THE BANK
OF
GUYANA

CORPORATE GOVERANCE GUIDELINE ISSUED UNDER THE AUTHORITY OF PART 1, SECTION 7(D) OF THE INSURANCE ACT 2016 (ACT NO. 17 OF 2016)

July 2019

CORPORATE GOVERANCE GUIDELINE

INSURANCE SUPERVISION DEPARTMENT – BANK OF GUYANA

1.0 Authorisation

IN EXERCISE of the powers conferred by section 7(d) of the Insurance Act 2016, the Bank of Guyana (herein referred to as the Bank) issues the Guideline set out here below, for observance by all registered insurers in respect of the Bank's expectations with respect to corporate governance of all registered insurers.

1.1 Scope of the Guideline

The Bank's corporate governance guidelines are principles-based and recognise that an insurer's corporate governance practices may depend on its size; ownership structure; nature, scope and complexity of operations; strategy and risk profile.

1.2 The Bank expects Boards[1] and Senior Management of all registered insurers to be proactive, and to be aware of best practices related to corporate governance that are applicable to their institution. Where appropriate, registered insurers should adopt these practices.

2.0 Defining Corporate Governance

2.1 The Organization for Economic Cooperation and Development (OECD) defines corporate governance as: "a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring."

2.2 Appropriate organizational structures, policies and other controls help promote, but do not ensure, good corporate governance. Governance lapses can still occur through undesirable behaviour and corporate values. Effective corporate governance is not only the result of "hard" structural elements, but also "soft" behavioural factors driven by

[1] In this document, the term 'Board' refers to the entire Board or a committee of the Board that has been delegated a particular element of Board oversight.

dedicated directors and management performing faithfully their duty of care to the institution.

2.3 What makes organizational structures and policies effective, in practice, are knowledgeable and competent individuals with a clear understanding of their role and a strong commitment to carrying out their respective responsibilities.

2.4 The Board, Senior Management and the Oversight Functions

2.4.1 A registered insurer's Board and Senior Management are ultimately accountable for the insurer's safety and soundness, and its compliance with governing legislation. In this guideline, the roles of the Board and Senior Management are highlighted. The Board is responsible for providing stewardship, including direction-setting and general oversight of the management and operations of the entire registered insurer. Senior Management is accountable for implementing the Board's decisions, and is responsible for directing and overseeing the operations of the insurer. This distinction in the responsibilities between the Board and Senior Management is critical.

2.4.2 In carrying out its responsibilities, Senior Management may delegate some of its responsibilities to the insurer's oversight functions. The oversight functions are responsible for providing enterprise-wide oversight of operational management[2].

2.4.3 The composition of the Senior Management of an insurer will vary from institution to institution. Senior Management is composed of the Chief Executive Officer (CEO) and individuals who are directly accountable to the CEO. In addition to the CEO's direct reports, such as the heads of major business platforms or units, Senior Management may also include the executives responsible for the oversight functions, such as the Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Compliance Officer (CCO), Chief Internal Auditor, and Chief Actuary (CA)[3].

2.5 The Uniqueness of Financial Institutions

2.5.1 The quality of an insurer's corporate governance practices is an important factor in maintaining the confidence of policyholders, as well as overall market confidence. This guideline, therefore, draws attention to specific areas of corporate governance that are especially important for insurers (e.g., risk governance), owing to the unique nature and circumstances of insurers and risks assumed relative to other corporations.

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[2] For the purpose of this guideline, the oversight functions include: Financial, Risk Management, Compliance, Internal Audit and Actuarial.

[3] The Chief Actuary is frequently the head of the actuarial function, although in some circumstances it may be the Appointed Actuary. Note that the role of the head of the Actuarial function would generally include responsibilities beyond the legal requirements of the Appointed Actuary.

3.0 The Role of the Board of Directors

3.1 The Board plays a pivotal role in the success of an insurer through the approval of the insurer's overall strategy and risk appetite, and its oversight of the insurer's Senior Management and internal controls.

