Appendix 1

RISK BASED SUPERVISION

COURSE OUTLINE ON MANAGEMENT OF INSURANCE COMPANIES

I BOARD OF DIRECTORS AND SENIOR MANAGEMENT

A. The Governing Bodies of Insurance Companies

1. The governing bodies of an insurance company are:
   - The stockholders' body or shareholders' assembly and
   - The board of directors.
2. Corporate powers are exercised by these bodies in accordance with stipulations in the company's Articles of Incorporation or Memorandum of Association (Corporate Charter).
3. There are also provisions of law or regulations that prescribe and/or require, from time to time, certain powers and responsibilities of these bodies.
4. Acts done by the corporation (through its governing bodies) outside of its corporate powers are "ultra vires" acts and are unenforceable and, in the case laws of most jurisdictions, illegal.

B. Constitution and Election of the Board of Directors; Delegation of Corporate Powers

1. The stockholders assembly elects members of the board of directors to whom it delegates (entrusts) certain of its powers. These powers are defined in the Corporate Charter and amendments thereof.
2. The process and formalities of electing board members, the number of board members, their terms of office, etc, are stipulated in the Corporate Charter.
3. The powers delegated to the board of directors relate to the management of company resources as well as in pursuing and conducting affairs of the corporation.
4. Thus: the board of directors is charged with the duty to direct the affairs of the company; manage its resources and conduct its operations in the interest of the stockholders.
5. However, in the case insurance which is a regulated business because of public interest, the duty to manage and operate corporate (insurance) business includes the fulfillment of reasonable public (customers') expectations or PRE (policyholders' reasonable expectations.
6. In order to discharge these powers, deliver on its duties and fulfill its responsibilities, the board of directors must lay policies and procedures that directs the manner by which

business affairs of the company are to be carried out, the conditions and manner under which company resources are to be utilized and safeguarded against misuse or abuse, the conduct of business following sound practices of sound corporate governance and duty to subject it self to self or independent assessment to ensure that it (the board) is indeed carrying out its duties and responsibilities effectively.

7. The board of directors is duty bound to perform its functions along the principles of legality, transparency, responsibility and accountability of actions.

C. <u>Delegation of Board Powers to Senior Officers</u>

1. The Board of Directors, in turn, organizes the management team of the company and appoints key senior officers to whom the board entrusts the day to day conduct of carrying out the operations of the company and managing its resources.
2. While the board of directors delegate certain of its powers and responsibilities, its accountability for the results of any delegated power or function is not removed or diminished. This is so, because the board of directors is the ultimate repository of corporate powers and, with it, responsibility and accountability.
3. Therefore, prudence dictates that the board of directors must at all times remain vigilant over the actions and functioning of company's senior officers and adopts ways and means to ensure that senior management performs their functions effectively in compliance with all applicable laws and regulations and in adherence to policies and guidelines approved by the board and consistent with the pursuit of overall objectives of the company.
4. This is the **essence of "board oversight"**.

D. <u>Risk Base Supervision Considerations in respect of Management of Insurance Companies</u>

1. The term "management", as a body, refers broadly to the Board of Directors and Senior Officers.
2. On the other hand, "management" can also refer to a function or discipline. Let us define and understand in simple the term "management" in the context of discipline.
3. Management is the art of utilizing resources (e.g. people, money and time) to produce desired output. Good management results to efficient output. Good management therefore requires the combination of expertise, prudence and integrity of individuals utilizing resources to ensure efficient results.
4. Risk based supervision looks at and assesses the risks faced by an insurance company in relation to the quality of its management, both in terms as a body of individuals and in respect of how its resources are utilized.

