Promoting Ethical Culture and Conduct Through Corporate Governance and Systems

A CORPORATE GOVERNANCE BEST PRACTICE PAPER
FROM THE INSURANCE CULTURE AND CONDUCT STEERING COMMITTEE

March 2022

TABLE OF CONTENTS

INTRODUCTION & STRUCTURE

This document was prepared by the Corporate Governance & Oversight sub-committee of the Insurance Culture and Conduct Steering Committee (ICCSC). This paper should be read in line with the <u>Information Paper on Culture and Conduct: Practices of Financial Institutions</u>, published by the Monetary Authority of Singapore (MAS), as the recommendations are intertwined.

Goal of the sub-committee is to define the corporate governance and oversight target operating model (TOM) to cultivate the desired culture and conduct in the Insurance Industry under MAS.

The recommendations of the sub-committee are focused on four key areas.

LEADERSHIP AND TONE FROM THE TOP	GOVERNANCE & SYSTEMS	CAPABILITY & CAPACITY	PERFORMANCE MANAGEMENT & REMUNERATION
• Tone from the top • Desired culture • Accountability • Independence and oversight	• Required functions (e.g. Board, auditors) • Lines of defence • Segregation of governance accountabilities and managing conflict of interest	• Core processes and capabilities such as internal regulations, penalties and whistleblowing • Training for staff	• Remuneration systems of boards, management and employees • Remuneration during product design • How to measure culture and governance • Available toolbox

This document aims to support the work of the ICCSC.

References in the paper are made to staff and intermediaries.

• Employees include all staff directly employed by the company

• Intermediaries may include agents, financial advisors, distributors, and brokers who are normally independent, but may receive commissions and payments from an insurance company

The International Best Practices (IBP) sub-committee of the ICCSC was tasked to research, analyse and synthesise international best practices on culture and conduct for sharing with the committee members.

The IBP sub-committee paper consolidated responses to 10 research questions and provided inputs on regulatory expectations in certain jurisdictions, industry best practices and/or international standards as listed below.[1]

The IBP sub-committee provided its research paper on Corporate Governance and Structure, focusing on four areas:

• Mindset of culture;

• Leadership, Accountability, Governance and Systems;

• Measurability of Culture and Governance; and

• Communication.

The Corporate Governance and Structure sub-committee has referred to the IBP sub-committee paper and taken guidance, wherever appropriate, in structuring its recommendations to the industry.

---

1   Please refer to apendix.

1. LEADERSHIP AND TONE FROM THE TOP

Corporate governance must start with a firm's leadership,[2] and the organisation must set the right tone from the top for the right culture and conduct to permeate among staff. This is probably the most critical ingredient necessary for the growth of the right culture and conduct across all levels of employees, and intermediaries (representatives, both employees and self-employed persons) directly and indirectly employed by the company.

Setting the right tone is important because it fosters open conversations about conduct and spells out the obligations of organisations and their expectations of employees and intermediaries. It means letting these stakeholders know what is expected of them, how their organisation can support them, and making values and principles an explicit part of their decision-making process.

It is recommended that the leadership sets the tone to ensure the three pillars of Governance and Systems; Capability and Capacity; and Performance Management and Remuneration (including measurability of culture and governance), are in place to promote the right culture and conduct environment at the workplace (examples of what this means will be provided Section 1.4).

LEADERSHIP		
Sets the tone from the top and expectations of employees and intermediaries		
GOVERNANCE AND SYSTEM	**CAPABLITY AND CAPACITY**	**PERFORMANCE MANAGEMENT AND REMUNERATION**
Provides the structures and processes needed for implementation	*Helps build aptitude, skills and knowledge*	*Reinforces conduct expectations and recognises desired behaviours*

Setting the right tone will have to start with a clear vision from the Board of Directors. The company's senior management will then execute the vision by serving as role models and communicating this vision clearly to all in the organisation, including the intermediaries carrying out advisory roles contracted by the company.

Below are recommendations for what constitute strong leadership and tone from the top. To set the right tone, leadership must communicate to employees and intermediaries what is expected of them, lead by example, provide a safe mechanism for speaking up, and reward desired behaviours. The desired outcome is to have a trickle-down effect for the right culture and conduct on the company's employees and intermediaries.

1.1 Role of the Board of Directors and Senior Management

The Board and Senior Management can steer the company's culture and conduct (C&C) agenda by:

- Setting the tone from the top and communicating it to organisation-wide employees and intermediaries;

- Providing direction and oversight for key C&C initiatives;

- Reviewing whistleblowing and misconduct cases;

- Approving internal policies and codes of conduct to reinforce the espoused values;

- Monitoring effectiveness of incentive structure of front offices in driving the right culture and behaviours.

The Board shall consider establishing a Board-level and/or management-level C&C Committee. These would provide oversight on all policies, guidelines and programmes relating to C&C to support and foster a strong and responsible organisational culture. The committee(s) would set the tone from the top on all aspects relating to culture and would need to ensure there is an effective mechanism for communicating this throughout the organisation (e.g. e-learning, facilitated training sessions, town halls, divisional meetings, among others) (see sections 2.1.2 and 2.1.3).