3.2 Board Responsibilities

In addition to the roles and responsibilities of the Board as outlined in the Insurance Act 2016, the Board should discharge, at a minimum, the following essential duties:

1) Approve the registered insurer's

- Short-term and long-term enterprise-wide business objectives, strategies and plans (capital, financial and liquidity), including the Risk Appetite Framework[4];
- Significant strategic initiatives or transactions, such as mergers and acquisitions;
- Internal control framework;
- Appointment, performance review and compensation of the CEO and, where appropriate, other members of Senior Management, including the heads of the oversight functions;
- Succession plans with respect to the Board, CEO and, where appropriate, other members of Senior Management, including the heads of the oversight functions;
- Mandate, resources and budgets for the oversight functions; and,
- External audit plan, including audit fees and the scope of the audit management.

2) Review and discuss the registered insurer's:

- Significant operational and business policies;
- Business and financial performance relative to the Board-approved strategy and Risk Appetite Framework;

[4] Refer to the Appendix for a description of the Risk Appetite Framework.

- Compensation policy for all human resources;
- Implementation of internal controls, including their effectiveness;
- Organisational structure; and,
- Compliance with applicable laws, regulations and guidelines.

3.3 These functions are the responsibility of Senior Management. However, through thorough review and discussion, the Board has a critical role in providing high-level guidance to Senior Management with respect to these matters.

3.4 The Board should understand the decisions, plans and policies being undertaken by Senior Management and their potential impact on the registered insurer. It should probe, question and seek assurances from Senior Management that these are consistent with the Board-approved strategy and Risk Appetite Framework for the insurer, and that the corresponding internal controls are sound and implemented in an effective manner. The Board should establish processes to periodically assess the assurances provided to it by Senior Management.

3.5 The Board is not responsible for the on-going and detailed operationalisation of its decisions and strategy. These should be matters for Senior Management to consider.

3.6 While Senior Management should have regular interaction with regulators with respect to the overall operations of the insurer, the Board must ensure that the regulators are promptly notified of any substantive issues affecting the insurer.

3.7 Board Responsibilities of Subsidiaries of a Registered Insurer

Boards of parent companies should determine what Board structures for the insurer's subsidiaries would best contribute to effective oversight of subsidiary operations. Regardless of the composition of the Boards of subsidiaries, parent Boards should exercise adequate oversight of the activities of subsidiaries to ensure that the parent Board can meet its responsibilities.

3.8. Board Effectiveness

3.8.1 An effective Board should, through its collective expertise, skills, experiences and competencies, provide objective and thoughtful guidance to, and oversight of, Senior Management.

3.8.2 The hallmarks of an effective Board, and its directors, include demonstrated sound judgement, initiative, responsiveness and operational excellence, as follows:

- Judgement – The Board should make sound and well-informed decisions, taking into consideration the insurer's business objectives and risk appetite;

- Initiative – The Board should exercise its responsibilities in a proactive and timely manner with a readiness to probe, challenge, as well as provide appropriate guidance to, Senior Management;

- Responsiveness – The Board should be responsive to issues or deficiencies identified by Senior Management, the oversight functions of the insurer, regulators or itself (through internal Board evaluations), and should oversee the rectification of those deficiencies.

- Operational Excellence – The Board should have practices and processes that permit open discussion, debate and advance consideration of matters and transactions important to the insurer based on timely and relevant information. The Board should periodically review the adequacy and frequency of the information needed in order for the Board to fulfill its duties.

3.8.3 The Board of an insurer should regularly conduct a self-assessment of the effectiveness of Board and Board Committee practices, occasionally with the assistance of independent external advisors. The scope and frequency of such external input should be established by the Board.

