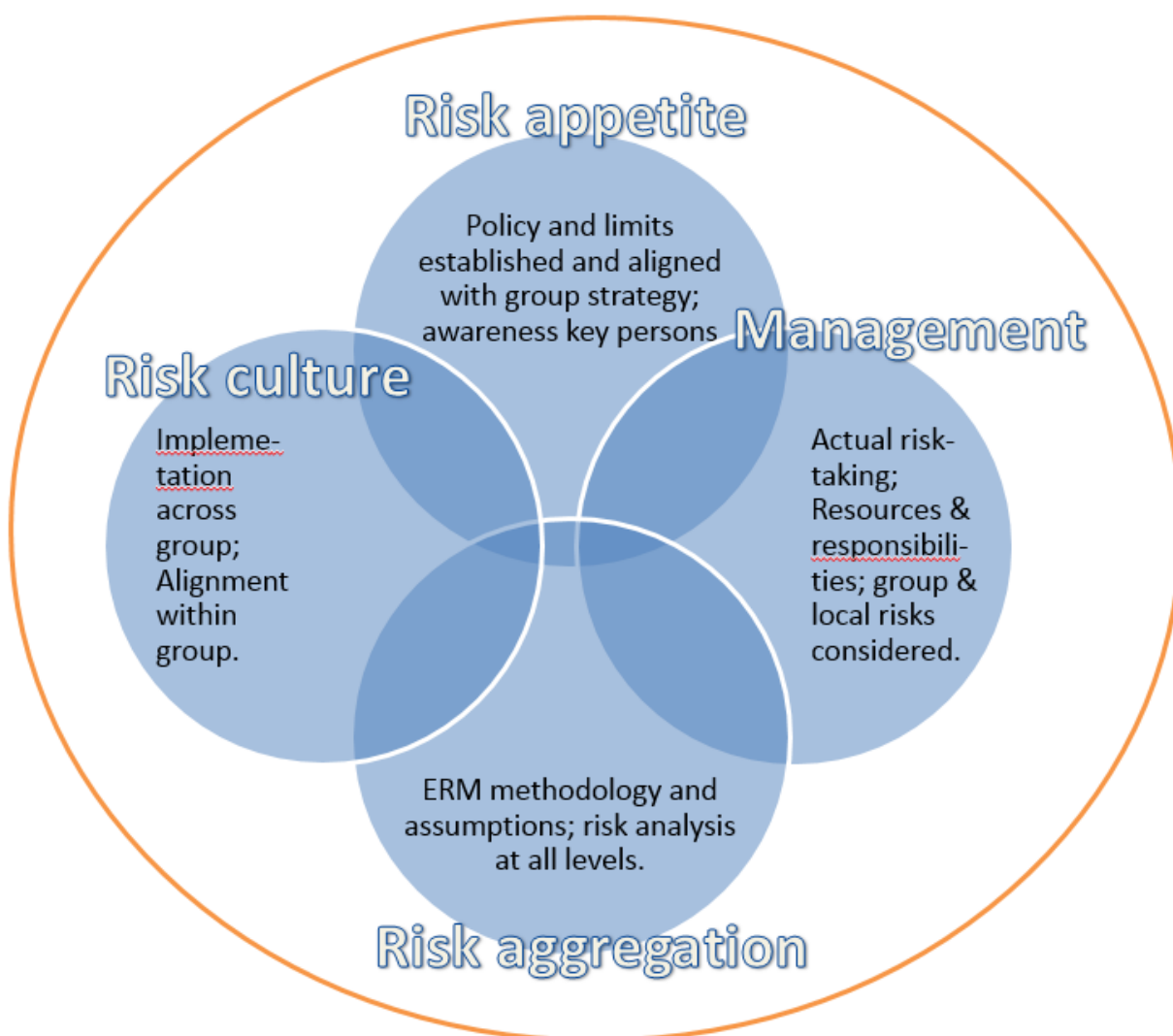
69. Other involved supervisors should report and discuss any significant violation of the group policy to the group-wide supervisor. Likewise, the group-wide supervisor should inform other involved supervisors of any significant problem in respect of group policies.

²² ICP 8.5 and 8.7.7.