E. <u>Fit and Proper Test</u>:

1. Qualification profile: Knowledge of the Business, Honesty and Integrity

- Knowledge of business (KOB) of people managing an insurance company is imperative to the success of insurance business as well as in providing fair and reasonable treatment of policyholders and other stakeholders of the company.
    - Explain “stakeholders” Stakeholders comprise: the company owners (stockholders), directors and officers, employees, policyholders, customers, clients, creditors and the government).
- The experience and depth of board members and senior management are important factors (determinants) for achieving success.
- Because insurance is a business providing a promise to be fulfilled in future, the basis of insurance business is founded on trust and fiscal responsibility of the people behind the promise.
- Prudence in management plays a more vital role in the insurance business than in (most) other industries because insurance involves management of funds belonging to policyholders.
- Competitive pressures within virtually every insurance market segment have amplified the importance of management's ability. Handling competition requires adequate knowledge of the business and the environment in which insurance operates.
- The formulation, adoption and execution of defensible strategic plans are indispensable to achieving growth and profitable insurance business. This is the ultimate operating objectives of an insurance company and it can only be attained with a board of directors and a team of managers possessing adequate knowledge of the business and “know-how” to pursue the business in the best interest of the company and its stakeholders.

F. <u>Business Risks Inherent to Quality of Management</u>

1. Risk of loss, misuse or abuse of company resources is greater where managers have inadequate knowledge of the business, lacking in honesty and credibility and/or lacking in sensitivity to the protect the interest of the company.
2. Indeed, most business failures result from mismanagement or bad management.
3. To minimize risk of loss, misuse or abuse of company resources, the selection of members of the board of directors and its key officers, should undergo “fit and proper” tests or measurement.
4. Management quality exposes the company to risks inherent to insurance business in varying degrees. These risks are operational risks, underwriting risks, interest risks, credit risks and market risks. A separate workshop to focus understanding of these risks should be considered for EISA.

G. <u>Sample form of Fit and Proper Test</u>

1. I have prepared a handout which is a form that regulators used to test a person’s level of fitness and propriety of managing insurance companies. We shall analyze them line by line as we relate them to specific corporate roles, duties and responsibilities.

2. The laws on business organization and Regulations of EISA likewise prescribe certain "fit and proper" requirements for the board of directors and key officers of insurance companies.
3. Under the risk based supervision approach, it will be necessary for supervisors to look beyond the requirements prescribe by law or regulations in order to obtain reasonable assurance that every insurance company is prudently and professional managed.
4. Suggested Basic Criteria for Selecting Members of the Board and Key Officers of Insurance Companies include the following:
   - Appropriate education – university degree or lesser with adequate experience in insurance or related industries
   - Not a member or the board or key officer of another insurance company or subsidiary company of insurance companies
   - Has not been a director or officer of a business entity that was subject to bankruptcy or involuntary liquidation.
   - Has not been convicted of crime involving dishonest or immoral conduct, swindling, misappropriation and economic crimes, whether as principal or accomplice.
   - **Unless with prior written approval of the regulator**, not a related party to a person or entity having a qualified participation in the insurance company.
     - Explain "Qualified Participation" – It is common rule in more matured insurance markets that a person or entity owning 10% or more of an insurance company's voting shares is a person with qualified participation. While qualified participation is not illegal, appropriate disclosure of this condition and relationships is required for reasons of transparency of actions and to put the regulator on notice of any actual or perceived conflict of interest and self-dealing in management. (Participants confirmed that EISA also follow the same 10% rule.)
4. As a means to further strengthen policyholder protection, most regulators reserve the right to approve the appointment of members of the board of insurance companies.

II BOARD OF DIRECTORS

A. <u>Role of the Board of Directors, in General</u>

1. The Board of Directors is responsible for providing stewardship and oversight of management and operations of the institution.
2. It is the ultimate repository of powers and authority in the management and operation of the company.
3. In addition to its broad powers of administration and management (defined in the corporate charter), its key areas responsibilities of the board of directors of insurance companies include certain and specific roles and responsibilities.

B. <u>Role of the Board of Directors, in Particular</u>

1. Reviewing and approving organizational structure and controls;

- The organizational structure of an insurance company is the blueprint used by the board of directors in effectively delegating its powers and responsibilities to senior managers and down the corporate hierarchy.
- Organizational structuring should be designed in such manner that delegated powers and authority meet the following criteria:
    a. Functions are assigned to where they are most effectively carried out by persons most fit to execute them. This will avoid redundancy that, more often than necessary, is counter-productive;
    b. Responsibilities are clearly defined and accountabilities pin-pointed;
    c. Inter-departmental functions are coordinated as to promote speed and quality of decision processes;
    d. Decisions and actions taken by one department or officer are promptly, if not automatically, communicated to all concerned departments and processes;
    e. Functional processes are in place to ensure that no one person or department initiate, process, complete or otherwise and dispose any one transaction (system of internal control) and
    f. Significant matters or events are communicated to the board of directors in prompt, accurate and complete fashion.

