

Response to IAIS consultation on its draft issues paper on insurer culture

General comment

The Global Federation of Insurance Associations (GFIA) welcomes the opportunity to comment on the draft issues paper and looks forward to an on-going dialogue on this and other supervisory issues. Given that GFIA represents a diverse set of (re)insurers, it is important to emphasise the need for proportionality in supervision and supervisory support for (re)insurers to remain solvent, competitive, and innovative as the ultimate consumer protections.

The discussion of insurer culture and related issues such as leadership, accountability and transparency are very important. Culture is viewed as a critical link between solvency and market conduct and GFIA recognises that for an insurer to be truly successful, it must effectively achieve both solvency and good market conduct as defined by applicable law and regulation.

There are two fundamental points GFIA wish to make:

- Insurers do not support the development or application of “culture” requirements or standards as an additional layer of compliance/legal requirements that need to be met.
- However, insurers do view “culture” as a potentially effective and flexible concept for the company’s own use to help it support the right outcomes from an existing compliance/legal perspective, such as reducing the probability of human error (ie culture considerations could be considered a means to an end).

Culture is a rather subjective metric to measure and requires a degree of regulatory intrusiveness. It may be very difficult to regulate culture given the vast differences in corporate culture that still may be completely legal and optimal from a compliance point of view.

GFIA’s most significant concern is that future supervisory actions will be based on the notion of culture as discussed in the paper, since culture is different from legally established standards for insurers, including those relating to solvency, governance, and market conduct. Instead, supervision should be based entirely on the specific and duly-established legal standards, not on subjective assessments of matters such as culture.

If the assessment of culture is to play a role in supervision, then it should be no more a factor in determining the specific behaviours, functions and outcomes required by law. These elements should be assessed and regulated according to applicable legal standards. To treat culture for supervisory purposes as something other than compliance with specific legally established supervisory standards is to engage in a subjective exercise that can



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be difficult for companies to understand and even more difficult for supervisors to fairly and effectively apply. Therefore, GFIA suggests that the concept of culture for supervisory purposes should be understood to be the discreet and well-defined actions and structures of (re)insurers that are governed by legally established standards. The supervisory assessment of culture should not be a subjective judgment outside of those discreet structures, actions, and legal standards.

Insurers are also concerned about the possibility that the concept of culture would encourage more extensive supervisory intervention of a company that is unnecessary or inappropriate in order to monitor or enforce compliance with existing legal standards of solvency and market conduct. This in turn would lead to a blurring of the lines between supervisors and supervised entities that would likely do damage to the independence and authority of supervisors and the ability of companies to manage themselves, compete, and innovate.

In addition, GFIA is concerned that the meaning of "fair treatment of consumers" may be considered different from, or in addition to, legally prescribed standards. Companies may exceed those standards voluntarily, but supervisors should define "fair treatment" solely in terms of the legally established standards of insurer conduct toward consumers. GFIA would also suggest that the word "fair" or "unfair" be replaced with "appropriate" or "inappropriate" throughout the paper.

Paragraph 6

GFIA strongly endorses the statement that it is not appropriate to ascribe one 'right' or 'good' culture to insurers.

Paragraph 10

The citations to the insurance core principles (ICPs) are very helpful to understand the component parts of culture and the supervisory standards that apply to each of the component parts. Extreme difficulty and danger of subjective supervision are created when culture for supervisory purposes is deemed to be something other than the ICPs, or more specifically, the legally established standards in the relevant jurisdiction.

Paragraph 13

GFIA has serious concerns about defining culture in nonspecific ways, such as 'mindset', especially due to its vague and subjective definition, and the danger that it adds an assessment beyond compliance with legally established supervisory standards of conduct and solvency. The concept of mindset can be difficult to understand in the context of a single individual, let alone an enterprise comprised of thousands of individuals. A better approach would be to list the specific standards that must be complied with. Behaviour in terms of solvency and conduct, for example, should be the sole matter for supervisory assessment and supervision.

Paragraph 15

Behaviour and outcomes in compliance with applicable legal standards should be the essential goal of insurers and supervisors alike.