If it is a management-led C&C Committee, there needs to be regular reporting on key metrics to the Board (e.g. quarterly or bi-annually).

Companies may opt to fold the responsibilities within existing committees, but the recommendation is that there needs to be a clear culture and conduct framework that the Committee drives from the top and is overseen by the Board of Directors.

---

2   By "leadership", we refer to the Board and Senior Management.

1. LEADERSHIP AND TONE FROM THE TOP

1.2 Communications Framework

Companies should implement multiple means of communicating company-wide news/strategy as well as its culture and values to ensure alignment of messaging at the lowest level of the company and ensure all employees receive the same message.

Communication of the company's Code of Ethics and/or Code of Conduct forms a critical component of the framework. The prescribed codes are made accessible to employees and intermediaries on the expected behaviours, based upon the company values. Advanced organisations include the application of these behaviours towards business partners, the community and the environment.

Communication from the top must be regular to ensure messaging on culture/values is continually reinforced. Examples of top-down communication include messages from the CEO, dialogues with leadership on culture/conduct, newsletters featuring tone from the top, town halls, and divisional meetings. Sharing incidents, near misses and consequence management at divisional meetings is a good way to raise and sustain awareness.

Companies should also have in place various mechanisms for receiving feedback upwards in the organisation to provide a pulse check and identify any areas for concern/action. Examples may include regular exchange meetings/focus groups, employee surveys, "skip-level" meetings, suggestion box, and an upward feedback mechanism (as part of a 360-degree assessment process for instance).

1.3 Conduct of Suppliers and Third Parties

It is also expected that all companies and individuals dealing with the insurer, such as suppliers, vendors, distributors, agents, business partners and any other third parties acting on the insurer's behalf, shall adhere to the same core values and principles as the insurer's, where appropriate.

Additionally, companies can consider developing a Supplier Code of Conduct and/or other appropriate codes of conduct that apply to third-party stakeholders.

1.4 Product Design and Customer Management

Special attention needs to be paid to product design. Leadership must set the right tone by paying the right attention to this topic – it has the responsibility to ensure that product design and customer management encompasses the whole value chain.

When designing products, insurers should focus on achieving the right balance of customers' and business interests.

Poor product design may inadvertently incentivise misconduct (e.g. disproportionate commission to actual premium and benefits covered), default opt-in settings, and result in encouraging the selling of firm's products even when it may not be the most suitable product for the customer.

A positive C&C can influence the product at various stages:

a. Product design and development (incl. incentive planning);

b. Marketing and communication;

c. Distribution of products/ Sales and advisory process;

d. Sales quality assurance;

e. Product monitoring and governance;

f. Post-sales and servicing.

2. GOVERNANCE AND SYSTEMS

To ensure a successful Culture and Conduct (C&C) programme, the leadership in an insurance company must be supported by effective committees and be clear on individual accountabilities as well as roles and responsibilities across the three lines of defence. After all, changing the culture and behaviour of all staff in a company is a huge undertaking that requires a coordinated effort across most corporate functions.

2.1 Culture & Conduct Governance

As mentioned in Section 1.1, the Board shall consider establishing a Board-level and/or management-level Culture & Conduct Committee. Furthermore, every insurance company needs a senior C&C Champion in the first line and this role is typically undertaken by the Chief Executive Officer or a C-suite executive who has the authority and gravitas to effect meaningful change in behaviours across all functions and departments in the company. A C&C execution plan should be endorsed by the C&C Champion and updated annually. It should include a calendar of C&C activities, as well as training and communication plans to create constant awareness of the different aspects of the C&C programme. Components of a C&C plan are elaborated in Section 3.

C&C advocates as well as the Culture Steering Committee and Conduct Disciplinary Committee should aid the C&C Champion in carrying out his/her role.

2.1.1 CULTURE & CONDUCT ADVOCATES

It is good practice to appoint C&C advocates, whose role would include promoting culture, conduct and ethics awareness, and embedding ethical behaviour in the organisation. These advocates are expected to lead by example and serve as role models for the right behaviours throughout the organisation.

Larger insurance companies could consider appointing C&C advocates in key business lines or departments to support the programme rollout. Individuals assigned with promoting the C&C agenda in the company should be assessed for suitability before their appointment.

2.1.2 CULTURE STEERING COMMITTEE

The Culture Steering Committee is responsible for developing a set of policies and metrics relevant to the business, as well as creating an execution plan to help employees practise and embed the right behaviours in their daily work.

For larger insurance companies, the Culture Steering Committee can be supported by Culture sub-committees to formulate training strategies, create culture-driven recognition and reward programmes, and develop culture communication. (see sections 3.3 and 3.5 for information on related policies and training).

2.1.3 CONDUCT DISCIPLINARY COMMITTEE

Companies should ensure there is appropriate coverage over both conduct breaches arising from employee behaviours that go against the company's values, as well as professional breaches from insurance intermediaries.