2. Ensuring that management is qualified and competent;

- Business failures happen mostly because of incompetent management.
- The word "qualified" does not only mean educational attainment, experience or the combination of both. It means ability to lead and make people do the right things.
- The word "competent" does not only mean ability to discharge one's function. It requires delivery of economic benefit to the company. "Qualified and competent" managers mean someone who:
    a. Has adequate knowledge of the business;
    b. Has the ability to perform and execute on tasks;
    c. Has leadership to make people work and enjoy what they do;
    d. Delivers quality results as a team;
    e. Is responsible and accountable for the results not only of his/her actions but those of his/her staff (subordinates) as well;
    f. Has integrity of actions, and
    g. Is responsible and accountable for the results of his or his subordinate's (business related) actions.

3. Reviewing and approving business objectives, strategies and plans;

- Most companies (particularly those that have become most profitable) adopt statements of company mission and vision which serve as basic guide of owners, directors, officers and employees of the enterprise.
- The company mission and vision statements describe the purpose(s) of the company in broad terms. More importantly, it lays the foundation upon which business objectives, plans and strategies are formulated.
- Where no such written statement of mission and vision exists, the board of directors must define broad objectives and goals of the company. Oftentimes these are expressed in resolutions of and directives from the board of directors.
- Senior Management at the operating level in turn translates these objectives and goals into business plans and strategies as well as in policies and operating procedures.
- On a risk-based approach, a good business plan is one that:
  a. Clearly defines the company's objective and goals and establishes time lines in attaining them (benchmarking)
  b. Takes into account the company's SWOT (strength, weaknesses, opportunities and threats) in the formulation business objectives and goals and in determining operating strategies;
  c. Clearly defines responsibilities for action and delivery of results;
  d. Is flexible to easily respond to changes as need arise;
  e. Promotes company growth;
  f. Clearly demonstrates the creation of value to company stakeholders.

4. Reviewing and approving policies for major activities;
   - Corporate policies and acts (board actions) comprise the internal regulations of the company upon which operating procedures are formulated and prescribed.
   - Policies and procedures:
     a. Build the blocks upon which corporate image and culture is shaped;
     b. Set the quality and pace of decision making processes;
     c. Promote, and prescribe ways and means of instilling and maintaining inter-company cohesion and coordination (teamwork) so vital to preserving and strengthening the company's value chain; (i.e. sales and marketing, underwriting, policy issuance, policyholder services, claims, investment)
     d. Are the pillars upon which effective controls are established and put in place to ensure prudent utilization, protection and safeguarding of company's business interests and resources;
     d. Are the guidelines of management in conducting company affairs and operations; and
     e. Guide employees across the company in performing their respective tasks and in carrying out their responsibilities.

5. Providing for an independent assessment of, and reporting on the effectiveness of, organizational and procedural controls;

    - Procedural controls do not mean anything, if they are only "sitting-good" in written form.
    - They must be observed, performed and adhered to because they provide the means through which company goals and objectives are achieved.
    - To ensure that procedural controls are adhered to, compliance to them must be monitored and deviations, without reasonable justification, sanctioned.
    - Procedures are flexible. Their effectiveness is measured with results. The best way to measure effectiveness of control procedures is to observe and execute them. Through time, adjustments (fine-tuning and refinements) to such procedures may be undertaken to further strengthen them. Through time, they increasingly shape the business culture of a company.
    - This control oversight role of the board of directors is delegated to the internal audit function and, in smaller and more focused manner to the board committees, in the company.

