

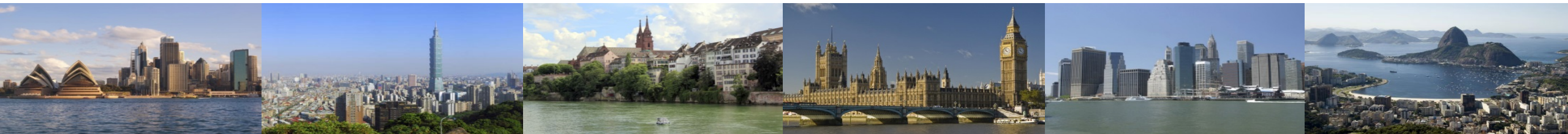


IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Stakeholder Session on IAIS supporting material

6 December 2021, 13:00 – 14:00 CET



OVERVIEW OF THE STAKEHOLDER SESSION

Overview of the stakeholder session

- Introduction (slides 4-5)
- Public discussion session on the Issues Paper on Insurer Culture (slides 6-14)
- Public discussion session on the Application Paper on Supervisory Colleges (slides 15-21)
- Public discussion session on the Application Paper on Combating Money Laundering and Terrorist Financing (slides 22-29)

INTRODUCTION

Introduction

- The IAIS, as the global standard-setting body for insurance supervision, develops supervisory material and supporting material
- **Supervisory material** consists of principles, standards and guidance that are developed for the supervision of the insurance sector:
 - **Insurance Core Principles** (ICPs), which apply to the supervision of insurance legal entities and, unless otherwise specified, to insurance groups
 - **ComFrame**, which focuses on the effective group-wide supervision of Internationally Active Insurance Groups (IAIGs)
- **Supporting material** helps with the practical application of supervisory material, provides background on particular topics or identifies related regulatory and supervisory issues (it does not create new standards):
 - **Issues Papers**
 - **Application Papers**
- Role of the proportionality principle

ISSUES PAPER ON INSURER CULTURE

(PUBLIC DISCUSSION SESSION ON THE OUTCOME OF THE PUBLIC CONSULTATION)

Anna Jernova, Chair of the Governance Working Group

Charlotte Cross, Chair of the Market Conduct Working Group

Background and approach

Issues Paper on Insurer Culture

Background

- Conduct and culture identified in **2020-2024 IAIS Strategic Plan** as a key trend in insurance markets and insurance supervision in the upcoming years
- **Culture issues in firms increasingly of interest to conduct and prudential supervisors** in light of rapidly changing financial markets driven by innovation, shifts in consumer expectations and broader societal challenges, also reinforced as an important theme during the Covid-19 crisis
- Joint project between the **Market Conduct Working Group** and **Governance Working Group**