²³ ICP 8.5.

3.5 Risk management

Main elements and factors to assess each element



3.5.1 A common risk culture across the group

70. The values and behaviours of the group, as set by the Board and promoted by Senior Management, shape the risk culture across the insurance legal entities within the group, provided that the insurance legal entities understand and utilise that risk culture. For instance, it should naturally arise from that culture that the Key Persons in Control Functions – including risk management function – should be independent, free from undue or inappropriate influence from the business lines and have sufficient stature within the group to effectively

challenge the business lines and maintain its independent review of the group's broader risk management controls, processes and systems.²⁴

71. According to a majority of survey respondents, an effective way to supervise group risk culture for a group-wide supervisor is to assess the necessary documentation of the group explaining how the group is organised, managed and overseen, how the key tasks/activities are distributed and allocated between the group and the insurance legal entities within the group, and how the governance and control of the group is structured
72. It is a good practice for the group-wide supervisor also to assess whether the group's risk culture has been implemented across the group, and the involved supervisors should assess such implementation at the insurance legal entity level. In particular, the group-wide supervisor should assess how Senior Management promote a strong risk culture that takes into account the entirety of the group, including regulated and unregulated entities.²⁵ To do so, it should assess that risk management activities between the head of the group and the different insurance legal entities are coordinated to the extent necessary. The presence (or the absence) of a document to engage and inform employees at all levels and part of the group, such as a code of conduct, may be an effective way to understand and whether risk culture is promoted across the group.
73. For both more centralised and more decentralised groups, the group-wide supervisor should assess whether the risk culture is directed and led by the Board and Senior Management of the head of the group. The Board should promote risk awareness and encourage open communication and debate about risk-taking across the group and its insurance legal entities, including by bringing such discussions to the Board and Senior Management. The supervisor should expect insurers to promote effective communication and information, for example, by:
 - setting clear reporting requirements to report locally identified risks (including compliance risks) in a timely and comprehensive way at the group level;
 - providing for a Chief Risk Officer (CRO) or other person at entity level, who is responsible for regularly reporting the CRO at the group level;
 - providing for, on an on-going basis, the reporting by Control Functions at entity level to Control Functions at the group level in order to make it possible for the head of the group to identify risks emerging at entity level in a timely manner; and
 - assessing the representation of risk officers at the group level at risk committees of entities to contribute to effective communication of the group risk approach to entities.
74. In addition, as underlined in the Issues Paper and confirmed by survey respondents, group-wide supervisor should assess the effective alignment of the group expectations and the local culture and circumstances and communicate its findings to other involved supervisors.

3.5.2 Alignment of risk appetite policy and limits

75. As per survey respondents, it is good practice for the group-wide supervisor to verify that the head of the group has established an appropriate group-wide risk appetite policy approved by the Board, as well as group-wide risk appetite limits.

²⁴ Joint Forum, Principles for the supervision of financial conglomerates, 22, Risk management culture, explanatory comments 22.2, September 2012. The Joint Forum refers to "risk management culture", whereas the IAIS uses the term "risk culture".

²⁵ Joint Forum, Principles for the supervision of financial conglomerates, 22, Risk management culture, explanatory comments 22.1, September 2012.

76. it is a good practice for the group-wide supervisor to assess whether the group's risk appetite policy and risk appetite levels are clearly aligned with the group's business strategy, risk profile and capital plan. Further, the group-wide supervisor should assess the appropriateness of risk appetite limits set at the group level and confirm if a group's risk exposure is appropriately aligned. This may include looking at risks by geographic or business lines, or by specific financial sector. It is good practice for group-wide supervisors to assess whether groups keep the risk appetite limits under review so as to ensure that they remain relevant and take account of the changing dynamics of the group. The group should also reassess its risk appetite regularly with respect to new business opportunities, changes in risk capacity and tolerance, and operating environment.
77. Further, the group-wide supervisor should assess whether the head of the group's Board, Senior Management and Key Persons in Control Functions are aware of, understand, and implement the group's risk appetite policy and risk appetite limits. A good practice is to assess whether both the group and insurance legal entities within the group maintain, monitor and adequately report risk dashboards that distinguish between group risks and local risks. Other involved supervisors should review the dashboards of the insurance legal entities within the group to verify that they adequately include all local risks.