3.9. Board Skills and Competencies

3.9.1 While the Bank expects all directors to play an effective role, it is recognised that the contribution of individual directors will vary based on their particular qualifications and experience. However, the Board should, collectively, bring a balance of expertise, skills, experience and perspectives, taking into consideration the insurer's strategy, risk profile and overall operations.

3.9.2 Relevant financial industry and risk management expertise are key competencies for the insurer's Board. There should be reasonable representation of these skills at the Board and Board Committee levels.

3.9.3 In order to assess the skills and competencies required to oversee the insurer's strategy, products, and risks, Boards should have a skills and competency evaluation process, which should be reviewed annually and updated by the appropriate Board committee. The skills and competency evaluation process should be integrated with the overall Board succession or Board renewal plans, with particular attention to the positions of the Chair of the Board and Chairs of the Board committees.

3.9.4 Directors should seek internal or external education opportunities in order to fully understand the risks undertaken by the insurer, as well as developments in corporate and risk governance practices.

3.10. Board Independence

3.10.1 The Board should be independent from Senior Management. The Bank does not view any one Board structure or process as guaranteeing independence, beyond separating the roles of the Chair and CEO (see next section). However, it is important that the Board's behaviour and decision-making process be objective and effective, taking into account the particular circumstances of the insurer.

3.10.2 The Board's ability to act independently of Senior Management can be demonstrated through practices such as having regularly scheduled Board and Board Committee meetings that include sessions without Senior Management present.

3.10.3 The recruitment process for new directors and the development of a director profile (both responsibilities of the Board) should emphasize the independence of Board members from Senior Management. The insurer's Board should document and approve a director independence policy that takes into consideration the specific shareholder/ownership structure of the institution. Where appropriate, director tenure should also be factored into the independence policy.

3.11. Board Chair

3.11.1 The role of the Chair should be separated from the CEO, as this is critical in maintaining the Board's independence, as well as its ability to execute its mandate effectively.

3.11.2 An effective Board requires a Chair that is experienced, skillful and exhibits leadership that encourages open discussion and debate. The Board Chair is expected to spend more time in the role than is required of other Board members. The Chair should have frequent dialogue with, and a strong level of influence among, other Board members and Senior Management, as well as access to all information and staff of the insurer. Given the critical position of the Chair among Board members, he/she should also foster direct and on-going dialogue with regulators.

3.12 Interface between the Board and Senior Management

3.12.1 The Board's primary interface with Senior Management is through the CEO. As well, the Board or individual Board members should meet regularly with the management of business units and the oversight functions with and without other members of Senior Management present.

3.12.2 The CEO and other members of Senior Management are responsible for directing and overseeing the effective management of the insurer within the authority delegated to them by the Board and in compliance with applicable laws and regulations. In this regard, their skills, competence, integrity and experience are critical factors in the safety and soundness of the insurer.

3.12.3 To fulfil its responsibilities, the Board relies on Senior Management to provide it with sound advice on the organizational objectives, strategy, structure and significant policies of the insurer. Senior Management should set out and analyze options for the Board, identify potential trade- offs of each option, and make and support recommendations. Senior Management should ensure that the information and material presented to the Board is relevant, and packaged in a manner that enables the Board to focus on key issues and to make informed decisions.

3.12.4 Senior Management facilitates the Board's oversight role by providing relevant, accurate and timely information to the Board, enabling it to oversee the management and operations of the institution, assess policies, and determine whether the insurer is operating in an appropriate control environment. Senior Management should provide assurances to the Board that policies, processes and controls are adequate, that they are operating appropriately, and that risk is appropriately controlled.

3.12.5 The insurer's CEO should ensure that the oversight functions have the resources and support to fulfil their duties, are sufficiently independent of operational management, and have the capacity to offer objective opinions and advice to the Board and to Senior Management.

3.13 Interface between the Board and the Oversight Functions

3.13.1 The Bank expects insurers to establish oversight functions that are independent from operational management. The size and sophistication of the oversight functions may vary based on the nature, size and complexity of an insurer and its inherent risks. A Board will often oversee the insurer's oversight functions through an appropriate committee, such as the Audit Committee or Risk Committee.

