

August 25, 2016

Attention: Lucie Armour  
Directorate for Financial and Enterprise Affairs  
Organisation for Economic Co-operation and Development (OECD)  
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Via email: [lucie.amour@oecd.org](mailto:lucie.amour@oecd.org)

**ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD) DRAFT  
RECOMMENDATIONS OF THE COUNCIL ON GUIDELINES ON INSURER GOVERNANCE**

Dear Sir/Madam,

The International Federation of Accountants® (IFAC®) is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. It works with its member organizations around the globe to achieve this goal. Through its current membership of more than 175 professional accountancy organizations in 130 countries and jurisdictions, represents nearly 3.0 million accountants in public practice, industry and commerce, government, and education.

IFAC values the opportunity to provide the following comments on the OECD's draft recommendations on guidelines on insurer governance.

**General Comments**

IFAC recognizes that good governance is crucial to trust and confidence in all sectors of—and underpins activity, growth, and stability in—the global economy. The need for good governance is a prerequisite across all sectors—public, private, large, and small, and is essential to: facilitating high-quality reporting; combatting corruption, money laundering and terrorist financing; the success of organizations and economies; and importantly, economic stability.

Providing governance guidelines and high level principles for insurers is important to promoting a strong foundation for robust ongoing performance and credibility of this important financial sector. However, it is important to note that the guidelines and principles do not, of themselves, ensure that governance practices are properly implemented and that appropriate, ethical conduct and behavior result. Therefore, consideration should be given to the manner in which the guidelines are promoted and used. It is not just a question of complying with the guidelines—"comply or explain"—but rather recognizing the need to embrace and enact the principles of good governance and organizational behavior.

IFAC commends the OECD on the development and revision of these guidelines, recognizing that they are quite generic in nature and might benefit from more specific references and applicability to insurers.



## Specific Comments

### (i) *Clarification of the Word "Independence"*

Throughout the draft guidelines the importance of independence is mentioned on many occasions. However, it is not always clear what independence is being recommended. For example, the discussion on the Board of Directors (refer to Section I. A. 3.) refers to the need for independence, but it is not until the grey shaded box on page 6 that it explains that this means "independent of the group and its management." For the section on Key Executives (refer to Section I. B.), there is no such clarification with respect to their independence.

### (ii) *Codes of Ethics and Conduct (refer to Section I. A. 2. b. on page 6)*

In this section on ethics and business conduct there is no reference to codes of ethics or conduct. While IFAC recognizes that the presence and promotion of such codes do not of themselves ensure that required types of behavior are exhibited; they are typically seen as an important element of broader organizational ethics and conduct arrangements. IFAC believes that consideration should be given to highlighting the importance of codes of ethics and conduct in promoting the right culture and behaviors.

### (iii) *Non-executive and Independent Directors (refer to Section I. A. 3. b. on page 8)*

The guidelines refer to non-executive directors, and in the second dot point of this section reference is made to there being a sufficient number of non-executive board members. The reference is included under a sub-title of "independence", and so the inference that can be drawn is that the terms "non-executive board member" and "independent board member" can be used interchangeably. In some jurisdictions, the two terms may have different meanings and not being an executive does not automatically imply having sufficient independence to be called independent. IFAC recommends that consideration be given to clarifying this point.

### (iv) *Corporate Governance being the Overarching System (refer to Section I. B. 2. on page 10)*

In the fifth point of this section, the draft guidelines refer to corporate governance being an integral element of the risk management and internal control system. IFAC would argue that the arrangements would be better characterized the other way around. That is, that risk management and internal control are integral elements of robust corporate governance. Indeed, the guidelines identify this relationship in Section II. A. where it notes: "*The risk management and internal control system should be well integrated into the insurer's overall system of governance.*"

### (v) *Accountability of Key Executives (refer to Section I. B. 5. on page 11)*

This section mentions that key executives are accountable for their performance, but does not specify to whom they are accountable. IFAC believes that consideration be given to providing greater clarity on this matter.

### (vi) *Composition of the Audit Committee (refer to Section I. C. on page 11)*

This section, dealing with the audit committee, does not make reference to the composition of the audit committee, or attributes that one would expect its members to possess; for example, that at least one (or some) of the audit committee members should have knowledge of and expertise in, the



areas of financial reporting auditing. IFAC recommends that consideration be given to including appropriate wording about the composition that might best serve an insurer.