6. Monitoring performance against business objectives, strategies and plans;

    - As earlier discussed, the board of directors defines (reviews and approves) the broad objectives, goals, plans and strategies of the company.
    - While in practice, senior management frames these goals/objectives and accordingly charts out operational plans and strategies. These are then submitted to the board of directors which needs to approve them because the ultimate responsibility remains with board of directors.
    - Responsibility carries with it the duty to see to it that business objectives, strategies and plans deliver the results for which they were established.
    - In order to do this, the board of directors must monitor operating performance taking account the effectiveness of the plans and strategies in achieving defined objectives and goals.
    - As it comes to the notice of the board that plans and strategies or any component thereof are ineffective, the board has a duty to edit or refine them. If necessary, the board may also need or redefine company's goals and objectives in more realistic terms in order that they are consistent with the nature, extent and complexities of the company's business and its operations.
    - Periodically and as often as necessary, the board measures the effectiveness of the company's business plans, objectives and strategies. This is done when the board deliberates on the financial condition and results of operations of the company.

7. Reviewing and approving sound corporate governance policies

    - A major element and requirement of good risk management practices is good governance. Good governance begins with sound laws and regulations which are further strengthened by internal rules and regulations of the company.

- The observance and adherence to quality standards of good governance is a responsibility of the Board of Directors.
- Regulators oftentimes issue corporate governance guidelines that apply to the Board of Directors, senior management and all key functionaries of the insurance entity.
- Sound governance garners enormous rewards to an insurance company. These may include:
  a. Reliability, solvency and financial stability
  b. Fair and equitable treatment and protection of all interested parties including insurance consumers
  c. Business risks mitigation and control
  d. Efficiency of operations
  e. Minimized wasted resources
  f. Growth (optimized profit) or the company
  g. Contribution to robust growth of the insurance sector
  h. An environment which will attract both local and foreign investment
  i. Increased public confidence
- The first level for ensuring sound corporate governance calls for the responsible activities of the Board of Directors of the insurance entity.
- The Board of Directors, in committing to sound governance principles, is responsible and accountable for establishing:
  a. Policies and strategies, the means of attaining them and procedures for monitoring and evaluating their effectiveness.
  b. Adherence to the operating and performance standards by conducting periodic reviews to ensure that compliance is maintained and expected results are attained.
  c. Sound auditing and actuarial functions, strong internal controls and pay particular attention to risk management.
  d. Proper monitoring is in place to ensure prudent and transparent decision making with no one particular individual having undue absolute power or control.
  e. Disclosure requirements and manner of handling any actual or perceived conflicts of interest so that it does not play a part to the decision making process.
  f. Standards for ethical business conduct.
  g. Policies and procedures that particularly address concerns on actual or potential private (insider) transactions, self-dealing, fair trade practices etc.
  h. Policies and procedures that ensure protection of consumers and the providing assurance of fair treatment of customers, employees and other stakeholders.

C Board Characteristics

- Characteristics describe how an oversight function is organized to carry out its responsibilities
- Characteristics are indicators that a function (board oversight) can be performed. For example, by analogy, my two healthy legs and feet indicate that I can run but until I actually perform the running function, one would not really say that I am capable of running …. Even when I actually begin running, one could not measure my running capabilities until my performance is measured against certain benchmarks. (Performance issues).
- An assessment of Board characteristics considers the features that are needed in order to effectively execute its role and responsibilities, taking into account the nature, scope, complexity and risk profile of the insurance company.
- Although characteristics are usually predictive of the board's effectiveness in directing and overseeing the company's operations, it should not be assumed that the characteristics result in effective performance. This should be tested through the assessment of performance at the Significant Activity level.
- Where characteristics are not considered appropriate to the circumstances of an insurance company, supervisors should document the nature of the weakness and consider whether there is evidence of, or potential for, a performance issue.
- Conclusions on deficiencies in characteristics that have contributed, or may contribute, to ineffective performance should be summarized.
- Recommendations related to these deficiencies should be documented.

1. Board Characteristics - Composition:
    - Compliance with the provisions of enabling legislation and the corporate bylaws.
    - Adequacy of policies and practices to regularly determine Board size, range of directors' qualifications, knowledge, skills, and experience, and level of commitment required to fulfill Board responsibilities. (Fit and proper standards)
    - Appropriateness of Board size, range of directors' qualifications, knowledge, skills and experience, and level of commitment available to fulfill Board responsibilities.
    - Adequacy of policies and practices to recommend the selection, approval, renewal, and succession of directors.
    - Adequacy of policies and practices to ensure that there is sufficient unaffiliated representation on the Board. (Some jurisdictions require, by law or regulation, that insurance companies must have professional independent member of the board).
    - Appropriateness of the unaffiliated representation on the Board. (Fit and proper standards)

- Rules, procedures or protocol requiring attendance and participation of members of the board in all its meetings, quorum requirements both of which encourage full discussions of the members of board before a resolution is arrived at.