Insurance companies with distribution capability or representatives to carry out regulated activities in Singapore can benefit from a standalone Conduct Disciplinary Committee to oversee disciplinary proceedings and ensure a consistent application of the disciplinary framework.[3] This committee shall focus primarily on staff misconduct in regulated activities, but it could also cover other conduct breaches typically handled by the Human Resource function.

---

3   Please refer to MAS Information Paper: Good Practices Relating to Disciplinary Action Framework in the Financial Advisory Industry (March 2021), for further reference.

2. GOVERNANCE AND SYSTEMS

2.2 Individual Accountability and Roles and Responsibilities Across Three Lines of Defence

All employees are responsible for their conduct and behaviour. However, individual accountability must also be assigned to all senior managers for the functions they are responsible for and to material risk personnel.[4] This should be in line with the MAS Guidelines on Individual Accountability and Conduct, where:

- Senior managers responsible for managing and conducting the financial institution's core functions are clearly identified;

- Senior managers are fit and proper for their roles, and held responsible for the actions of their employees and the conduct of the business under their purview;

- The company's governance framework supports senior managers' performance of their roles and responsibilities, with a clear and transparent management structure and reporting relationships;

- Material risk personnel are fit and proper for their roles, and subject to effective risk governance, and appropriate incentive structures and standards of conduct;

- The company has a framework that promotes and sustains among all employees the desired conduct.

Insurance companies can use the "Three Lines of Defence" model to ensure a clear delineation of duties and accountability in individuals' roles.[5]

2.2.1 RESPONSIBILITIES OF THE FIRST LINE OF DEFENCE

The C&C Champion is expected to review and maintain an appropriate set of culture metrics for the company, define its appetite and tolerance levels and continuously monitor the metrics. It is also the responsibility of the C&C Champion to set conduct goals, allocate resources to achieve the conduct goals and ensure the embedding of an appropriate conduct framework in the company.

C&C advocates would also mostly sit within the first line, leading by example and role modelling the right behaviours throughout the organisation as well as supporting the roll-out of C&C initiatives.

The following activities are typically performed by the first line of defence:

- First Line Controls

    - Ensure regular reporting of C&C related metrics to senior management.

    - Provide risk assessment in misconduct cases.

    - Manage a register of conflicts of interest.

- Distribution and Sales

    - Establish controls and systems in the sales process to ensure good conduct outcomes.

    - Report any observation of non-compliance with policies and procedures, within and outside of company, that could result in a misconduct.

    - Put in place conduct training for distribution/sales staff.

    - Take customer complaints seriously by promptly acting on them.

- Product

    - Ensure product approval framework considers treating customers fairly.

---

4 In its Guidelines on Individual Accountability and Conduct dated 10 September 2021, MAS defines material risk personnel (MRPs) as individuals who have the authority to make decisions or conduct activities that can significantly impact the financial institution's safety and soundness, or cause harm to a significant segment of the financial institution's customers or other stakeholders.

5 In the Three Lines of Defence model, management control is the first line of defence in risk management, the various risk control and compliance oversight functions established by management are the second line of defence, and independent audit is the third.

2. GOVERNANCE AND SYSTEMS

- HR and Talent Management

  – Ensure hiring process considers behavioural competencies and alignment with the company's values and C&C.

  – Ensure performance management framework considers employee behaviour and conduct when determining total remuneration.

  – Recommend appropriate level of consequence management in misconduct cases.

2.2.2 RESPONSIBILITIES OF THE SECOND LINE OF DEFENCE

Second-line functions can contribute to the strength and robustness of a C&C programme by acting on the following responsibilities. This list is not exhaustive and the activities may be performed by a different function depending on the organisation's structure and complexity.

- Risk:

  – Ensure enterprise risk framework identifies conduct risk as a standalone risk type.

  – Ensure coverage of conduct risk in the Own Risk and Solvency Assessment (ORSA) process and report.

- Compliance:

  – Ensure timely reporting of misconduct cases to the regulator.

  – Oversee the implementation of an appropriate whistleblowing programme within the company or actively support the implementation if carried out by other functions.

  – Perform compliance assurance reviews against conduct-related regulations.

2.2.3 RESPONSIBILITIES OF THE THIRD LINE OF DEFENCE

When performing their audits, internal auditors should consider rating management cooperation and employee behaviours in their reports as these can be used as cultural indicators. Companies can also consider initiating a standalone cultural audit or include a culture assessment in each audit engagement, to identify cultural red flags such as:

- Lack of response to queries from internal auditors;

- Management not reacting to issues brought up during audit;

- Employees not aware of conduct risks in their function;

- Excessive risk acceptance;

- Repeat findings that were never addressed; and

- Lack of reporting of self-identified issues.

3. CAPABILITY AND CAPACITY

Organisations need to develop the capability and capacity to support and embed the correct culture and conduct. Having defined one's Vision or Mission, it is pertinent to have the tools to drive the organisations' efforts to achieve the desired outcome.

Most organisations already have different forms of the correct compliance and ethical culture within an organisation in place, leading to the right "Tone from the Top". This includes own internal rules and regulations, in the form of written codes, policies, regulations, guidelines, charters, values, principles or frameworks.