3.5.3 Risk management activities

78. Comprehensive and consistent governance frameworks promote elements such as:
- effective assessment and consistent management of risks across the group;
 - timely reporting to group level to ensure good overview of risks;
 - availability of adequate aggregated information about all risks at the group level;
 - timely reaction to risks at the group and entity level;
 - local circumstances and requirements being taken into account at the group level; and
 - adequate communication of the risk management approach within the group.²⁶
79. It is a good practice for the group-wide supervisor to understand the group's approach to risks. The group-wide supervisor should assess whether the Board of the head of the group is aware of the material risks and issues that might affect both the group as a whole and its insurance legal entities and is adequately supporting the risk management function.
80. The group-wide supervisor should assess the actual risk-taking across the entire group by reviewing documentation provided by the head of the group. For example, the group-wide supervisor should review group-wide strategy through the ORSA or other formal documentation. Where possible, the group-wide supervisor should require access to group internal audit reports as well as those of insurance legal entities within the group, regardless of whether the insurance legal entities within the group are in or out of the group-wide supervisor's jurisdiction. If a group-wide supervisor is denied access to internal audit reports of insurance legal entities within the group, it should coordinate with the other involved supervisors to access those reports.
81. The group-wide supervisor should also assess whether the risk management function establishes clear responsibilities and accountabilities of Key Personnel at the head of the group and at all insurance legal entities.²⁷ Examples of practices insurers may use to promote effective direction and coordination include:

²⁶ IAIS Issues Paper on Approaches to Group Corporate Governance, Impact on control functions, Oct. 2014, para 51 b-g).

²⁷ IAIS Issues Paper on Approaches to Group Corporate Governance, Impact on control functions, Oct. 2014, para 52 a)

- development and implementation of manuals setting out common risk management procedures across the group to promote consistency of risk management;
 - having consistent policies and oversight procedures so that a better overview and quicker identification of risks arising at entity level can be made to address them adequately.
82. It is also good practice to assess whether personnel and management have devoted sufficient time and resources to risk management decisions. Group-wide supervisors also may consider conducting peer reviews to compare time and resources different groups devote to the risk management function.
83. Regarding local specificities, the group-wide supervisor of a more centralised group should verify that the group risk management policy and the risk management function take into account the risks faced by individual entities, notably by checking how policies are applied, and how decisions are taken. Group-wide supervisors should coordinate this assessment with local supervisors. It is a good practice to discuss the outcome of this assessment in the supervisory college.

3.5.4 Risk aggregation and reporting

84. Appropriate risk aggregation supports group-wide risk management.²⁸ Moreover, the risk aggregation should include a clear understanding of assumptions and be robust enough to support a comprehensive assessment of risk.²⁹ The interrelationships and interdependencies between risks, especially in more centralised groups, are of foremost importance.
85. The role of risk aggregation in effective group-wide risk management is to support risk identification and monitoring, which enables the group to understand and explain its risks and the changes in those risks. As such, risk aggregation provides appropriate risk information to the relevant management to steer the business.³⁰
86. It is a good practice for the group-wide supervisors to assess how groups aggregate the risks to which they are exposed in a prudent manner, regardless of whether the group operates in a more centralised or a more decentralised manner. In this context, group-wide supervisors should verify by reviewing the groups ERM³¹ methodology and, where possible, conducting horizontal peer reviews that groups:
- do not make overly ambitious diversification assumptions or imprudent correlation claims, particularly for capital adequacy and solvency purposes; and
 - have adequate processes, resources and systems (including IT) for the purpose of aggregating risks.
87. To assess the methodology and processes the group-wide supervisor should review documents and have in-person meetings to assess a group's risk aggregation. In doing so, the group-wide supervisor should look for a comprehensive methodology and process for identifying and aggregating risks across the group. Examples of relevant documents include ERM documentation, risk appetite statements, ORSAs, and related policies and tools such as heatmaps to assess risk aggregation. In particular, the group-wide supervisor should

²⁸ ICP 8 Risk Management and Internal Controls, Guidance 8.4.4

²⁹ Bank for International Settlements, Basel Committee on Banking Supervision, Joint Forum: Principles for the supervision of financial conglomerates, September 2012.