Sequential approach adopted

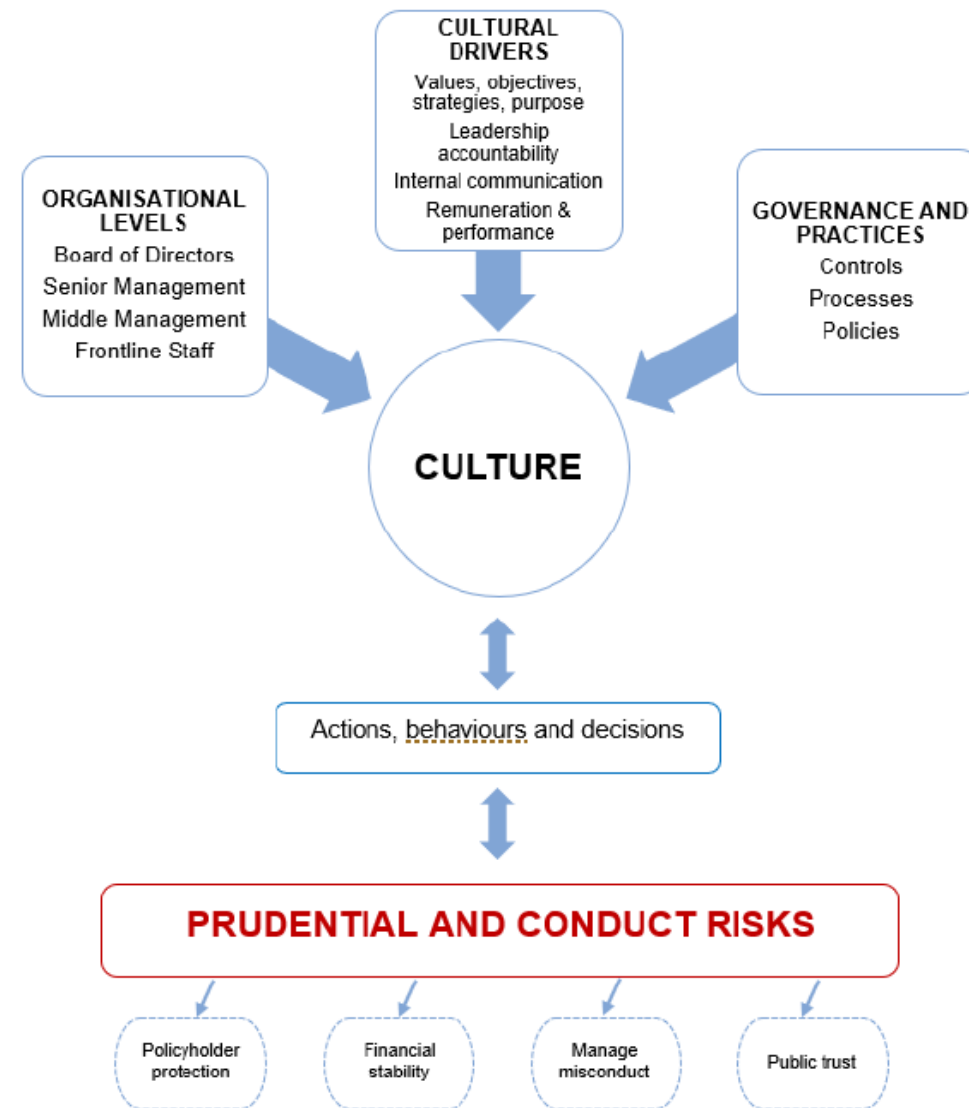
- **First phase**
 - Issues Paper limited to **exploratory observations** on the importance of insurer culture for insurers and supervisors and how key components of corporate culture set out in the ICPs can influence the achievement of prudential and conduct outcomes
- **Second phase:**
 - Advancing these observations through **further engagement** and potentially **more targeted exploration** of, or **practical supervisory guidance** on, specific cultural drivers



Objectives and focus of the Issus Paper

Issues Paper on Insurer Culture

- Explores the role of insurer culture as an **important intersection point for managing prudential and conduct risks** and reducing the potential for widespread misconduct
- Highlights how insurer culture can provide supervisors with **important insights into the driving forces behind decisions and practices across all levels** within an insurer
- Provides **illustrations of selected cultural drivers** highlighted in the ICPs through the use of jurisdictional examples



Structure of the Issues Paper

Issues Paper on Insurer Culture

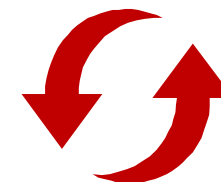
- **Section 1: Introduction**

- What is meant by “culture” in a corporate context?
- Why does culture matter for insurers and supervisors?