However, recent discussions around individual accountability have shown the need for each individual to role model the ethical reasoning behind each of the policies and guidelines. It is not sufficient anymore to be simply "complying with the applicable laws and regulations" in the conduct of business. The trend is moving towards ethics on top of compliance. "Doing the right thing, because it is the right thing to do" is more appropriate than just "complying with the law".[6]

An adequate Code of Ethics is built upon several key factors, especially values and behaviours. While a Code of Ethics focuses on desired and undesired behaviours ("software"), a Code of Conduct usually contains a set of policies, papers, regulations, guidelines ("hardware") to showcase what the desired or undesired behaviour would include.

A Code of Ethics sets out the principles upon which an organisation seeks to conduct its business responsibly, in an honest and ethical manner, in order to achieve its desired behaviours or avoid undesired behaviours. Examples of principles under a Code of Ethics could be "We are committed to conducting our business in an honest and transparent manner" or "We compete fairly in the market".

A Code of Conduct lists out the desired or undesired behaviours or actions to support the principles. Examples to support the above-mentioned Code of Ethics could include:

- "We design our products to provide the protection that our customers need. We price our products based on supported data and we do not engage in profiteering even while we seek to be profitable".

- "We do not engage in anti-competitive behaviour. We do not engage in corrupt practices or use unethical methods to win business".

To ensure a wider acceptance, the Code of Ethics and Code of Conduct (which could take various forms) should be approved by senior management, endorsed by the Board of Directors and communicated by the CEO to all staff and intermediaries.

3.1 Values

Both the Code of Ethics and the Code of Conduct are premised upon values that typically include: integrity, customer-first, and trust.

Advanced organisations should also include values such as: confidentiality, professionalism, accountability, and sustainability.

"Sustainability" is topical and can be included as a Value. The Code of Ethics could support Sustainability in statements such as "We believe it is our responsibility as a credible insurance company to conduct our business in such a way that our business is sustainable, and we are around to pay claims when claims arise"; "We undertake to provide insurance solutions to businesses which support green energy"; or "We undertake to insure businesses which consider environmental risks in their business model".

Advanced organisations should also include the application of values towards business partners, the community, and the environment.

---

6   "Rules and regulations alone are insufficient to build and maintain a sound organisation culture. The industry must go beyond doing what is permitted legally, to doing what is right and ethical" (MAS Information Paper: Culture and Conduct Practices of Financial Institutions, September 2020).

3. CAPABILITY AND CAPACITY

3.2 Behaviours

It is important to support these values with examples of expected behaviours, which are encapsulated in a Code of Conduct. For example, for the Value of "Customer First", where the Code of Ethics could be "We are committed to placing our Customers' interests' first", the supporting Code of Conduct should not be just about a providing a positive customer experience in buying a product (fast, easy, digital) or when making a claim (fast, hassle-free). It should include ethical behaviours like developing products that are suitable for the target segment, offering benefits that are appropriate, engaging in ethical sale techniques, recommending and advising the correct products for the customer, and handling claims fairly and professionally.

3.3 Culture and Conduct Framework/Policy

Proper governance and individual accountability are critical success factors to establishing a C&C programme in an insurance company. It is therefore good practice to establish or expand the remit of an existing board-level committee chaired by an independent director to advise the board on culture-related matters.

This board-level committee should approve an appropriate C&C framework/policy for use in the company, regularly discuss C&C matters in its agenda and oversee progress (See sections 1.1 and 2.1). Nevertheless, changing the culture and behaviour in a company is a huge undertaking and requires a concerted effort across many corporate functions.

Risk statements on conduct risks could be articulated as well as part of an organisation's risk appetite statements. A Conduct Risk Framework under the joint responsibility of senior managers would be a good starting point for organisations to embrace values on an enterprise basis.

The C&C framework/policy should set out principles to promote an open environment in the company where C&C communications are regularly shared with all employees and timely feedback is given to individuals. The C&C framework/policy should also enable investigation into misconduct cases and outline the consequence management of severe conduct breaches and remediation for the less severe breaches. Larger insurance companies should consider setting up a standalone and independent committee to handle staff misconduct cases and ensure consistent application of the C&C framework/policy (see Section 2.1.3).

The C&C Framework should take reference from MAS Guidelines on Individual Accountability and Conduct, in particular, to Outcome 5, "The Financial Institution has a framework that promotes and sustains among all employees the desired conduct".

3. CAPABILITY AND CAPACITY

3.4 Whistleblowing Programme

Having a formal whistleblowing programme can encourage and assist in building up the correct culture within an organisation, as it offers a platform or avenue for employees and also others to raise issues of concern, including issues on ethics and conduct. A robust whistleblowing programme can include these best practice features:

- Focus not only on fraud, but the application of any ethical misconduct (e.g. inclusion of mismanagement) and ethical disputes including unfair treatment of staff or unethical practices against customers.

- Use of an external vendor or operated by an internal independent function. Centrally investigated (e.g. at the firm's headquarters, instead of at the business unit level) and tracked by control functions.[7]

- Channel is known to internal and external stakeholders.