³⁰ Bank for International Settlements, Basel Committee on Banking Supervision, Joint Forum: Developments in Modelling Risk Aggregation, October, 2010.

³¹ Enterprise Risk Management, for further details please refer to ICP 16.

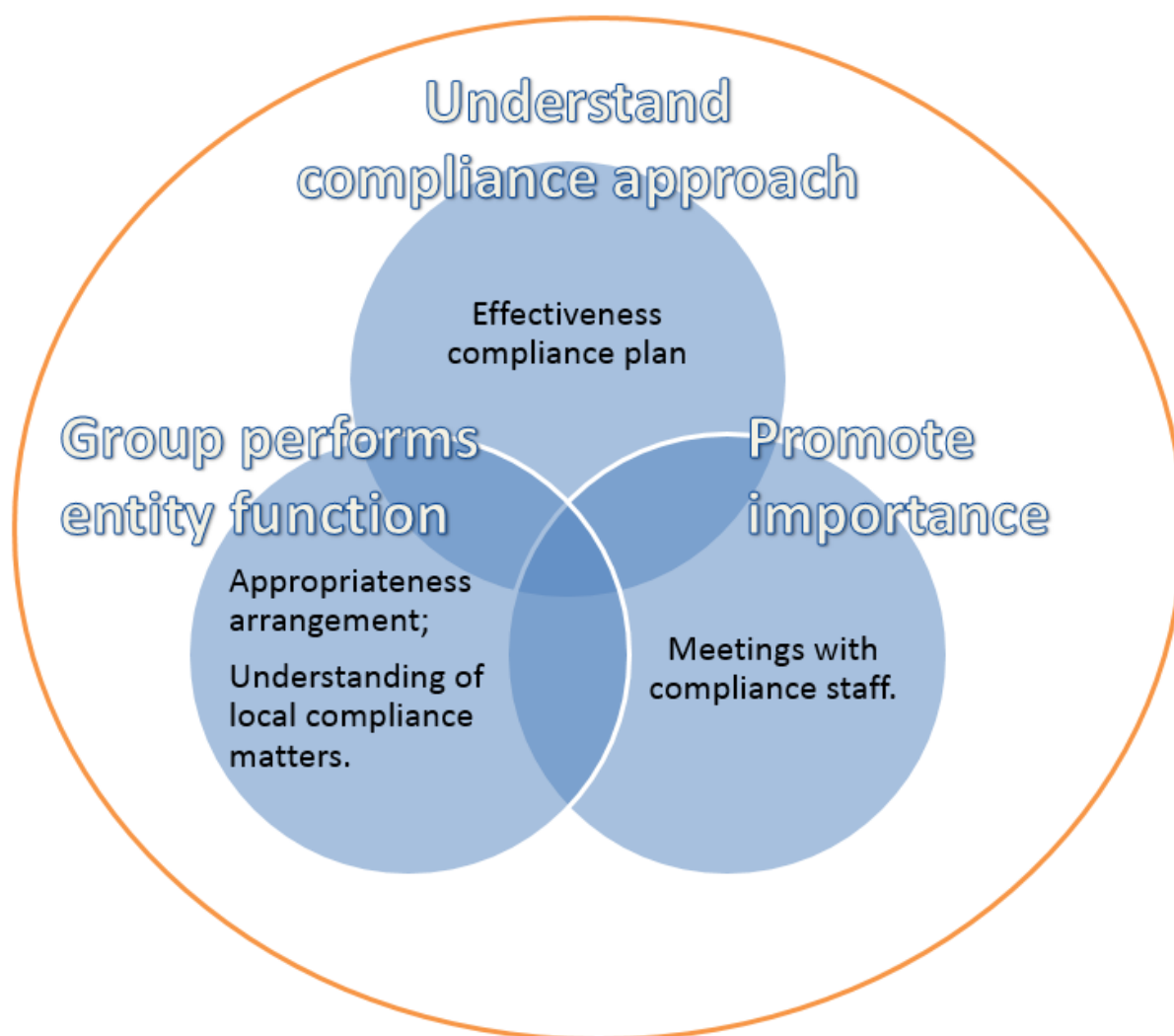
assess whether heatmaps are regularly updated; failure to do so is a red flag for substandard risk management.