3.13.2 The heads of the oversight functions should have sufficient stature and authority within the organization and be independent from operational management. They should have unfettered access and, for functional purposes, a direct reporting line to the Board or the relevant Board committee (e.g., Audit, Risk).

3.13.3 In order to fulfil its duties, the Board relies on the objective advice of the oversight functions. These oversight functions help the Board to fulfil its role of stewardship and oversight of the insurer's operations by validating whether the insurer's controls within its business units are effective and whether the institution's operations, results and risk exposures are reliably reported. To be effective, these oversight functions should provide objective assessments.

3.13.4 The Board should approve the mandate, resources (amount and type) and budgets of the oversight functions and, where appropriate, approve the appointment, performance review and compensation of the heads of these functions.

3.13.5 The Board should review and discuss the findings and reports produced by the oversight functions, understand how material disagreements with Senior Management (or other parts of the organization) are being addressed, follow-up on any concerns or findings being raised by the oversight functions and track Senior Management's action plans.

3.13.6 In small, less complex insurers, in place of their establishing specific oversight functions, the Bank expects that the Board and Senior Management will ensure that other functions or processes within or external to the insurer provide the level of compensating controls and independent enterprise-wide oversight required.

3.13.7 The Board should regularly assess the effectiveness of the insurer's oversight functions and processes. Occasionally, as part of its assessment, the Board should conduct a benchmarking analysis of those functions or their processes with the assistance of independent external advisors. The scope and frequency of such external input should be established by the Board.

3.14 Board Oversight of Internal Controls

3.14.1 An insurer's internal control framework (or "internal controls") encompasses all the personnel, policies, processes, limits, culture and other aspects of an insurer that support the achievement of the insurer's objectives. It facilitates the efficiency of operations, contributes to effective risk management, assists compliance with applicable laws and regulations, and strengthens the insurer's capacity to respond appropriately to business opportunities and challenges.

3.14.2 The Board should approve the overall internal control framework and monitor its effectiveness. The Board should receive regular reports on the general operations of the insurer and its financial condition, the performance of risk management and other control systems, and any ineffectiveness or significant breaches of these controls, the institution's code of conduct, or laws and regulations.

3.14.3 As a part of the evaluation of the adequacy and effectiveness of insurer internal controls (for the insurer as a whole and for individual business activities), the Board can utilize internal and external audit (e.g., audit reports), actuarial (report of the independent actuary), and regulatory opinions on the financial condition of the insurer.

3.14.4 The Board should seek assurances from Senior Management that prompt action is being taken to correct any material internal control deficiencies or breaches, and that there is a process in place to monitor and report on the progress made to correct such deficiencies. The Board, along with Senior Management, should also proactively consider whether deficiencies identified in one area of the insurer's operations may also be present in other areas.

4.0 Risk Governance

4.1 Risk taking is a necessary part of financial institutions' business. Insurers' strategies incorporate decisions regarding the risks the insurer is willing to undertake and the means with which it will manage and mitigate those risks.

4.2 Risk governance is a distinct and crucial element of corporate governance of insurers. Risks may arise from direct exposure or through exposures taken by subsidiaries, affiliates or counter- parties. Insurers should be in a position to identify the significant risks they face, assess their potential impact and have policies and controls in place to manage them effectively. This includes, as appropriate, the following risks: liquidity, credit, market, insurance, actuarial, operational and any other risks applicable to the insurer.

4.3 Risk Appetite Framework

4.3.1 An insurer should have a Board-approved Risk Appetite Framework that guides the risk-taking activities of the insurer.

4.3.2 An insurer should develop a Risk Appetite Framework that is enterprise-wide and tailored to its domestic and international business activities and operations. The Risk Appetite Framework, as approved by the Board, should be well-understood throughout the organization and embedded within the culture of the insurer. All operational, financial and corporate policies, practices and procedures of the insurer should support the Risk Appetite Framework.