- Different channels are available for whistleblowing such as ethics committee, regional/HQ's IT platforms, designated staff, line managers, senior management. In short, there should be both internal and external whistle-blowing reporting platforms for staff to choose what is most appropriate for or comfortable to them.

- Proper communication of availability of whistleblowing platforms and reporting facilities via induction training, intranet, but also corporate websites, regular compliance checks and audits.

- Complaint management processes for external and internal customers;

- Annual surveys on the whistle-blowing regime, attitude of the organisation and usage of facilities.

- Establishing an internal escalation process, allowing employees to freely escalate cases of misconduct or unethical behaviours without fear of repercussions.

- Protection policy for whistleblowers (where identities are known) for not being punished for making genuine and honest mistakes.

3.5 Feedback, Monitoring & Surveillance

In addition to a formal whistle-blowing programme, organisations may want to look at other ways of collecting feedback to allow input from members of the public on the conduct of their employees and intermediaries. They could also employ monitoring and surveillance tools.

Complaints, for instance, are a good source for organisations to look out for misconduct and ethical issues. Complaints (and all forms of feedback) should be logged in a formal process and investigated, and necessary preventive and remedial actions should be taken. There should be an independent body or person assigned to investigate complaints to clear such matters of concern. Cases of concern should be escalated to the C&C Committee.

Social listening tools should be employed to pick up mentions about the organisation, on both

compliments and complaints. While complaints are to be acted upon, compliments would also serve as a source of learning and encouragement. Monitoring of marketing and prospecting activities as well as claims experiences on social media should be in place, when consumers nowadays, in general, take their grouses and concern to this sphere and space. Organisations can also run mystery shopping exercises and where appropriate, pay onsite visits to check on employee behaviour in branches and other off-site premises.

Data analytics tools should also be employed to predict, identify and look out for potential misconduct. For example, a particular team could be producing abnormally higher sales compared to others; a particular product could be showing an abnormally excellent loss ratio compared to historical ratios; or there is more chatter about the organisation in social media than normal.

7   MAS Information Paper: Culture and Conduct Practices of Financial Institutions (FIs), September 2020.

3. CAPABILITY AND CAPACITY

3.6 Training

Induction training and annual training on compliance and ethics are the minimum requirements to ensure every intermediary is on the same page with regards to understanding the values, Code of Ethics, and Code of Conduct, and to see these being played out and internalised. Onboarded staff and agents must understand the vision and culture of the organisation, and for the organisation to ensure that new entrants are aligned to the values and behaviours expected of them. Training will also ensure employees are aware of the key compliance and ethical obligations in their roles, thus mitigating incidences of misconduct due to ignorance or poor understanding, and understanding of the values, Code of Ethics and Code of Conduct.

Organisations shall decide the form by which training should take, which could be via classroom training, formal courses/workshops, e-learning, on-the-job training, or mentoring, and supplemented by emails, newsletters, campaigns, etc.

Training should also cover ethical expectations that go beyond compliance topics (e.g. what leaders are expected to do if an employee was to raise an issue, how they should guide their teams on dilemma reconciliation, leadership qualities that are needed to lead ethically, and ways in which they can promote the right culture and conduct to their teams).

Ethical leadership training should be conducted not only for senior management, but also middle-level managers and team leads so they consistently drive the right culture and conduct within their teams. For the right culture to be effective, leaders (senior management and managers) must understand how to role model the right conduct and impart this organisation-wide. The recommendation is not to have a specific ethical leadership training that is industry certified, but for this to be seen as an extension of a company's broader C&C/ethics training, where feasible.

There should be measurements on the effectiveness of training, for example via quizzes/tests to gauge staff's understanding and competency, frequency and attendance.

Compliance and ethical messages should not solely rest on the shoulders of the Compliance team but there should be a consistent and concerted approach to relay the same message, starting with the CEO, and down to each senior manager and head. Communication is recognised as a powerful and effective form of training when it is consistent and repeated by senior management. Messages can therefore be relayed at town hall meetings, corporate events such as an annual Ethics and Conduct Day/Week, employee recognition events, Lunch & Learn sessions, etc.

4. PERFORMANCE MANAGEMENT AND REMUNERATION

A company's desired culture cannot be maintained if remuneration and performance management do not reflect the desired outcomes through appropriate key performance indicators (KPIs). Whilst the expected behaviours need to be incentivised, consequence management should be triggered to manage undesired behaviours.

4.1 Leadership Incentive Framework

Companies should have in place incentive frameworks for leaders which specifically recognise leadership behaviours (i.e. how objectives are achieved) in addition to the delivery of specific business objectives/strategic goals (i.e. what is achieved) to ensure the desired culture permeates throughout the organisation. Managing culture is not a one-off event. The culture of the organisation is something that evolves over the long term. Therefore, these behaviours should be assessed over a suitably long period, minimally one year.

