

Paragraph	Comments
General comments	<p>Thank you for the opportunity to comment on this draft Issues Paper.</p> <p>We agree that sound corporate culture is important, and that the development of sound culture could lead to a fundamental solution to conduct risks. However, corporate culture is diverse by nature, and each insurer's culture has specific features which the company has selected to achieve sound business conduct. Given that any assessment of an insurer’s culture as "good" or "bad" is very subjective, we are concerned that setting a single assessment method and/or approach could bring unintended consequences.</p> <p>In addition, it should be noted that even effective management methods could lower staff morale if applied excessively, possibly resulting in the emergence of new conduct risks.</p> <p>Therefore, we suggest clarifying within this Issues Paper that it is not intended to endorse any particular type of corporate culture, and that diversity is respected and ensured regarding how an insurer's culture should be.</p>
4	<p>We agree that this Issues Paper is not intended to provide an exhaustive analysis of the topic or to develop detailed supervisory guidance.</p>
5	<p>We agree that "the scope of the paper is limited to exploratory observations on the importance of insurer culture for insurers and supervisors". "Further engagement and the possible development of additional IAIS material" should be determined after duly examining the necessity and probable effectiveness in view of various dynamic elements that constitute an insurer's culture, differences among countries, regions and insurers, the subjectivity of assessing an insurer's culture, and other factors. When working on further engagement and developing additional material, due consideration should be given to respecting diversity in insurer culture.</p>
6	<p>We agree with the first sentence, because, while it is desirable that each insurer examines and develops its own corporate culture, it is inappropriate for supervisors to force insurers to adopt one "right" or "good" culture.</p> <p>"Whether an insurer's culture appears healthy, sustainable, purposeful and safe" is judged subjectively. As such, we suggest clarifying in this paragraph that it is not intended to endorse any particular type of corporate culture, and that diversity is respected and ensured regarding how an insurer's culture should be.</p>
9	<p>We agree that it is necessary to continuously work to improve an insurer's culture.</p>
13	<p>As for the second sentence ("office lay-out, dress code and style of communication may be indicators of the organisation’s transparency and credibility"), the causal link is unclear regarding how such subjective elements could be indicators of an organisation’s transparency and credibility. Now that the importance of diversity and inclusion is increasingly recognised, it seems inappropriate for supervisors to make a reference to the elements for which diversity should be ensured. Therefore, we suggest deleting "office lay-out, dress code and style of communication".</p>

17	<p>We agree that "assessing an insurer’s culture can be highly subjective and may require the thoughtful exercise of supervisory judgment on a case-by-case basis".</p> <p>We understand that it is important for supervisors to be able to identify and deal with root causes underlying certain recurring issues sooner and more accurately. However, given the subjectivity of the matter, conditions for supervisory interventions, if examined, should be well-balanced, and should not be too strict for insurers.</p> <p>The phrase "critical eye" is used in the second sentence to describe supervisor attitudes to observing insurer culture. We understand that this means supervisors make analytical assessments with an appropriate degree of skepticism (without taking assessments by others and preconceptions at face value).</p>
25	<p>Given that the examples following this paragraph illustrate not only negative cases, but also cases where Covid-19 has led to changes for the better, this paragraph lacks balance in that it does not reflect these positive aspects. To explain that Covid-19 has brought both negative and positive effects, we suggest revising the third sentence as follows:</p> <p>Many of the attributes of an effective culture described above can help when dealing with change or responding to stress situations such as Covid-19.</p>
26	<p>As this paper deals with a subjective topic, future work on it should be implemented after duly examining the necessity and probable effectiveness.</p>
31	<p>Foci of "shareholder interests" are varied, from short-termism to SDGs, which are increasingly sought after. We understand that, in this context, "shareholder interests" refer to the short-term interests of shareholders. Therefore, we suggest revising the last sentence as follows:</p> <p>On the other hand, a Board whose decisions are driven solely by interests of short-term-profit-oriented shareholders (culture) may set aggressive profitability targets (prudential) that could incentivise unfair product design, sales and claims handling practices by management and staff (conduct), which could in turn lead to large scale consumer complaints, litigation, reputational damage and significant longer-term losses for the insurer (prudential and conduct).</p>
36	<p>As it will help avoid the situation where supervisory assessments are excessively dependent on individual assessors' subjectivity, the development of tools and approaches for identifying, assessing and managing misconduct risk that focus on assessing underlying cultural factors is important. However, in view of various dynamic elements that constitute an insurer's culture, differences among countries, regions and insurers, the subjectivity of assessing an insurer's culture, and other factors, such tools and approaches, if developed, should be well-balanced, and should not be overly prescriptive.</p>

38	While we understand that incentives could be effective in promoting a culture desirable to each insurer, it is necessary to note that setting excessive incentives, which could lead to behaviours that overemphasise the achievement of goals, may adversely affect soundness and increase misconduct risk.
49	Insurers are required to consider various stakeholders, respond to different interests, and ensure fair policyholder treatment. We agree with the reference regarding the consequences of focusing on the interests of specific stakeholders.
60	<p>(Example 2 of Japan, following Paragraph 60)</p> <p>As it refers to a specific case, the example is not intended to identify universal problems in Japan. To clarify this, we suggest revising the first sentence as follows:</p> <p>The FSA found a certain case where top management put corporate goals ahead of internal rules.</p>
65	We agree that "the boundaries of the Board’s accountability depend on the nature of the insurer (eg publicly listed) and may vary by jurisdiction".
87	<p>Future work should be determined after duly examining the necessity and probable effectiveness in view of various dynamic elements that constitute an insurer's culture, differences among countries, regions and insurers, the subjectivity of assessing an insurer's culture, and other factors.</p> <p>In addition, it is important to avoid the situation where supervisory assessments of insurer culture and conduct risks are excessively dependent on individual assessors' subjectivity. Therefore, practical supervisory guidance, if developed, should be well-balanced, and should not be overly prescriptive. Ultimately, such guidance should be implemented based on each jurisdictional supervisor's discretion.</p>