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Governance, Risk and Control

Insurers seek simplicity to square the circle of regulatory compliance and agility

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"Simpler structures, clearer accountabilities and better management information should serve both the regulatory agenda and the needs of the business"

In the wake of the Senior Insurance Managers Regime, how is the industry balancing its GRC arrangements to take into account these new requirements with the commercial need to stay agile in a soft and increasingly disrupted market? Many practitioners see an opportunity in embedding new accountabilities in ways that help the business.

It's clear that governance, risk and compliance (GRC) are increasingly important across the insurance market and, in the wake of the Senior Insurance Managers Regime (SIMR), focus is shifting from the effectiveness of risk and control capabilities and grappling more with specifics, such as:

- Which individuals carry formal responsibilities?
- Do we have enough evidence to show who made each decision?
- What bearing do parent companies have on decisions?

The challenge is how to reconcile this additional scrutiny with the need for agility in decision-making. In theory, the path is obvious: simpler structures, clearer accountabilities and better management information should serve both the regulatory agenda and the needs of the business to innovate sustainably and make faster, better decisions.

To see whether this can happen in practice, we can look at the well-spring of the new regime: banking. The idea there has been to create clearer 'lines of sight' on reporting and accountability, from the Board right through the business.

That begs the question: does the Board 'get it'? Are they feeling forced to comply or have they embraced the regime as a way of improving their firm's decision-making? Is improved GRC delivering lower down the structure?

KPMG recently hosted a round table with representation from across the sector and asked GRC practitioners how the insurance sector was responding, what it had learned from the experience of the banks and how it is tailoring its approach to GRC in light of these challenges.

False sense of security

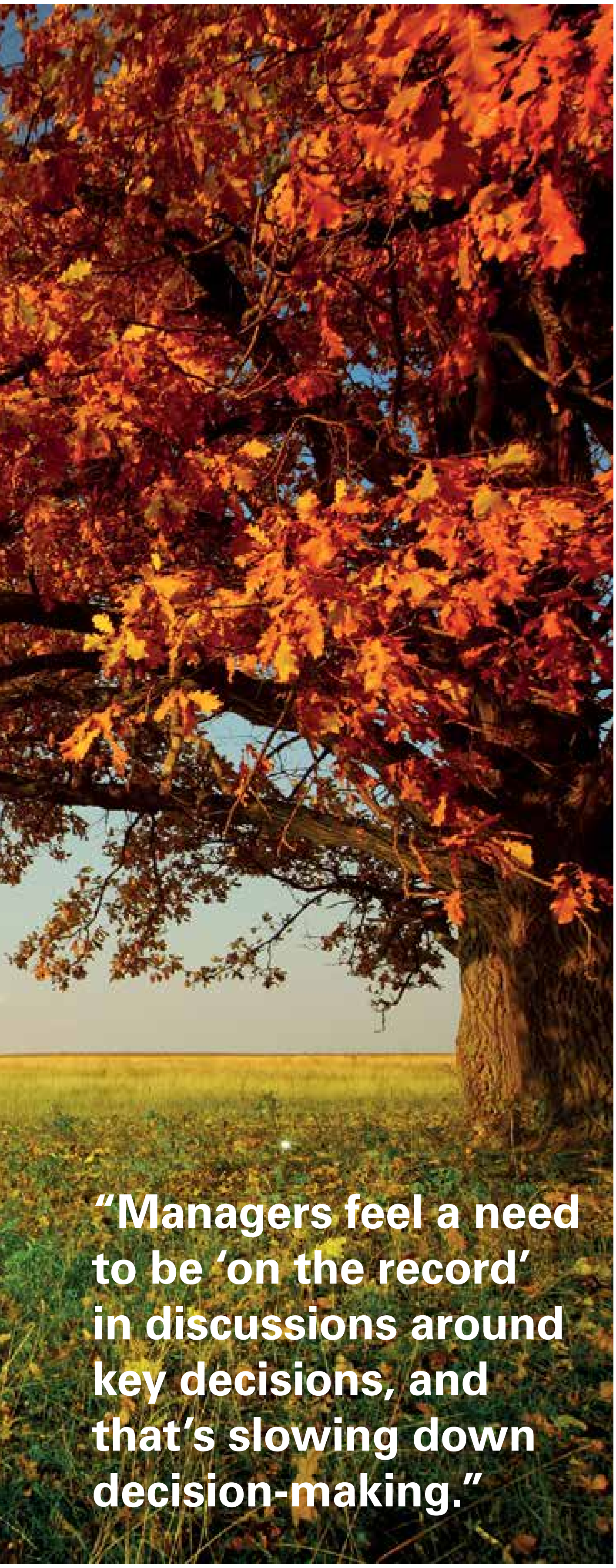
One compliance lead says the practical steps to embed the regulations are not actually too taxing. But that's made it harder to drive home the need for change. For many insurance senior managers, there's a feeling that the new regime isn't that different in practice to existing regulations.