- **Section 2: The relationship between insurer culture, the management of prudential and conduct risks and the mitigation of misconduct**

- The role of culture as a linkage between prudential and conduct risks
- The role of culture in mitigating misconduct



- **Section 3: Illustrations of how cultural drivers can influence certain prudential and conduct outcomes within an insurer**

- Insurer’s values, business objectives and strategies
- Leadership accountability
- Communication within the insurer
- Internal remuneration and performance management structures



Outcome of the public consultation

Issues Paper on Insurer Culture

- Consultation period: **23 June – 23 August 2021**
- **120 comments** received from **14 participants**



- Issues Paper adopted by the Executive Committee on 9 November 2021 available on the IAIS website ([here](#))
- Public consultation comments with their resolution available on the consultation page ([here](#))

General themes from comments and their resolution

Issues Paper on Insurer Culture

General themes	Description and resolution
Broad acknowledgement of importance of insurer culture	• Respondents broadly acknowledged the importance of insurer culture in delivering good outcomes for insurers and policyholders. • Comments noted, no resolution required.
Questions on scope of examples included in paper	• Some commentators questioned why the examples in the paper were not limited to conduct issues. • A key message explicitly highlighted in the paper and recognised in the ICPs is that effective insurer cultures are important for <u>both</u> sound prudential management and the fair treatment of customers. • Examples reflecting both these perspectives fall within the scope of the paper, no resolution required.
Additional supervisory examples proposed	• Many respondents provided granular details on examples of supervisory practices and tools for assessing insurer culture. • Additional examples have been noted with thanks, and will be useful to guide potential follow up work that will focus on supervisory practices relating to insurer culture.
Subjectivity of assessing culture	• A few commentators suggested that supervisors should not be concerning themselves with issues as subjective as culture and raised concerns that the IAIS would try to develop new regulatory requirements or a uniform standard for insurer culture in future. • The paper is clear that the issues highlighted are grounded in well established concepts and objective standards already contained in the ICPs and does not attempt to create new or additional requirements. • The paper emphasises that it does not seem appropriate to ascribe one “right” or “good” culture to insurers.
Further stakeholder outreach and dialogue	• Commentators requested further stakeholder engagement prior to developing follow up work to the paper. • Noted with thanks, this will be considered thoughtfully by the IAIS as it continues to advance work on this topic.

Specific textual revisions post public consultation

Issues Paper on Insurer Culture

References	Description of revisions
Paras 8, 16, 25, 31, 38, 43, 44, 49	Textual changes to balance and/or streamline wording, and improve readability and flow
Para 13	Reference to dress code has been deleted, but references to style of communication and office layout (where relevant) have been retained as <u>possible examples</u> to reflect the importance of both formal and informal factors relevant to insurer culture
Para 18	Additional wording to recognise that different cultures may exist in different entities within a group
Para 22	Additional wording to emphasise that a culture of openness should be promoted across all levels of the organisation
Figure 1	Addition of box to indicate “actions, behaviours and decisions” as an element of culture as described in paper
Paras 74, 78, 83	Textual changes to balance wording relating to profitability targets and financial and non-financial performance metrics
Enhancement of examples	- Addition of new examples from Malaysia and Canada to expand regional diversity (paras 41, 57, 84) - Update of South Africa example for accuracy (para 50) - Update of Japan example 2 for balance (para 60)

Next steps and potential follow up work

Future work on insurer culture

- Recognition of **interlinkages** between insurer culture and other topics, in particular **Diversity, Equity and Inclusion (DE&I)** and **remuneration**
- Relevant work to be undertaken in **2022**:
 - Exploratory work on **remuneration issues** in the insurance sector
 - Aimed at analysing current trends and challenges and identifying outstanding issues with respect to remuneration,
 - The outcome will be presented to the IAIS Parent Committees, with a recommendation for next steps (to be finalised in **June 2022**)
 - Exploratory work on **DE&I**
 - The outcome will be presented in a public report to be published in **November 2022**
 - The possibility of combining the work on DE&I beyond 2022 with advancing the observations outlined in the exploratory Issues Paper on Insurer Culture will be considered as part of this project
- Identifying and communicating opportunities for further stakeholder engagement and dialogue



QUESTIONS?