4.3.3 The Risk Appetite Framework should set basic goals, benchmarks, parameters and limits (e.g., level of losses) as to the amount of risk an insurer is willing to accept, taking into account various financial, operational and macroeconomic factors. It should consider the material risks to the insurer, as well as the institution's reputation vis-à-vis policyholders, depositors, investors and customers.

4.3.4 The Risk Appetite Framework should be forward-looking and consistent with the insurer's business model, overall philosophy, short-term and long-term strategic plan, capital plan, financial plan, business objectives and corresponding risk mitigation strategy. It is intended to provide boundaries on the on-going operations of an insurer with respect to asset class and liability choices, activities and participation in markets that are not consistent with the stated risk appetite of an institution. Refer to **Annex A** for further details.

4.3.5 The establishment of controls and a process to ensure their effectiveness are critical elements of the risk appetite framework, as they help to ensure that the insurer stays within the risk boundaries set by the Board.

4.4 Oversight of Risk

4.4.1 Risk management systems and practices will differ, depending on the scope and size of the insurer and the nature of its risk exposures. To manage risks effectively, insurer Boards and Senior Management need to have a full understanding of the risks attendant to the insurer's business model including each business line and product, and how they relate to the insurer's strategy and Risk Appetite Framework.

4.4.2 Senior Management should oversee regular reviews of risk management policies and practices to ensure that they remain appropriate and effective in light of changing circumstances and risks. The Board should seek assurances from Senior Management that these controls are operating effectively, and that the risk positions of the insurer are in compliance with the delegated authorities and limits. It should establish processes to periodically assess the assurances provided to it.

4.5 Board Risk Committee

4.5.1 Depending on the nature, size, complexity and risk profile of the insurer, the Board should establish a dedicated Board Risk Committee to oversee risk management on an enterprise-wide basis[5].

4.5.2 Guided by the insurer's Risk Appetite Framework, the Risk Committee should have a sound understanding of the types of risks to which the insurer may be exposed and of the techniques and systems used to identify, measure, monitor, report on and mitigate those risks.

4.5.3 The Risk Committee should have a clear mandate. All committee members, including the Chair, should be non-executives[6] of the insurer, and an adequate number of committee members should have sufficient knowledge in the risk management of financial institutions. Where appropriate, the Committee should include individuals with technical knowledge in risk disciplines that are significant to the insurer.

4.5.4 As part of its duties to oversee risk management of the insurer, the Risk Committee should seek assurances from the CRO (or equivalent) that the oversight of the risk management activities of the insurer are independent from operational management, are adequately resourced, and have appropriate status and visibility throughout the organization.

4.5.5 The Risk Committee should receive timely and accurate reports on significant risks of the insurer and exposures relative to the insurer's risk appetite (including approved risk limits). It should provide input to the approval of material changes to the insurer's strategy and corresponding risk appetite. As well, the Risk Committee should be satisfied with the manner in which material exceptions to policies and controls are identified, monitored, measured and controlled, as well as the remedial actions when exceptions/breaches are identified.

4.6 Chief Risk Officer

4.6.1 Insurers should have a senior officer who has responsibility for the oversight of all relevant risks across the firm (CRO or equivalent)[7]. The CRO should have sufficient stature and authority within the organization, and be independent from operational management. The CRO should have unfettered access and, for functional purposes, a direct reporting line to the Board or the Risk Committee.

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[5] For small, less complex insurers, in place of establishing a separate Risk Committee, the Board should ensure that it has the collective skills, time and information (i.e., appropriate reporting) to provide effective oversight of risk management on an enterprise-wide basis.
[6] A 'non-executive' director is a member of the Board who does not have management responsibilities within the firm.
[7] For small, less complex insurers, the CRO role can be held by another executive of the insurer (i.e., the executive has dual roles). Some insurers may not have a CRO position *per se*, but nonetheless can clearly identify an individual within the firm that is accountable to the Board and Senior Management for the same functions.