2. Board Characteristics - Role and Responsibilities
   - Adequacy of policies and practices to develop, approve, and periodically review the role and responsibilities of the Board (including those of the Chair/Lead Director) and to ensure that directors apply sound corporate governance practices.
   - Specific Board's responsibilities include:
     a. Appointing the CEO, establishing his/her mandate, monitoring his/her performance and approving his/her compensation;
     b. Approving the institution's organizational structure;
     c. Approving the appointment of qualified individuals to senior management positions, monitoring their performance and approving their compensation;
     d. Reviewing and approving, at least annually, human resources programs and compensation policies and practices, including those pertaining to succession planning;
     e. Approving business objectives, strategies and plans, at least annually, and regularly monitoring their execution;
     f. Approving financial statements and related disclosures;
     g. Reviewing and approving, at least annually, risk management policies and practices, and (obtaining assurances) ensuring that they are being adhered to;
     h. Reviewing and approving, at least annually, liquidity, funding and capital management policies and plans and ensuring (obtaining assurances) that approved policies and plans are being adhered to;
     i. Approving the company's communication and disclosure policies, including adoption and implementation of statement of policy on conflict of interest;
     j. Obtaining assurances on a regular basis that the institution's risk management, control environment and management information systems are appropriate and operating effectively;
     k. Requiring implementation of a system to ensure compliance with applicable laws, regulations and guidelines;
     l. Establishing standards of ethical business conduct for the institution and obtaining assurances that they are being adhered to.
     m. Appropriate policies and practices to periodically communicate Board responsibilities to stakeholders.

3. Board Characteristics - Committees

- Adequacy of policies and procedures that prescribe the manner under which committees are created and organized
- Adequacy of policies and fair practices to regularly review the structure and composition of Board committees to ensure that they provide sufficient oversight.
- Adequate policies and procedures to appropriately define the mandate of the committees and the manner under which they provide information or resolutions to the board.
- Adequacy of policies and practices to establish and regularly review board committee mandates.
- Adequacy of policies and practices to ensure that there is sufficient unaffiliated (expert) representation on Board committees.
- Nature and extent to which Board committee mandates promote independent and comprehensive oversight, with timely and regular reporting to the Board.

4. Board Characteristics - Practices

- Adequacy of policies and practices to orient new directors, and periodically update existing directors, on their responsibilities and on the institution's businesses and related risks
- Adequacy of policies and practices to promote independent, effective, and timely decision making, including practices related to the role of unaffiliated directors
- Adequacy of policies and practices to establish and monitor work plans for fulfilling Board goals and responsibilities
- Adequacy of policies and practices to set Board agendas and priorities, arrange and conduct meetings, and record its deliberations and decisions. Extent to which these practices promote transparency in Board accountabilities.
- Adequacy of policies and practices to ensure that directors are provided with timely, relevant, accurate and complete information (including access to independent advice, if needed) to assist them make decisions.
- To determine that responsibilities delegated to Board committees and Senior Management are being discharged effectively
- Extent to which the directors' compensation program promotes prudent decision-making with due regard to the objectives of the company
- With respect to the oversight functions on which it relies (e.g., Internal Audit), the extent to which the Board:
    a. Approves the appointment of the function heads;
    b. Ensures that they have adequate authority, independence and resources to carry out their mandates;

c. Provides appointees with unrestricted access to the Board and/or its committees; and

d. Requires periodic independent reviews of the functions.

5. Board Characteristics - Self-Assessment

- Adequacy of policies and practices to regularly assess the effectiveness of the Board, its committees, and individual directors (including the Chair) in carrying out their responsibilities.
- Appropriateness of policies and practices to communicate Board achievements against its responsibilities to stakeholders.