Issues Paper on Insurer Culture

APPLICATION PAPER ON SUPERVISORY COLLEGES

(PUBLIC DISCUSSION SESSION ON THE OUTCOME OF THE PUBLIC CONSULTATION)

Rob Curtis, Chair of the Insurance Groups Working Group

Background

Application Paper on Supervisory Colleges

- **Purpose of the revision:**

- To update the Application Paper, originally adopted in 2014, to reflect:
 - Revisions to ICPs 3 and 25 and adoption of ComFrame
 - Other relevant developments in practices related to establishment and management of supervisory colleges
- To streamline the Application Paper and to focus its content on aspects most relevant from the insurance industry perspective



- **Objective of the revised Application Paper:**

- To describe processes and practices related to the establishment and functioning of supervisory colleges for insurance groups with cross-border activities
- To foster an understanding of the work of supervisory colleges as well as to explain the role and involvement insurers may have in supervisory colleges



Structure and content of the Application Paper

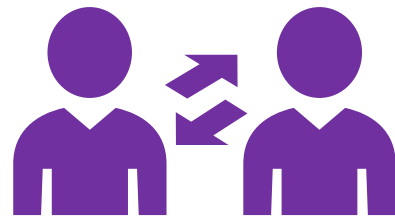
Application Paper on Supervisory Colleges

- | | |
|---|---|
| 1. Introduction | <ul style="list-style-type: none">○ General information on the Application Paper |
| 2. Establishment of supervisory colleges | <ul style="list-style-type: none">○ Role of the group-wide supervisor in establishing a supervisory college○ Approaches to supervisory college structures and membership |
| 3. Supervisory college procedures and tools | <ul style="list-style-type: none">○ Coordination agreements○ Information exchange and confidentiality protection○ IT Tools |
| 4. Functions and activities of a supervisory college | <ul style="list-style-type: none">○ Supervisory college as a forum for ongoing cooperation○ Supervisory college planning cycle and workplan○ Supervisory college activities related to the group-wide risk assessment○ Supervisory cooperation in planning for crisis management |
| 5. Organisation of supervisory college meetings | <ul style="list-style-type: none">○ Purpose and objective of supervisory college meetings○ Frequency and form of supervisory college meetings○ Involvement of group-wide Senior Management in supervisory college meetings○ Follow-up actions |

Outcome of the public consultation

Application Paper on Supervisory Colleges

- Consultation period: **23 June – 24 August 2021**
- **46 comments** received from **5 participants**



- Application Paper adopted by the Executive Committee on 9 November 2021 available on the IAIS website ([here](#))
- Public consultation comments with their resolution available on the consultation page ([here](#))

General themes from comments and their resolution

Application Paper on Supervisory Colleges

General themes	Description and resolution
General support for the revised Application Paper	• General support for the revised Application Paper, including the reference to the proportionality principle and emphasising the importance of confidentiality in information exchange. • Comments noted, no resolution required.
Quotations of ICP text	• In some cases it was suggested to revise text that is a quotation of the ICP standard or guidance. • No changes were made in text what is a direct replication of ICP material.
Consultation with the group-wide Senior Management as part of the planning activities	• Some respondents suggested that the planning of supervisory college activities should include consultation with the group-wide Senior Management (Section 4.2) • The Application Paper supports a dialogue between the supervisory college and the group. Supervisory college should consider circumstances of the group and information received from the group when planning its activities. However, it is not deemed necessary or appropriate to consult the planned activities of a supervisory college with the group-wide Senior Management.
Representatives of the group at supervisory college meetings	• There were questions about the meaning of the phrase “group-wide Senior Management representatives” in the context of attendance of supervisory college meetings. • The word “representatives” has been replaced with “members” to clarify the invention. However, if the group is represented by individuals not being members of group-wide Senior Management, they should be senior enough to discuss relevant matters.