So, while some managers remain concerned about the potential for regulatory intervention as a result of the new regime, others are sanguine. "Some executives think the business is unlikely to be scrutinised because our sector hasn't caused concern in the past," explains one GRC executive. But they also warn that there's a risk the regulator might use SIMR as an opportunity to broaden their objectives around GRC in the market and send a message to the individuals who have responsibility for achieving good outcomes for customers and shareholders.

There is also some uncertainty as to whether the new regime is aimed at punishing miscreants or preventing future failures of governance. Individual examples of regulatory probing into insurance businesses, such as asking whether Prescribed Responsibilities have been appropriately assigned, is now starting to create a mood for change among many managers and GRC professionals alike.

The danger, according to many GRC professionals, is that risk and compliance teams (and their businesses) reacting to this early pressure will be "solving for regulation" rather than attempting to address culture, behaviours, systems and processes that might – even outside the scope of the regime – benefit from change. This suggests there's a clear opportunity to re-tool behaviours, cultures, systems and processes towards improved business agility and greater efficiency while embedding the requirements of the regime.

How might that look in practice? One GRC manager says having three degrees of separation between the Board and the material decision-makers is a way of sense-checking whether governance is proportionate – and keeping a check on accountability.



Who knew what, how and when?

Senior managers are getting more interested in how SIMR affects their own ability to demonstrate accountability; or deliver management information that might be shown to be material in decision-making. Old-fashioned methods – having high level minutes of a meeting, say – now seem unfit for purpose. Managers feel a need to be ‘on the record’ in discussions around key decisions, and that’s slowing down decision-making. Then, making sure management information is presented in a way the regulator would expect – not just that supports smarter decision-making – is an additional challenge.

Senior managers on the hook for potential failures are also asking whether they have people in their teams they can trust (due to capability and experience). The GRC practitioners we spoke to agree that they have seen a drive to get stronger people and more discipline into key roles. Senior managers, risk and compliance officers have to think hard about how each person might react in the setting of a formal investigation, says one. The softest question from a regulator – “talk us through how you fulfil that particular responsibility” – might flummox even seemingly cool heads.

Consideration of personal accountabilities is also having a greater impact in the recruitment for senior positions. Learning from the banking sector, for example, it’s now more common for new recruits to undertake thorough due diligence on the GRC framework and risk and compliance function before joining to assess whether they will have the right support around their accountabilities.

Culture of compliance

This need to seek reassurance also applies to forward-thinking executives and NEDs, who are starting to ask, "How can I get a handle on a culture I'll be held accountable for"?

Culture is hard to measure. Worse, some Boards feel that it's unfair to target insurance for this treatment at all. One compliance officer says there is a risk that GRC, and the new regulations in particular, might be treated as something of a sideshow by Board members who don't 'get it'.

"When you add in the fact we're in a soft market and facing disruptive forces, executives will readily shift their focus to the core business plan, not GRC," says one market participant. If you have people already working long hours worrying about the business, then introducing additional GRC requirements could be a morale killer.

Turning this culture challenge into an opportunity for business transformation starts with the CEO. If they believe in the value of GRC and live it, senior management and first line management will buy in enthusiastically. If the CEO is a cynic? Not so much.

What next? Get busy...

So, what are risk and compliance professionals planning as the new regime beds in over the next couple of years? Mapping clear lines of accountability and having sound rules in place is clearly a must.

In smaller firms, different roles reside in one individual; and individuals are often exposed to decision-making outside their core area. Delivering regime-compliant committee structures and lines of control in these smaller and fast-growing insurance businesses will be a challenge.

Whatever the policymakers say, there is a fear that some supervisors might take it upon themselves to make an example of firms. That means insurers might run into problems even if they have the best of intentions. So, documentation and future proofing is a clear priority.

Record-keeping is also key. Senior managers need reassurance that the firm's structures can deliver the evidence to robustly support a decision they were involved in and demonstrate compliance years after the event – even when they might have left the business.

Our conversations reveal a multitude of factors facing the sector: new rules; Board complacency; the need for business agility; desire to invest in people and technology; and regulators finding their own feet. This stew of GRC pressures on insurers could seem daunting.

With the right support, however, the new regime can be embedded in business as usual practices and communicated well throughout the organisation. GRC can add value – not just be a burden.

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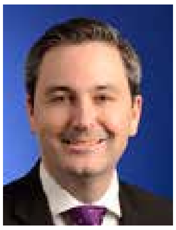

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