6. Board of Director - Performance

- The quality of the Board's performance is demonstrated by its effectiveness in providing stewardship and oversight of management and operations of the company to ensure the insurance company is in control, its risks are appropriately mitigated and business objectives, strategies, and policies and practices are appropriate and executed effectively.
- The assessment will consider how actively the Board embraces its responsibilities, bringing its collective skills and experience to bear in providing objective and thoughtful insight and guidance to the institution.
- The regulator will look to indicators of effective Board performance to guide its judgment in the course of its supervisory activities. These activities may include:

  a. conversations with directors and management to determine the nature and extent of discussion, evaluation, and questioning of management at Board meetings,

  b. the nature of discussions at meetings of unaffiliated directors and matters raised from those discussions, and

  c. the extent of interaction of senior management with the Board and/or its committees;

- Review of how particular issues are dealt with by the Board; assessment of Board practices; review of minutes, etc.
- Examples of performance indicators that could be used to guide supervisory judgment include the extent to which the Board:

  a. Performs a regular, in-depth review and evaluation of the institution's business objectives and strategies, as well as events and transactions that could pose significant risks to the institution.

  b. Balancing business objectives with appropriate controls and governance;

  c. Is actively involved in the selection and performance evaluation of the CEO, and other Senior Management as appropriate;

d. Objectively assesses, on a regular basis, the appropriateness of the overall risk tolerance, major business activities and risks of the institution;

e. Establishes thresholds for the type and significance of issues to be brought to its attention (including adverse results, deficiencies in or breaches of limits, controls or policies, and changes in the external environment that might require a review of the operating strategy or control environment).

f. Responds quickly to, and proactively follows up on, issues identified by management, internal or external audit, risk managers, actuaries, the regulator, in order to satisfy itself that appropriate action has been taken or resolution achieved;

g. Defines and periodically assesses for continued relevance, the type, comprehensiveness and frequency of information and reporting it needs to monitor and act on a timely basis, and to ensure that needed changes are made as required;

h. Actively engages in the review of materials presented by management for information purposes or for Board approval, appropriately weighing salient issues and alternatives, engaging in discussions, challenging management's underlying assumptions, and requesting additional information and/or explanation;

i. Ensures its meetings provide an appropriately balanced focus on key issues and ongoing governance requirements;

j. Ensures that there is sufficient opportunity for unaffiliated directors to meet 'in camera', and seriously considers the output of such meetings;

k. Proactively engages in reviewing the mandates, resources and scope of work of the key oversight functions upon which it relies for risk management, control and compliance assurances, and ensuring that Senior Management appropriately supports these functions; and

l. Performs a comprehensive self-assessment against its responsibilities and promptly addresses matters identified.

D <u>Basic documents for review</u>

- Examples of documentation that the regulator may review in formulating its assessment of the characteristics of the Board include:

  1. The curricula vitae of directors;
  2. Board mandates;
  3. Directors' manual;
  4. Board work plans;
  5. Meeting agenda and related presentation materials,
  6. Minutes of board meetings,
  7. Follow-up documentation related to committee decisions; and,

8. Self-assessment reviews completed by directors.

III SENIOR MANAGEMENT

A Role of Senior Management

- Senior management is responsible for directing and overseeing the effective management of the insurance company's operations.
- Senior Management comprises career professionals who are entrusted with the duty to operate the company in each key area of activities (departments).
- Knowledge of business is a critical element of senior managers. Leadership and team work play crucial role in ensuring productive and efficient management.
- Key responsibilities of senior management include:
    1. Developing business objectives, strategies, plans, organizational structure and controls, and policies, for Board approval;
    2. Developing and promoting sound corporate governance practices, culture and ethics (in conjunction with the Board) across the company;
    3. Executing and monitoring the achievement of board-approved business objectives, strategies, and plans and the effectiveness of organizational structure and controls;
    4. Executing the day to affairs of the company to ensure productivity and profitability and growth of that company.
    5. Managing company's resources efficiently.
    6. Developing and executing risk management policies and producers in all areas of operation.
    7. Ensuring that the Board is kept well informed of the financial condition and operating requirements and operating results of the company.