Examples of leadership behaviours that might be judged include:

- Proactively challenges and escalates when observes unacceptable behaviours and/or decisions are observed;

- Acts with integrity;

- Challenges the status quo and speaks up when things do not seem right;

- Does the right thing;

- Strong values-based judgement and makes timely decisions considering available information and future implications; and

- Publicly recognises others' contributions, actively celebrates and promotes collaboration.[8]

The usage of 360-degree assessments for the senior management and Board will ensure that feedback received from peers and subordinates is factored in the evaluation of performance.

4.2 Consequence Management Framework

It is also good practice to have in place a consequence management framework for dealing with undesirable behaviours. This could include, for instance, wilful neglect on mandatory training, employee oversight resulting in compliance breaches, and employee misconduct. The framework should include the company's disciplinary policy.

(Note: The HR Subcommittee of the ICCSC will address further suggestions with respect to consequence management in its best practices paper. Please also refer to MAS' expectations on FI's/Insurer's investigation and disciplinary process as per Section 8 of "Consultation Paper on Proposals to Mandate Reference Checks" as well as MAS' information paper "Disciplinary Action Framework for the FA Industry".)

---

8   List is illustrative and not exhaustive and a suggestion for consideration and not compulsive.

4. PERFORMANCE MANAGEMENT AND REMUNERATION

4.3 Remuneration System Aligned to Organisational Values

Remuneration is often considered to be a key driver for misconduct and examples of failures could be traced to remuneration systems placing disproportionate weight on sales volume or financial performance.

Insurers should ensure that the Board and the senior management are held responsible and rewarded for driving good culture and conduct within the organisation. There should be clear consequences established and communicated to all staff to discourage unacceptable or undesired behaviours.

It is also considered good practice to distinguish between the expected appropriate behaviour, and extraordinary and courageous behaviour.

It is widely accepted that expected appropriate behaviours should not be rewarded as the expected ethical behaviour should be embedded in the company.

However, it is also recommended to recognise extraordinary behaviour which goes beyond the normal expected behaviour. Recognition should not be monetary, distinguishing it clearly from rewarding. Extraordinary behaviour can be showcased, however sensitive cases such as whistleblowing should not be shared so as to protect the individual.

4.4 Financial and Non-Financial Indicators for Remuneration Setting

While financial performance has often been used to determine remuneration, there is increasingly a focus on non-financial indicators and on removing the link between quantitative sales targets and compensation to minimise the pressure that leads to misconduct.

Non-financial indicators like employee surveys (e.g. Inclusive Meritocracy Index, Work Well Index, and Employee Engagement Index), complaints received from stakeholders and adherence to business values, can be used to measure the performance success of senior management and staff.[9]

There should be a notable emphasis on conduct KPIs, especially for customer-facing employees.

4.5 Cultural Indicators in Performance Management

Research has suggested that including cultural indicators in performance metrics can incentivise the CEO and senior management to embed the desired behaviours and values in the organisation.

Organisations can use a mixture of both leading and lagging cultural indicators.

- Examples of leading cultural indicators include general attitudes of compliance issues, considerations of risks in business decisions.

- Examples of lagging indicators include frequency of breach occurrences and number of risk events (including near misses).

---

9   List is illustrative and not exhaustive and a suggestion for consideration and not compulsive.

4. PERFORMANCE MANAGEMENT AND REMUNERATION

4.6 Measuring Culture and Governance

Insurers can rely on external output measures such as brand image, customer satisfaction indices, or profitability and value creation to measure the Board and senior management's effectiveness in driving the appropriate culture and conduct within the organisation.

Internal output measures like whistleblowing hotline data, Net Promoter Score on employee satisfaction and compliance training results should also be used.[10]

Measurability enables progress tracking over a longer period. The focus is on:

- Measurability of culture, and

- Measurability of governance.

A sample dashboard is appended at the end of this section.

4.6.1 MEASURING CULTURE

Employee Engagement and Perception Surveys are proven tools to measure culture and can be grouped around three different clusters:

- Ethical culture surveys;

- Risk culture surveys; and

- Values surveys.

4.6.1.1 Ethical Culture Survey

Suggested pillars/metrics for measuring the success of a strong ethical culture are as follows:

- **Awareness of programme, resources and policies.** For example, whether employees know where to find codes, policies and guidelines).

- **Perceptions of the function.** For example, the effectiveness of ethics training and communication on ethical expectations in employees' day-to-day roles.

- **Observing and reporting misconduct.** For example, employees' willingness to report misconduct or raise concerns, and if they are not willing to report, what are the reasons for their unwillingness.

- **Pressure to compromise standards.** Whether employees feel any pressure to compromise on standards, where the sources of pressure are coming from, and the degree of pressure experienced.

- **Organisational justice.** This looks at whether employees feel that the consequences of misconduct are the same and equal for all employees; whether employees believe disciplinary actions are taken when individuals engage in unethical behaviour or misconduct; and whether the company will thoroughly investigate concerns that are raised.

- **Perceptions of the leadership.** For example, whether the leadership team promotes the importance of ethical behaviour throughout the company, and if employees believe the leadership team acts ethically at all times.