88. The group-wide supervisor and other involved supervisors should assess whether risks are analysed at the group level as well as at insurance legal entity level. Moreover risk aggregation should include a clear understanding of assumptions and be robust enough to support a comprehensive assessment of risk.³² The interrelationships and interdependencies between risks, especially in more centralised operating groups, are of foremost importance.
89. The group policy on risk management should to put in place a formal process for local entities to report the risks they have identified which could have an impact on the group as a whole. Additionally, this policy should provide a communication process between the risk management function of the group and the risk management functions of local entities.

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3.6 Compliance

Main elements and factors/tools to assess each element



90. Under ICP 8.5, the supervisor requires the insurer to to have an effective compliance function capable of assisting the insurer to: (1) meet its legal, regulatory and supervisory obligations, and (2) promote and sustain a compliance approach, including through the monitoring of related internal policies.
91. The group should take into account the obligations of its insurance legal entities to comply with both local laws and regulations while also meeting the requirements applicable to the group as a whole. This highlights the importance of having a strong compliance across the group and its entities. A group can promote a common compliance approach and adequate group compliance by ensuring that compliance personnel at the group level are members of compliance oversight committees or their equivalent at the individual entity level.
92. It is a good practice for the group-wide supervisor to understand the group's approach to compliance. Regardless of whether the group has a more centralised or more decentralised model, the group-wide supervisor should obtain the group compliance plan from the head of the insurance group and assess it for effectiveness. In a more centralised model the group-wide supervisor should make the group compliance plan available to other involved supervisors. Other involved supervisors should assess whether the group compliance plan

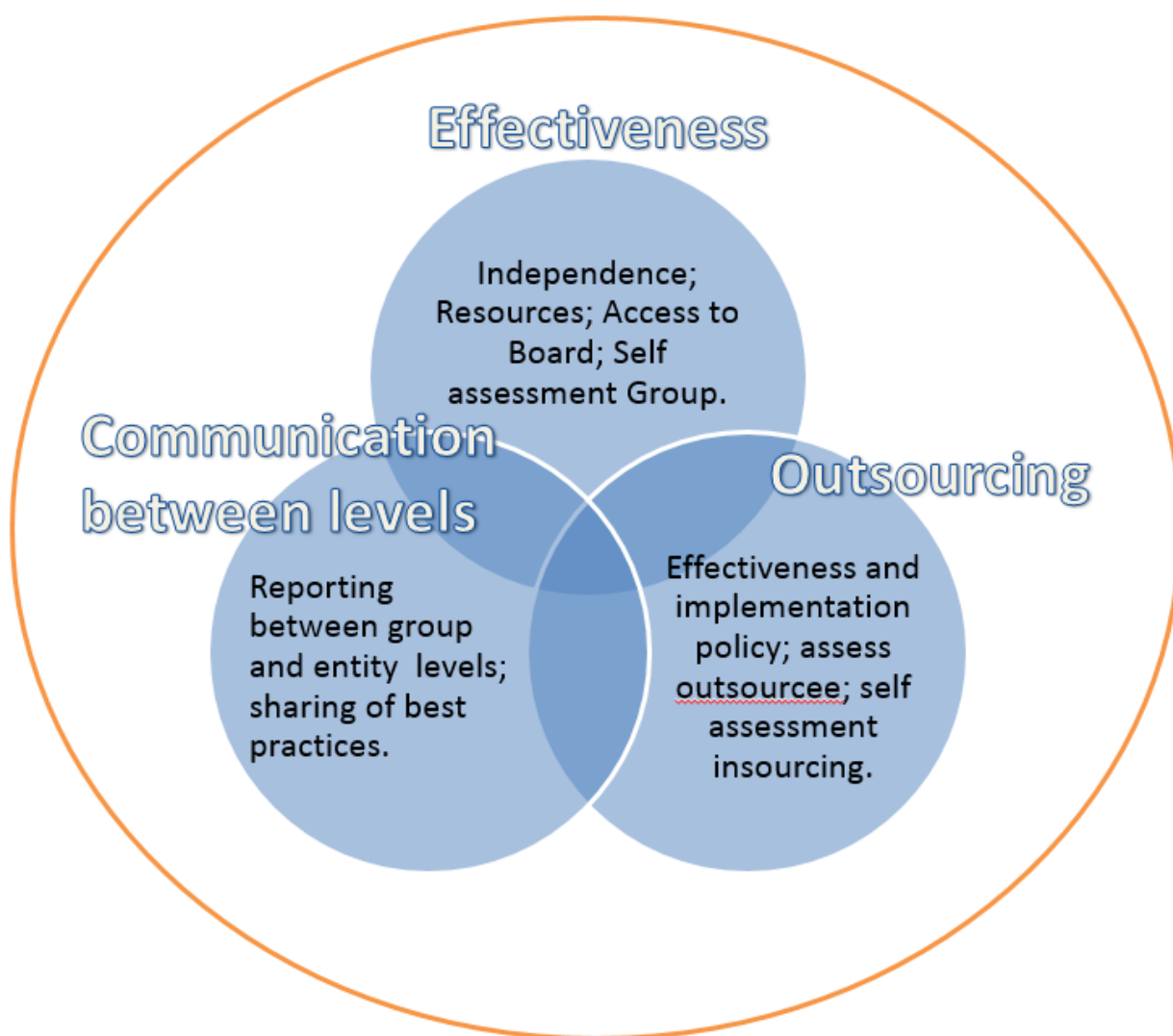
appropriately scopes and covers the compliance risks and matters of the insurer(s) under their purview.