B Senior Management Characteristics

- Characteristics describe how a function is organized to carry out its responsibilities
- Characteristics are indicators that a function can be performed. For example, by analogy, my two healthy legs and feet indicate that I can run but until I actually perform the running function, one would not really say that I am capable of running …. Even when I actually begin running, one could not measure my running capabilities until my performance is measured against certain benchmarks. (Performance issues).
- An assessment of Senior Management characteristics considers the features that are needed in order to effectively execute its role and responsibilities, taking into account the nature, scope, complexity and risk profile of the insurance company.

- Although characteristics are usually predictive of the senior management's effectiveness in managing and operating the company, it should not be assumed that the characteristics result in effective performance. This should be tested through the assessment of performance at the Significant Activity level.
- Where characteristics are not considered appropriate to the circumstances of an insurance company, supervisors should document the nature of the weakness and consider whether there is evidence of, or potential for, a performance issue.
- Conclusions on deficiencies in characteristics that have contributed, or may contribute, to ineffective performance should be summarized.
- Recommendations related to these deficiencies should be documented.
- The following criteria describe the characteristics to be used in assessing the quality of Senior Management oversight of the company's activities and related risks, with due consideration to the company's safety and soundness. The application of the individual criteria will depend on the nature, scope, complexity, and risk profile of the institution and will be assessed collectively, together with Senior Management performance and overall effectiveness.

1. Senior Management Characteristics - Mandate
    - Supervisors should explain whether Senior Management's mandate and the nature and extent of delegated responsibilities (by the Board to the CEO and, in turn, by the CEO to other members of the Senior Management team) are appropriate to the needs of the institution.
    - Supervisors should note any material changes since the last review of the related policies and practices supporting this process.
    - Mandates may be formally documented, delineated in position descriptions, or verbally communicated, depending on the size and complexity of an institution.
    - The important thing is that each member of senior management, from the CEO down, should have clearly defined mandates, roles and objectives and from which they clearly understand their duties, responsibilities and accountabilities.
    - In smaller or less complex institutions, Senior Management may retain some or all oversight responsibilities that larger, more complex institutions may delegate to independent risk management control functions. Where this is the case, these oversight roles should be considered in assessing Senior Management effectiveness
    - Supervisors should consider:
        a. Extent to which the Board has delegated to the CEO responsibility for developing and implementing policies and practices for the effective management of the institution's operations. This may include, but is not limited to:
            1. Strategic management;
            2. Risk management;

3. Liquidity and funding management;
4. Capital management;
5. Management of operations
6. Protection of policyholders' interests
7. Fulfillment of policyholders' reasonable expectations
8. Internal control environment;
9. Ethical business conduct;
10. Standards of sound corporate governance.

- Adequacy of policies and practices to delegate responsibilities from the CEO to other members of Senior Management and to regularly review the appropriateness of the delegation. (fit and proper)
- Appropriateness of the mandates for Senior Management positions and the extent to which they clearly define lines of authority, responsibility and accountability.
- Extent to which these (How senior managers') mandates are communicated across the institution.
- With respect to the oversight functions on which it relies (e.g., Internal Audit), the extent to which Senior Management:
  a. Approves the appointment of the function heads;
  b. Ensures that they have adequate authority, independence and resources to carry out their mandates;
  c. Provides appointees with unrestricted access to Senior Management and/or its committees; and
  d. Requires periodic independent reviews of the functions.

2. Senior Management Characteristics - Organization Structure
   - Supervisors should explain whether the company's organization structure and its policies and practices to regularly review the structure, are appropriate to the needs of the institution.
   - The organization chart should be analyzed, highlighting any material changes since the last review.
   - Supervisor should consider:
     a. Adequacy of policies and practices to regularly review Senior Management organization structure.
     b. Appropriateness of Senior Management organization structure.

3. Senior Management Characteristics - Committees

   (Examples: ExCom; ManCom; Corplan; MarCom)

- Supervisors should explain whether the committees' organization structure and its policies and practices to regularly review the structure, are appropriate to the needs of the company.
- The organization structure of committees should be analyzed, highlighting any material changes since the last review.
- Supervisors should consider:
  a. Extent to which Senior Management committees are used to oversee the management of significant activities and related risks.
  b. Extent to which Senior Management committee mandates are clearly defined and communicated across the company.