10   List is illustrative, not exhaustive and a suggestion for consideration and not compulsive.

4. PERFORMANCE MANAGEMENT AND REMUNERATION

- **Manager perceptions.** This includes whether employees believe their immediate manager is committed to ethical business conduct at all times; if employees are comfortable approaching their immediate manager with issues or questions related to ethical misconduct; and if employees feel their immediate manager is consistently a role model for ethical behaviour and discusses ethics or compliance-related issues/topics.

- **Perceptions of the peers and the environment.** This includes whether employees believe their co-workers act ethically at all times.

4.6.1.2 Risk Culture Survey

Suggested metrics include the following areas:

- Risk governance (e.g. appropriate governance structure and policies and procedures);

- Tone from the top (e.g. risk leadership, responding to bad news without fear of retribution);

- Risk attitude (e.g. risk ownership and accountability, risk transparency including the flow of information);

- Competency and awareness (e.g. knowing risk resources to approach, risk competence); and

- Decision-making (e.g. informed risk decisions, rewarding appropriate risk behaviour).

4.6.1.3 Values Survey

The survey should measure an organisation's cultural entropy score – its total bad or limiting values (e.g. manipulation, blame, control, corruption, greed), or total values (including positive values such as integrity, trust, humility, compassion, integrity, ethics and social responsibility).

The higher the entropy score, the worse a company's culture.

4.6.2 MEASURING GOVERNANCE

There is no single measure or qualitative judgement that can provide enough detail to enable a view/measure of culture and governance. Therefore, a portfolio approach of tools and techniques to evaluate culture and governance is required.[11]

	QUANTITATIVE	QUALITATIVE
Short term	• Compliance issues • Audit issue resolution measures • Incidence of self-reporting • Reward for (non-)performance • Net promoter score/employee satisfaction (for leadership)	• Systems, processes and policies in place • Embeddedness of company values • Board and leadership self, peer and external assessments • Engagement/culture surveys, culture dashboard
Long term	• Change of scores over time and versus a benchmark	• Culture measurement tools (see Section 4.6.1)

---

11   List is illustrative, not exhaustive and a suggestion for consideration and not compulsive.

4. PERFORMANCE MANAGEMENT AND REMUNERATION

4.6.3 EXAMPLE OF DASHBOARD OF CULTURE AND CONDUCT METRICS/REMUNERATION KPIS

CATEGORY	DESCRIPTION	METRIC	OWNER/ DATA PROVIDER	DESIRED OUTCOMES
Board/ Leadership	• Organizational culture and tone from the top	• Frequency of culture and conduct being reviewed at the board level and communicated in leadership meetings (e.g. town halls)	Board/ leadership	• Reinforces organisational tone from the top. • Lead by example – integrity, beliefs • Holding the Board and leadership accountable
Risk/ Operational	• Issues and Incidents identified through self-reporting	• Number of operational incidents (e.g. non-compliance with internal directives and regulations, document deficiencies, limit breaches) • Number of self-reported issues • Number of overdue issues • Number of high rated issues	First line of defence and risk	• Drive first-line accountability and promote a strong risk culture • Promote responsibility and empowerment
	• Risk Appetite Statement (RAS)	• Number of RAS breaches	Risk	• Set expectations for the company and employees so they are aware of risk boundaries • Guide/set boundaries for decision-making
	• Customer complaints and feedback surveys	• Number of customer complaint cases • Number of cases resolved/ closed within SLA • Customer feedback	COO / customer management / marketing	• Aim for better customer centricity
Compliance	• Privacy	• Number of data privacy incidents	Compliance	• Drive compliance to regulatory requirements
	• Sanctions	• Number of sanctions due to policy breaches		
	• Conflicts of interest	• Number of conflicts of interest		• Prevent any potential misconduct related to the company, employees or customers

4. PERFORMANCE MANAGEMENT AND REMUNERATION

CATEGORY	DESCRIPTION	METRIC	OWNER/ DATA PROVIDER	DESIRED OUTCOMES
	• Bribery and corruption/ Anti-Money Laundering	• Number of financial crime policy breaches (excl. sanctions) • Suspicious transaction reports • AML/CFT policy breaches		• Drive compliance to regulatory requirements
	• Regulatory and internal requirements	• Regulatory breaches and fines of over $XX • Internal or external fraud • Disciplinary case • Number of whistleblowing cases • Compulsory training completion rate		
Internal Audit	• Audit issues resolution measures	• Number of unsatisfactory audit reports • Number of issues recorded through audit reports • Number of closed/overdue findings • Number of observations of risk culture dimension embedment during audit (e.g awareness, openness and transparency, accountability, leadership)	Internal auditor	• Review and measure the culture and conduct framework • Identify any gaps and strengthen controls, where required. • Embedded desire culture within the business
HR	• Recognition, Reward and Compensation	• Recognition and thank you for "doing the right thing", and having "accountability" • Salary/bonus adjustment to reward the "right" attitude	HR	• Positive reinforcement of the right culture and behaviour and hold employees accountable for their actions
	• Net Promoter Score (NPS) / Employee satisfaction	• Overall employee satisfaction score • Likelihood of referral to friends and family • Likelihood of staying in the company for the next two years		• To gain a better understanding of employee engagement and drivers of engagement (e.g. having the right culture that supports them in their day-to-day activities)
	• Onboarding of new employees	• Inclusion of culture and conduct topics in orientation e.g. emphasis on ethical conduct		• Set culture and ethical expectations for all employees, especially new joiners, on their behaviours • Awareness

Appendix.