4.6.2 The CRO is the head of the insurer's risk management function. The CRO and the risk management function are responsible for identifying, measuring, monitoring and reporting on the risks of an insurer on an enterprise-wide and disaggregated level, independently of the business lines or operational management.

4.6.3 The CRO and risk management function should not be directly involved in revenue-generation or in the management and financial performance of any business line or product of the insurer. As well, the CRO's compensation should not be linked to the performance (e.g., revenue generation) of specific business lines of the insurer.

4.6.4 While the CRO and the risk management function should influence the insurer's risk-taking activities (e.g., to ensure that the insurer's strategy or business initiative is operating within the stated risk appetite of the insurer), the on-going assessment of risk-taking activities by the CRO and risk management function should remain objective.

4.6.5 The CRO should provide regular reports to the Board, the Risk Committee and Senior Management in a manner and format that allows them to clearly understand the risks being assumed by the insurer. He/she should provide an objective view to the Risk Committee and the Board on whether the insurer is operating within the Risk Appetite Framework. The CRO should meet with the Risk Committee or the Board on a regular basis, with and without the CEO or other members of Senior Management present.

4.6.6 The CRO and risk management function should have processes and controls in place to assess the accuracy of any risk information or analysis provided by business lines in order to be in a position to offer objective reporting to the Board, the Risk Committee and Senior Management. The Board and the Risk Committee should periodically seek assurances from the CRO and risk management function as to the objectivity of such risk information or analysis.

5.0 The Role of the Audit Committee

5.1 Section 64 of the Insurance Act 2016 requires that each insurer establish an Audit Committee comprised of at least two directors and the Chairperson of the Committee shall be an independent director.

5.2 The statutory duties of the Audit Committee include reviewing the annual statements of the insurer, evaluating and approving internal control procedures for the institution, and meeting with the Chief Internal Auditor and/or the Appointed Actuary to discuss the effectiveness of the institution's internal controls and the adequacy of reserving and reporting practices[8].

5.3 The Audit Committee should, with regard to the annual return or other returns of an insurer that under the Act must be approved by the Board, report to the full Board with regard to any comments or findings of the Audit Committee before Board approval is requested.

5.4 The Audit Committee should review and approve the insurer's audit plans (internal and external) to ensure that they are appropriate, risk-based and address all the relevant activities over a measurable cycle, and that the work of internal and external auditors is coordinated. Where part or all of the internal audit function is outsourced, the Board should still have responsibility to oversee the performance of the insurer's internal audit as a whole.

5.5 The Audit Committee, not Senior Management, should recommend to the shareholders the appointment, reappointment, removal and remuneration of the external auditor, and should also agree to the scope and terms of the audit engagement and approve the Management letter.

5.6 The Audit Committee should satisfy itself that the level of the audit fees is commensurate with the scope of work undertaken. Where fee reductions are offered, the Audit Committee should ascertain whether these reductions continue to ensure a quality audit. The Audit Committee should also assess whether any change to the external auditor's materiality level and/or proposed scope continues to ensure a quality audit.

5.7 The Audit Committee should assess the skills, resources (amount and type) and independence of the external auditor, including the audit firm's internal policies and practices for quality control, and be satisfied with the content of the auditor's management letter prior to it being signed. The Audit Committee should put in place a governance framework to address any concerns raised by the Bank or other stakeholders about the external auditor's independence.

5.8 The Audit Committee should also establish criteria for the types of non-audit services that an external auditor can and cannot provide, including rules stipulating when advance approval by the Audit Committee is required for new contracts.

5.9 An insurer's Audit Committee should assess whether the insurer's accounting and actuarial practices are appropriate and within the bounds of acceptable practice. The

[8] Insurers should ensure that they are in compliance with the relevant securities requirements in respect of the audit Committee in the relevant jurisdictions.