Specific textual revisions post public consultation

Application Paper on Supervisory Colleges

References	Description of revisions
Para 13	Additional wording to emphasise that the decision on the structure of supervisory colleges should ensure the effective and efficient use of resources.
Para 25	Examples of changes in circumstances included in a footnote.
Para 35	Footnote added to explain that, in some cases, supervisory colleges consider the risk assessments of branches (in addition to risk assessments of legal entities), for example if the branch is material for the group or the local market.
Para 46	Additional details on the form and frequency of supervisory college meetings added, while maintaining the flexibility.
Para 53	- Text revised to recognise that the feedback provided by the group-wide supervisor to the group after the supervisory college meeting may be either verbal or written. - Including additional issues to be potentially covered by the feedback (interaction between the group's representatives and the supervisory college during the meeting).

QUESTIONS?

Application Paper on Supervisory Colleges

APPLICATION PAPER ON COMBATING MONEY LAUNDERING AND TERRORIST FINANCING (PUBLIC DISCUSSION SESSION ON THE OUTCOME OF THE PUBLIC CONSULTATION)

Christopher Brown, Chair of the Financial Crime Task Force

Background

Application Paper on Combating Money Laundering and Terrorist Financing

- **Purpose of the revision:**

- To update the Application Paper, originally adopted in 2013, in light of the revisions of ICP 22 (Anti-Money Laundering and Combating the Financing of Terrorism) in November 2019 and other developments such as:
 - Various updates of the FATF Recommendations in recent years
 - Publication in 2018 of the revised FATF Guidance for a Risk-Based Approach in the Life Insurance Sector (“FATF Guidance”)
- The project was focused on:
 - Updates to align terminology and ensure consistency with the FATF recommendations
 - New guidance on elements reflected in the latest version of ICP 22



- **Objective of the revised Application Paper:**

- To provide information and advice to insurers on how money laundering (ML) and terrorist financing (TF) can occur within the life insurance sector and on measures to mitigate the associated risks.



Structure and content of the Application Paper

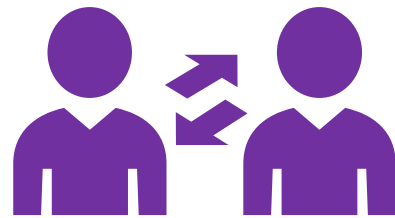
Application Paper on Combating Money Laundering and Terrorist Financing

1 Introduction	8 Enhanced customer due diligence in higher risk cases
2 Money laundering, terrorist financing and targeted financial sanctions in insurance	8.1 Enhanced customer due diligence measures
2.1 Concepts	8.2 Higher risk cases
2.2 Vulnerabilities in insurance	8.3 Higher risk countries
3 The risk-based approach	9 Simplified customer due diligence in lower risk cases
4 Identification and assessment of risks	10 Ongoing due diligence and monitoring
5 Customer risk assessment	11 Politically exposed persons
6 Overview of customer due diligence	12 New or developing technologies and products
7 New customers	13 Reliance on third parties
7.1 Methods of identification and verification	14 Suspicious transaction reporting
7.1.1 Individuals	15 Internal controls and foreign branches and subsidiaries
7.1.2 Legal persons, companies, partnerships, other institutions and arrangements	16 Screening and training of staff
7.2 Timing of identification and verification	17 Record keeping and retention
7.3 Initial screening of and risk rating of customers	Annex 1 Money Laundering Case Studies
	Annex 2 Terrorist Financing Case Studies

Outcome of the public consultation

Application Paper on Combating Money Laundering and Terrorist Financing

- Consultation period: **18 May – 17 July 2021**
- **164 comments** received from **14 respondents**



- Application Paper adopted by the Executive Committee on 9 November 2021 available on the IAIS website ([here](#))
- Public consultation comments with their resolution available on the consultation page ([here](#))