93. In a more centralised model, the compliance function of the insurance legal entities may be performed by the group compliance function. In these cases the involved supervisor should engage the insurance legal entity Board or Board committee on the appropriateness of such an arrangement. Furthermore, the involved supervisor should assess during on-site examinations whether the group compliance function has a proper understanding of the local regulatory compliance matters. If the involved supervisor is uncomfortable with the group compliance function performing the compliance function at an insurance legal entity level, the supervisor should instruct the Board to make alternative arrangements.
94. When the group does not put sufficient emphasis on compliance, it is a good practice for involved supervisors to highlight and communicate to the group and its insurance legal entities the importance of compliance. For example, the group-wide supervisor may have meetings with the group compliance officer and any other relevant compliance personnel at the group to discuss any relevant issues. In addition, it is good practice to allow the compliance function to initiate meetings with the relevant supervisors of its own accord.

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3.7 Control Functions

Main elements and factors to assess each element



3.7.1 Effectiveness of group Control Functions

95. The Issues Paper notes that, irrespective of whether the group is more centralised or more decentralised, a good governance structure includes elements which promote:
- the establishment of group-level Control Functions which are sufficiently robust; and
 - effective communication of group objectives, strategy and policies to Control Functions of the legal entities; and
 - ensuring representation of the head of the group on entity-based risk committees to promote better alignment with group-wide risk management and compliance.³³
- Paragraph 55 of the Issues Paper articulates the main roles and responsibilities of Control Functions at the group and insurance legal entity level, covering areas of authority, direction and coordination, and communication and information.
96. As part of its governance framework, and regardless of whether a more centralised or more decentralised approach is used, groups should have effective group Control Functions. At

³³ IAIS Issues Paper on Approaches to Group Corporate Governance, Impact on control functions, Oct. 2014, para 52 b-e).

the group and insurance legal entity level, the Board has the ultimate responsibility of ensuring that the roles and responsibilities allocated to Key Persons in Control Functions are clearly defined so as to promote an appropriate separation of the oversight function from the management function.³⁴ The Board should periodically assess the performance of each Control Function. This assessment can be performed by the full Board, the chairperson of the Board, a Board committee, or the chairperson of the relevant Board committee.