Audit Committee should receive all substantive correspondence between the external auditor and Senior Management related to its audit findings.

5.10 The Audit Committee should probe, question and hold regular in camera meetings with the external auditor, the Chief Internal Auditor and the Appointed Actuary, to understand all of the relevant issues and how these issues have been resolved.

5.11 The Audit Committee should call a meeting of all the directors of the insurer to consider any matters that the audit Committee considers to be of concern.

5.12 The Audit Committee should discuss with Senior Management and the external auditor the overall results of the audit, the annual and quarterly financial statements and related documents, the audit report, the quality of the financial statements and any related concerns raised by the external auditor. This should include, but not be limited to:

- Key areas of risk for material misstatement of the financial statements, including critical accounting estimates or areas of measurement uncertainty;
- Areas of significant auditor judgment, including accounting policies, accounting estimates and financial statement disclosures;
- Whether the external auditor considers estimates/models to be "aggressive" or "conservative" within an acceptable range and, specifically, where there are options, the rationale for the final valuation decision and if the option is consistent with industry practice;
- Significant or unusual transactions (e.g., restatements);
- Difficult or contentious matters noted during the audit or other audit matters that would typically be discussed with an engagement quality control reviewer;
- Changes in the audit scope or strategy;
- Internal control deficiencies identified during the course of the audit;
- Areas of financial statement disclosures that could be improved; and
- The role of other audit firms (e.g., with respect to the audit of insurer subsidiaries).

5.13 The Audit Committee should probe, question and seek assurances from the external auditor that the financial statements present fairly the financial position, the results of operations and the cash flows of the insurer. Annually, the Audit Committee should report to the Board on the effectiveness of the external auditor.

6.0 Supervision of Insurers

6.1 The Role of Corporate Governance in the Bank's Supervisory Process

6.1.1 Effective corporate governance is an essential element in the safe and sound functioning of financial institutions. The Board and Senior Management are designated as key oversight functions.

6.1.2 Effective oversight of the business and affairs of an insurer by its Board and Senior Management is essential to the maintenance of an efficient and cost-effective supervisory system. It helps protect policyholders, and allows the Bank to use the work of the insurer's internal processes and functions, thereby reducing the amount of supervisory resources needed for the Bank to meet its mandate.

6.1.3 In addition, in situations where an insurer is experiencing problems, or where significant corrective action is necessary, the important role of the Board is heightened and the Bank requires significant Board involvement in seeking solutions and overseeing the implementation of corrective actions.

6.2 The Bank of Guyana's Supervisory Assessment

6.2.1 The Bank supervises insurers to assess their condition and monitor compliance with the applicable laws and regulations. Supervision is carried out within a framework that is risk- focused. The Bank has developed a comprehensive set of assessment criteria, key among which is the quality of oversight and control provided by the Board and Senior Management of the insurer.

6.2.2 The Bank conducts supervisory work and monitors the performance of insurers to assess safety and soundness, the quality of control and governance processes, and regulatory compliance. The Board and Senior Management are ultimately accountable for the safety and soundness of the insurer, as well as its compliance with governing legislation. As such, the Bank's reports and findings can provide useful input to the Board's own oversight of the insurer.

Open communication between the Board and regulators helps promote the mutual trust and confidence essential to the efficiency of the principles-based system of supervision that the Bank follows.

6.2.3 A Board that carries out its responsibilities effectively will understand the regulatory environment within which the insurer and its subsidiaries operate, as well as be informed of the results of supervisory work by the Bank and other regulators. The Board should follow-up accordingly on the recommendations or findings identified by regulators, as well as Senior Management's action plans to address regulatory matters, and discuss with Senior Management to determine if weaknesses found are broader indicators that similar problems may exist elsewhere in the organisation.

6.2.4 An insurer's Board should consider regulatory findings in its on-going evaluation of Senior Management and oversight function performance, recognizing that primary responsibility for identifying weaknesses rests with the Board and Senior Management.