General themes from comments and their resolution

Application Paper on Combating Money Laundering and Terrorist Financing

General themes	Description and resolution
General support for work	• Respondents broadly acknowledged the importance of this topic and welcomed the work.
Scope of the paper	• Respondents suggested that the paper should be directed only at the life insurance sector, in light of ICP 22 and the FATF Recommendations, which apply at minimum to the life insurance sector. • Revisions were made to further clarify that the paper is directed at the life insurance sector.
Consistency with work of other standard setters	• Several respondents noted the importance of carefully aligning the paper with work of other standard setters • Comments are consistent with the objective of the project, no resolution required.
Treatment of proliferation financing (PF) risks	• Several respondents suggested to add more guidance on the PF and Targeted Financial Sanctions (TFS) in consideration of recent FATF work, while some respondents questioned relevance of this topic. • Additional references to TFS obligations under the FATF Recommendations were added to enhance consistency of references to this topic; the treatment of PF/TFS in the paper was clarified.
Consideration into risk-based approach (RBA)	• Various suggestions were made relating to an RBA, including (1) that an insurer's RBA should reflect the relatively lower ML/TF risks in the life insurance sector, and (2) that the paper should not be perceived as treating certain features categorically as high risk. • Comments were considered case-by-case basis. No change made due to (1) as an insurer's RBA should reflect jurisdictional-specific risk assessments. For (2), texts were modified in some cases for further clarification.
Consideration into digitalization	• Some respondents suggested that the paper take more into account the digital environment for certain aspects such as identification and verification of customers. Comments were generally used to enhance the paper.
Protection of personal information	• Some respondents cautioned against collection of certain personal information as a part of customer due diligence (CDD). Comments were generally used to enhance the paper.

Specific textual revisions post public consultation (1)

Application Paper on Combating Money Laundering and Terrorist Financing

References	Description of revisions
Paras 1, 6, footnote 2	- Textual changes to clarify that the paper is directed at the life insurance sector - Additional wording to note that ICP 22 expresses neither an expectation nor requirement that a jurisdiction include non-life business within its AML/CFT framework, and if a jurisdiction has included the non-life sector within the framework, portions of the paper may be helpful to affected firms - Additional wording to note that the paper establishes neither new standards nor expectations
Paras 7	Additional wording to clarify the treatment of PF/TFS in the paper
Paras 21, 38 and 94	Additional wording to make references to TFS-related obligations under the FATF Recommendations.
Paras 23, 24, 25, 26	Textual changes to further enhance general guidance on a risk-based approach (RBA) set out in these paragraphs, including that a RBA should be proportionate to the size and complexity of the business, and that all relevant risk factors should be considered in a holistic manner
Para 39	Textual changes in consideration of protection of personal information and addition of “tax residency” for customer risk factors
Para 54	Additional wording to add guidance on the adoption of independent digital ID systems based on the FATF Guidance on Digital Identity
Para 55	Textual changes in consideration of protection of personal information and addition of “digital signature” for customer identification information
Para 56	Additional wording to cover customer information that may be collected on a risk-sensitive basis

Specific textual revisions post public consultation (2)

Application Paper on Combating Money Laundering and Terrorist Financing

References	Description of revisions
Para 78	• Additional wording to add a reference to consideration provided in the FATF Guidance on Digital ID on non-face-to-face transactions that rely on reliable, independent digital ID systems
Annexes 1 and 2	• Deletion of case studies that may not be helpful in the context of life insurance • Addition of clarifications on the nature of case studies, in particular, that the case studies are not necessarily exhaustive nor are they intended to imply that such cases are common
Examples of other enhancements	• Clarification of definitions of certain terms ie “customer” (footnote 4), “beneficial owner” (footnote 7), “virtual asset” (footnote 8) and “PEPs” (footnote 11) • Addition of a reference to the “low-risk exemption” concept of the FATF Recommendations (Para 8) • Enhancement of guidance when insurers rely on intermediaries on identification and verification work (Para 113) • Adjustments to the structure of the paper for the purpose of better readability (Section 7) • Specification of individual FATF Recommendation numbers where relevant.

QUESTIONS?

Application Paper on Combating Money Laundering and Terrorist Financing

THANK YOU