97. It is a good practice for the group-wide supervisor and the other involved supervisors to coordinate to establish a collective understanding among all involved supervisors regarding the appropriateness and effectiveness of the group Control Functions. Groups of varying size and complexity will have Control Functions of different sophistication, and involved supervisors should have an understanding of this.
98. The group-wide supervisor and the other involved supervisors should share the outcomes of their respective assessments of the Control Functions. In a more centralised model, the group-wide supervisor is better placed to validate the effectiveness of Control Functions at both the group-wide and insurance legal entity level, and should discuss and share this assessment of the Control Functions with other involved supervisors (using the supervisory college, where one exists). Where there is no supervisory college in place, supervisors through established memorandums of understanding or coordination agreements can share this information among the respective supervisors. In a more decentralised model the group-wide supervisor places reliance on the other involved supervisors to assist the group-wide supervisor to validate that Control Functions within the insurance group are sufficiently robust to assist in the properly identifying and addressing risks that impact the insurance group as a whole.
99. The group-wide supervisor should meet with or receive communication or reports from Senior Management to verify that Control Functions are independent and have regular access to the Board and when requested by the Board. The group-wide supervisor should together with other involved supervisors assess whether and how issues are escalated from an insurance legal entity within a group to the head of the group. In complex groups, involved supervisors should assess whether there is a possibility to escalate issues directly from the insurance legal entity Control Function to the group's Board. Checking policies, minutes and past decisions could be a good starting point to help with this assessment.
100. In jurisdictions where it is legal to combine the risk management and compliance function, the supervisor should pay particular attention to the independence of the compliance function. Where the involved supervisors have different restrictions on the merging of risk management and compliance functions, the group-wide supervisor should verify with the group and coordinate with the other involved supervisors that all insurance legal entities within the group are meeting all relevant governance requirements, including independence.
101. The group-wide supervisor and the other involved supervisors should also verify whether the group is devoting sufficient resources to the Control Functions, with greater resources directed to the head of the group or the insurance legal entities within the group depending on whether the group has a more centralised model or a more decentralised model. In assessing the resources, involved supervisors should consider the group's personnel, in terms of numbers, role and expertise.
102. In a more decentralised group structure, the involved supervisor should encourage the group Control Function to perform regular effectiveness assessments of the insurance legal entity Control Functions. The supervisor of an insurance legal entity within a group should obtain

³⁴ ICP 7.1.

the outcome of this assessment from the insurance legal entity's Board or Senior Management. Particularly in groups with a more centralised model, the internal audit Control Function should monitor and evaluate the effectiveness of other group Control Functions (e.g., compliance and risk management). In such cases, an objective external reviewer should conduct such an assessment as to the internal audit function. Alternatively, the Board can direct an objective, external reviewer to perform such an assessment on all group Control Functions. The group-wide supervisor should assess the effectiveness of such an assessment, whether conducted by the group internal audit Control Function or an external review, paying particular attention to whether the reviewer has the necessary skills and independence to perform such an assessment.

3.7.2 Effective communication between Control Functions at the group and entity level

103. The Issues Paper highlights that there are some common practices that could address challenges in respect of communication and information arising in a group. The Issues Paper suggest the following:
- regular periodic meetings between group-level Control Functions and entity level Control Functions to communicate group-wide objectives and policies and furthermore to inform group-level Control Functions better in order for them to execute their roles effectively;
 - continuous reporting of entity level Control Functions to group-level Control Functions to assist in ensuring adequate and timely information at group level and to promote independence of entity level Control Functions; and
 - group-level Control Functions providing services and advice to insurance legal entity and the entity level Control Function, as it contributes to developing a common risk/compliance culture.
104. Regardless of whether the group has a more centralised or more decentralised model of governance, it is a good practice for the group-wide supervisor to check on a regular basis for the existence of effective communication between respective group and entity internal audit functions, group and entity risk management policy, group and entity audit function and group and entity compliance functions.
105. The involved supervisors should assess the manner in which Control Functions' activities are communicated within the group, including through reporting lines and in Board reports. For example, involved supervisors should obtain the reporting provided from insurance legal entity Control Functions to the group Control Function, as well as the insurance legal entity level Control Function reports to the local Board or Board committee. The involved supervisors should also obtain reports regarding insurance legal entity Control Functions made by Board committees to the Board as a whole, whether on the insurance legal entity or group level. Additionally, the involved supervisors of insurance legal entities within a group should review relevant Board committee documents to examine the information that is provided to the group, following up with Board members to learn more if necessary. Fundamentally, the involved supervisors should verify that reporting lines are actually implemented as described in policies and other documents. In doing so, it is good practice to meet not only with Senior Management, but also with lower level personnel.
106. Groups with a more decentralised approach can sometimes have problems coordinating between Control Functions at the group-level and insurance legal entity level. It is good practice for the group-wide supervisor to encourage more decentralised groups to establish a group Control Function forum that shares best practices within the insurance group on a range of operational, strategic and emerging topics that affects both the Control Functions specifically and, more generally, the insurance group as a whole. This forum also should be