Paragraph 17

GFIA agrees that assessing an insurer's culture can be highly subjective. Therefore, a better approach is to assess an insurer based on its compliance with applicable legal standards. If a different definition of culture is accepted, then it should be assessed by supervisors on a case by cases basis, as the paragraph provides.

Paragraph 18

This paragraph points out the possibility of different cultures within different areas of the business, or perhaps in different legal entities within a broader group. While a high-level culture and promotion of ethical conduct certainly must be enforced throughout an entire enterprise group, there should be some acknowledgement that different cultures and risk appetites may exist within various entities of that broader enterprise.

Paragraph 25

Again, the concerns GFIA has with the notion of 'mindset' are presented by its use here.

Paragraph 28

GFIA is concerned about defining the fair treatment of consumers as being different from or in addition to legally prescribed standards. Companies may wish to exceed those standards voluntarily, but supervisors should define fair treatment solely in terms of the legally established standards of insurer conduct toward consumers.

Paragraph 31

The descriptions are presented as being one or the other (ie one with the appropriate culture or not). While this serves to illustrate the points being made, it overlooks a more balanced perspective that acknowledges the important role commercial drivers also play in ensuring an insurer is sustainable, which is ultimately to customers' benefit.

Paragraph 32

GFIA agrees with the definition of misconduct that is tied to requirements and legal standards. The subjective notion of culture adds a degree of subjectivity that raises many serious questions about how it is to be determined, enforced and according to what standards.

Paragraph 35

GFIA agrees with the first sentence and would like to see the source cited for the second sentence. The paragraph should be more nuanced and cautious about references to AML requirements in the general insurer context.



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Paragraph 41

While GFIA certainly agrees that 'rolling bad apples' should be prevented, it is concerned that this paragraph would allow too much supervisory intervention into the internal personnel practices of insurers.

In addition, suitability requirements are, in general, specified in current local regulations. A supervisor's assessment of interviews or background checks is completely subjective.

Paragraph 42

This proposal would not guarantee that all individuals have met the levels of competence and integrity required.

Paragraph 43

GFIA agrees with the first two sentences, but has concerns with the third sentence, which should be deleted, as the use of the phrase "it is vital" might suggest a supervisory role over culture.

Paragraph 44

The inclusion of culture adds little to this paragraph, so GFIA suggest to delete "can influence an insurer's overall culture, which in turn".

Paragraph 48

GFIA strongly supports the statement that: "It is not the role of supervisors to define a specific set of values for insurers."

Paragraph 49

See comment on paragraph 31.

Paragraph 63

GFIA notes that the only US example of misconduct cited in the paper is that of a bank regulated by the federal government, not a state-regulated insurance company.

Australia's example is an indicator of the existence of a failure in the company's internal procedures, which can lead to different consequences. Oversight should focus on unfulfilled regulation of remuneration or governance, not on the culture itself. In other words, if undertakings comply with regulation in force, business culture should not be questioned.

The UK example refers to a failure in controlling outsourced business, not to a cultural issue.



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Paragraph 69

Caution should be taken about how far open communication extends regarding bonuses and incentives, as it could lead to mistrust, resentment and low morale.

Paragraph 74

Compensation practices are an important component of reinforcing behaviors and expectations. It is, therefore, important to have a performance management that evaluates not just what they do, but how they do it – including being prudent risk managers (both financial and operational) and having compensation tied to that.

Paragraph 78

The only US example of misconduct cited in the paper is that of a federally regulated bank, not a state regulated insurance company.

Paragraph 87

While GFIA does not disagree with the desirability of leadership, accountability, and transparency in concept, it is concerned with future work that would have supervisors subjectively determine what is good or right corporate culture for insurers, as noted in paragraph 1.1.6. Supervisors should be focused on assessing compliance with legal and objective standards of behaviour and outcomes, not subjective notions such as culture.

Paragraph 88

GFIA calls on supervisors to engage in a dialogue with the federation before and during the drafting of papers on diversity and inclusion, as the GFIA's members have significant experience to share on these topics.

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About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 41 member associations and 2 observer associations the interests of insurers and reinsurers in 65 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than \$4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.