(vii) *Role of External Auditor (refer to Section I. D. 1. on page 13)*

IFAC welcomes the reference to the need for an external audit to be conducted in accordance with high-quality auditing standards (second dot point).

However, the wording in the first sentence is a little unusual in that it states that an external auditor should perform an audit, which may be read by some as suggesting that the external auditor is a part of the insurer organization. IFAC recommends that the wording be clarified to note that an external auditor should be appointed to perform an audit.

Additionally, in the two dot points that follow this statement, it indicates that the external auditor should be “verifying” certain matters. IFAC notes that verification of internal controls is not required to be undertaken in all situations. For example, in accordance with International Standards on Auditing<sup>1</sup>, an auditor “*shall obtain an understanding of internal control relevant to the audit*”<sup>2</sup> and “*design and perform tests of controls to obtain sufficient appropriate audit evidence as the operating effectiveness of relevant controls.*”<sup>3</sup>

Finally, there is no requirement in ISAs for an external auditor to verify the value of the insurer’s policy liabilities. This might take place as a consequence of the auditor’s assessment of and responses to specifically identified risks. However, it is likely that in many jurisdictions a verification requirement might exist as a prudential supervision requirement.

Consideration might be given to revising the wording of these two dot points accordingly.

(viii) *Requirements for Appointment of External Auditor (refer to Section I. D. 3. on page 13)*

The second dot point in this section states that the external auditor should be a member in good standing in a professional association. IFAC strongly supports strong, well-functioning professional accountancy organizations, but also recognizes that in some jurisdictions governments and audit regulators may impose additional registration requirements on auditors. In particular, this is the case where an auditor is providing audit services to public interest entities; which include insurance companies in several jurisdictions. With that in mind, IFAC suggests that the wording of this section might be strengthened by making reference not just to the professional accountancy organization, but also to other regulatory registration requirements, as appropriate.

(ix) *Reporting Lines of Internal Auditor (refer to Section II. B. 4. on page 17)*

This section, dealing with internal audit notes that the internal audit function should be able to report any major findings or material problems directly to the external auditor. IFAC agrees with this statement; however, it feels that an important aspect of the internal audit structure and reporting arrangements is the ability of the internal audit function also to report directly to an audit committee,

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<sup>1</sup> International Standards on Auditing (ISAs) are promulgated by the [International Auditing and Assurance Standards Board](https://www.iaa.org/)

<sup>2</sup> Refer to ISA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, Paragraph 12

<sup>3</sup> Refer to ISA 330 *The Auditor’s Responses to Assessed Risks*, Paragraph 8



comprising a majority of non-executive directors (or in the absence of an audit committee, directly to the board). Consideration should be given to making this inclusion.

(x) *Compensation and Firm-wide Performance (refer to Section II. C. on page 18)*

The first dot point links compensation arrangements and firm-wide profitability. IFAC recommends that consideration be given to making a link between compensation, and either firm-wide sustainability, or longer-term value creation and preservation.

(xi) *Market Conduct and Financial Education (refer to Section IV. D. on page 23)*

The discussion in this section appears to lack a description linking the assessment of clients' understanding of insurance and risks (refer to Section IV. D. 1. first dot point), and the information insurers provide to customers and policyholders (refer to Section IV. D. 3.). IFAC suggests that the information provided should be in the context of the assessed level of understanding of insurance products by existing and prospective customers and policyholders.

(xii) *Other Suggested Edits*

IFAC offers the following minor suggested edits for your consideration:

- In the second dot point, of Section II. B. (on page 15), in describing the control functions that an insurer may have in place, it might be relevant to include the wording "at a minimum" after the word "include" in the first line. This emphasizes that the functions listed are typically thought of as essential, but leaves open the option of insurers establishing other control functions, such as a data privacy and security function.
- In Section IV. A. (on page 20), the introduction uses the term "shareholders" and in the parentheses that follow states "or member-policyholders". However, throughout Section A., the term "member-policyholders" or "members" is used. Therefore, it is suggested that the title be revised to emphasize this term.

Please do not hesitate to contact me if you have any questions, or require further clarification, about the contents of this letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Faye Choudhury", written over a light blue horizontal line.

Faye Choudhury  
Chief Executive Officer