at the forefront of the design and development of recovery plans of the insurance group, and assess the effectiveness of such plans. The group-wide supervisor should specifically assess whether the forum promotes coordination between the insurance legal entities (including their Control Functions) and group-wide Control Functions to ensure an overall effective system of risk management and internal controls.

107. The group-wide supervisor and other involved supervisors should share experiences on the manner in which Control Functions' activities are communicated within the insurance group.

3.7.3 Outsourcing

108. Groups and insurance legal entities within the group may outsource Control Functions to either third parties or to other insurance legal entities within the group. This latter form of outsourcing, referred to as "insourcing," can apply downstream (i.e., with group-wide Control Functions conducted by so-called "centres of excellence" at insurance legal entities within the group) or upstream (i.e., with insurance legal entity Control Functions conducted by the group Control Function).
109. Pursuant to ICP 8, the Board of an insurer is required to retain at least the same degree of oversight of, and are accountable for, any outsourced material activity or function (such as a Control Function) as applies to non-outsourced activities or functions.³⁵ Even if the relevant tasks of a Control Function can be outsourced, the responsibility for those Control Functions continues to rest with the group or insurance legal entity within the group, as relevant.
110. It is a good practice for the group-wide and other involved supervisors to assess whether a group has an outsourcing policy in place to ensure that risks are effectively managed and regulatory obligations are met by reviewing such a policy, if available, and speaking to members of Senior Management during on-site visits/inspections. The involved supervisors can obtain an outsourcing policy as part of the regular statutory information submission/lodgement. The policy should clearly stipulate that the involved supervisor should have direct access to the outsourced Control Functions. The group-wide supervisor should scrutinize that this policy is appropriate and implemented. To do so, the group-wide supervisor should discuss outsourcing at in-person meetings, seeking information about how the group outsources Control Functions and whether the group has procedures in place regarding the management of risk related to outsourcing.
111. Due to the importance of Control Functions and the risks associated with outsourcing (e.g., less control and expertise held within the Control Function), the supervisor at both group and insurance legal entity levels should consider dedicating more supervisory attention to outsourced Control Functions than Control Functions that do not rely on outsourcing. It is good practice to conduct a full assessment and supervisory visits on any third party to whom the insurer outsources any material activities and/or functions. Furthermore it is a good practice to set out prudential standards highlighting which activities or functions require prior approval from the supervisors before being outsourced. For example, the insurer should perform regular reviews on the entity performing the outsourced activity, whether inside the group or a third party, to ensure the appropriateness of the outsourced partner and the outsourcing arrangement. The relevant supervisor should amongst other assess the service level agreements, key risk indicators, conflict of interests, penalties, escalation procedures, service logs and disclosures for each outsourced activity.
112. Where a group Control Function is insourced, the group-wide supervisor should verify that the head of the group's Board assesses the effectiveness of the group Control Functions.

³⁵ ICP 8.8.

This verification can be obtained by requesting the insurer to provide copies of Board information packs and minutes of Board meetings to validate that the Board discussed and assessed the effectiveness of the group Control Functions. In addition, the supervisor can also request that the insurer to provide the supervisory authority with a copy of any independent assessment/review of the group Control Functions that was conducted by either the group internal audit function or an independent external party. In addition, the group-wide supervisor should corroborate the Board's assessment with the involved supervisor that directly supervises the insurance legal entity that is performing the group Control Function, as the other involved supervisors are better placed to perform the effectiveness assessment of the Control Function. Further, the group-wide supervisor should perform a conflict of interest assessment on the insourcing arrangement, coordinating with other involved supervisors as necessary to obtain critical information from insurance legal entities within the group and keep them apprised of the status of group Control Functions.

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