4. Senior Management Characteristics - Expertise

- Knowledge of business and industry experience are crucial qualities of senior management.
- Also important is their commitment and loyalty to the company.
- It is prudent corporate governance practice to require key company officials to update their personal resumes regularly (at least every 2 years). This process aids the board of directors in assessing competencies and in aptly assigning to them their respective portfolios (duties and responsibilities).
- Supervisors should briefly discuss the adequacy of the company's policies and practices for determining the skill and experience (competencies) requirements for senior management as well as whether senior management actually has the requisite skills and experience.
- Supervisors should obtain a list of senior management (executives) and brief description of their qualifications and experience and analyze any material changes since the last review.
- Supervisors should consider:
  a. Adequacy of policies and practices to regularly review the range of qualifications, knowledge, skills and experience required to fulfill Senior Management responsibilities.
  b. Appropriateness of the range of qualifications, knowledge, skills and experience available to fulfill Senior Management responsibilities.
  c. Adequacy of policies and practices for the selection, appointment and succession of Senior Management.

d. Extent to which management development programs are available to Senior Management.

5. Senior Management Characteristics - Practices

- Supervisors should briefly discuss the adequacy of policies and practices related to the various areas to the needs of the institution. (The term "policy" refers to the guiding principles by which an institution conducts its activities. An institution's regular or usual practices are manifestation of these principles whether written or unwritten).
- Supervisors should consider:

a. Adequacy of policies and practices to establish business objectives, strategies and plans, and to monitor the institution's performance against them.

b. Adequacy of policies and practices to regularly review the institution's liquidity, funding and capital management policies and to obtain assurances that approved policies are being adhered to.

c. Extent to which risk management policies and practices are:

1. Communicated and observed across the company (Enterprise-wide);
2. Impact balance sheet accounts, operating results (profit & loss accounts), processes, activities, etc.
3. Co-ordinated with strategic, capital and liquidity management;
4. Prudent in the context of the risk profile of the insurance company;
5. Reviewed regularly for appropriateness; and

d. Adequacy of processes, techniques and criteria used to consistently identify, measure, monitor, control and report significant risks, and to ensure that approved risk management policies and practices are adhered to.

e. Adequacy of policies and practices to ensure regular review of the organizational and procedural control environment.

f. Adequacy of policies and practices to ensure compliance with applicable laws, regulations and guidelines.

g. Extent to which human resource policies and practices give priority to attracting, developing and retaining high-calibre staff, and promoting good morale within the institution. (employee retention incentives)

h. Extent to which compensation programs promote prudent risk taking and are aligned with the long-term strategic objectives for the institution.

i. Adequacy of policies and practices for communication and disclosure to stakeholders.

j. Extent to which management policies and practices promote sound corporate governance and ethical business conduct.

6. Senior Management Characteristics - Board Oversight

- Supervisors should briefly describe the involvement of the Board in providing oversight over Senior Management.
- In a corporate structure, responsibilities are delegated from the Board to Senior Management and, depending on the size and/or complexity of an institution, may be further delegated to a specific oversight function like Internal Audit.
- While responsibilities can be delegated in this manner, accountabilities cannot.
- Accordingly, a structured reporting back to, and oversight by, the Board is needed to ensure that Board accountabilities are met through the delegation process.
- Board oversight enhances the overall effectiveness of Senior Management and, in turn, company's ability to leverage off Senior Management. The benefit of including this element in the Senior Management criteria is to bring the granularity needed to fully assess the characteristics of the Senior Management function.
- Supervisors should consider:

  a. Extent to which Board (or a Board committee) approval is required for:

     1. The institution's organization structure and changes thereto;
     2. Senior Management organization structure and changes thereto;
     3. Senior Management appointments and mandates;
     4. Business objectives, strategies and plans;
     5. Liquidity, funding and capital management policies;
     6. Policies and practices for managing significant activities and related risks;
     7. Significant human resource policies and practices; and
     8. Communication and disclosure policies and practices.
     9. Good corporate governance, practiced across all senior management.

  b. Adequacy of policies and practices to promote full, open and timely disclosure to and discussion with the Board (or its committees) on all significant issues.

  c. Adequacy of policies and practices established by the Board (or a Board committee) to regularly review Senior Management's performance and compensation.