6.2.5 The Bank will undertake a number of approaches, including discussions with the Board, Board committees, Senior Management and oversight functions, as well as the review of Board and Board committee material, in order to assess the effectiveness of the insurer's corporate governance processes. The Bank will seek evidence that processes exist, are operating effectively and that the Board is able to fulfil its roles and responsibilities.

6.2.6 Where separate oversight functions do not exist, the Bank will look to other functions, processes or controls to assess the independent oversight provided.

6.3 Changes to the Board and Senior Management

6.3.1 As part of the on-going supervisory process, insurers should notify the Bank of any potential changes to the membership of the insurer's Board and Senior Management, and any circumstances that may adversely affect the suitability of Board members and Senior Management.

7.0 Effective Date

The effective date for this guideline is 22 July 2019.

Appendix – Risk Appetite Framework

The Risk Appetite Framework should contain a risk appetite statement and risk limits, as well as an outline of the roles and responsibilities of those overseeing the implementation of the Risk Appetite Framework. The Risk Appetite Framework is an integral part of the insurer's overall enterprise-risk management framework.

Risk Appetite Statement

The risk appetite statement reflects the aggregate level and type of risk that an insurer is willing to accept in order to achieve its business objectives. Key features of the risk appetite statement are:

- It should be linked to the firm's short-term and long-term strategic, capital and financial plans, as well as compensation programs;

- It includes qualitative and quantitative measures that can be aggregated and disaggregated;

    - Qualitative measures may include:

        - Significant risks the firm wants to take and why;

        - Significant risks the firm wants to avoid and why;

        - Attitude towards regulatory compliance; and

        - Underlying assumptions and risks.

    - Quantitative measures may include:

        - Measures of loss or negative events (such as earnings, capital or liquidity, earnings per share at risk or volatility) that the insurer is willing to accept;

        - It should be forward-looking;

        - It should consider normal and stressed scenarios; and

        - It should be within the insurer's risk capacity (i.e., regulatory constraints).

Risk Limits

Risk limits are the allocation of the insurer's risk appetite statement to:

- Specific risk categories (e.g., credit, market, insurance, liquidity, operational);
- The business unit or platform level (e.g., retail, capital markets);
- Lines of business or product level (e.g., concentration limits); and
- More granular levels, as appropriate.

Risk limits are often expressed in quantitative terms, and are specific, measurable, frequency- based and reportable.

Implementation of the Risk Appetite Framework

Once approved by the Board, the Risk Appetite Framework should be implemented by Senior Management throughout the organization as an integral part of the overall enterprise risk management framework of the insurer. The Risk Appetite Framework should align with the organization's corporate strategy, its financial and capital plans, its business unit strategies and day-to-day operations, as well as its risk management policies (e.g., risk limits, risk selection/underwriting guidelines and criteria, etc.) and compensation programs.

Where the Risk Appetite Framework sets aggregate limits that will be shared among different units, the basis on which such limits will be shared should be clearly identified and communicated.

Effective control, monitoring and reporting systems and procedures should be developed to ensure on-going operational compliance with the Risk Appetite Framework, including the following:

- The CRO (or equivalent) should ensure that aggregate risk limits are consistent with the firm's risk appetite statement.
- The CRO (or equivalent) should include in regular reports to the Board or Risk Committee, and Senior Management, an assessment against the risk appetite statement and risk limits; and

- Internal Audit should routinely assess compliance with the Risk Appetite Framework on an enterprise-wide basis and in its review of units within an insurer.

The Board and Senior Management of an insurer should receive regular reports on the effectiveness of, and compliance with, the Risk Appetite Framework. These reports should include a comparison of actual results versus stated Risk Appetite Framework measures. Where breaches are identified, action plans should exist and be communicated to the Board. The Risk Appetite Framework should be an integral part of the Board's discussions and decision-making processes.