1. *Outline of ASIC's Approach to Corporate Culture, ASIC, 2017 (https://download.asic.gov.au/media/4393665/john-price-speech-aicd-regulator-insights-on-risk-culture-published-20-july-2017.pdf)*

2. *Information Paper on Risk Culture, APRA, 2016 (https://www.apra.gov.au/sites/default/files/161018-information-paper-risk-culture1.pdf)*

3. *Circular on Bank Culture Reform, HKMA, 2017 (https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2017/20170302e2.pdf)*

4. *FCA encourages firms to develop purposeful culture (https://www.fca.org.uk/news/news-stories/fca-encourages-firms-develop-purposeful-cultures)*

5. *Guidance on Supervisory Interaction with Financial Institutions on Risk Culture issued by the Financial Stability Board (https://www.fsb.org/wp-content/uploads/140407.pdf)*

6. *IIF(2009) Reform in the Financial Services Industry: Strengthening Practices for a More Stable System. The Report of the IIF Steering Committee on Implementation (SCI). Washington, DC: Institute of International Finance*

7. *The human factor: Is conduct risk on your radar, ASIC, 2017 (https://download.asic.gov.au/media/4399705/greg-medcraft-speech-institute-of-internal-auditors-australia-published-25-july-2017.pdf)*

8. *Guideline on Enterprise Risk Management, HK Insurance Authority (https://www.ia.org.hk/en/legislative_framework/files/GL21.pdf)*

9. *https://www.bankofengland.co.uk/prudential-regulation/key-initiatives/strengthening-accountability*

10. *Circular to Licensed Corporations Regarding Measures for Augmenting the Accountability of Senior Management (https://www.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/licensing/doc?refNo=16EC68)*

11. *Strengthening Trust in Finance" - Opening Address by Mr Ravi Menon, Managing Director, Monetary Authority of Singapore, at Symposium on Asian Banking and Finance on 3 June 2019 (https://www.mas.gov.sg/news/speeches/2019/strengthening-trust-in-finance)*

12. *Supervision of Culture and Behaviour, Foundations, Practice & Future Developments, De Nederlandsche Bank (https://www.dnb.nl/media/1gmkp1vk/supervision-of-behaviour-and-culture_tcm46-380398-1.pdf)*

13. *Strengthening Conduct and Culture in the Financial Industry, Bank Negara Malaysia (https://www.bnm.gov.my/documents/20124/826852/FSPSR+BA4+-+Strengthening+Conduct+and+Culture+in+the+Financial+Industry.pdf/7f157800-94d6-2f51-408a-21ab81e65e02?t=1585028436591)*

14. *MAS Information Paper on Incentives Structures in the Banking Industry, MAS, 2019;*

15. *Strengthening Governance Framework to Mitigate Conduct Risks: A Toolkit for Firms and Supervisors, FSB, 2018 (https://www.fsb.org/wp-content/uploads/P200418.pdf)*

16. *Report on Review of Self-assessments on Bank Culture, HKMA, May 2020 (https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200522e1a1.pdf)*

17. *https://www.naic.org/documents/cmte_legislative_liaison_brief_corp_governance.pdf*

18. *UK: Senior arrangements, Systems and Controls –Chapter 18: Whistleblowing (https://www.handbook.fca.org.uk/handbook/SYSC/18.pdf)*

19. *Banking Conduct and Culture, A Permanent Mindset Change, G30, 2018 (https://group30.org/images/uploads/publications/aaG30_Culture2018.pdf)*

20. *Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices,*

21. *The use of compensation tools to address misconduct risk, FSB, 2018*

22. *MAS Guidelines on Individual Accountability and Conduct.*

Issued on 15 March 2022
Last revised 15 March 2022

Promoting Ethical Culture and Conduct Through Corporate Governance and Systems

A Corporate Governance Best Practices Paper Published
By the Corporate Governance Sub-Committee
of the Insurance Culture and Conduct Steering Committee

Corporate Governance Sub-Committee

Kevin Leong – Chairperson

Ho Kai Weng

Texas Hong

Florence Lin

Looi Pek Hong

Ong Kian Peng

Pierre Santolini

Alasdair Spry

Yeoh El Lynn

International Best Practices Sub-Committee

Christian Sandric - Chairperson

Penny Ying

Denise Lim

Pierre Santolini

Stephanie Tan

Sheela Parakkal

Jonathan Farrant

Karin Winbauer

Other Contributors

Seema Sanghani

Priscilla Soh

Kathryn Tinker

Insurance Culture and Conduct Steering Committee

Khoo Kah Siang – Chairperson

Michael Dannemann

Sean Goh

James Lee

Kevin Leong

Loh Wei Lyn

Looi Pek Hong

Jean Ong

Ong Kian Peng

Christian Sandric

Karin Winbauer

Andrew Yeo

Deepika Zingade