



INSURANCE COMMISSION  
OF THE BAHAMAS

# GUIDELINES FOR CORPORATE GOVERNANCE AND OVERSIGHT ASSESSMENT CRITERIA

## CONSULTATIVE PAPER

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## INTRODUCTION

Pursuant to section 234 of the Insurance Act 2005 (the Act), the Insurance Commission of The Bahamas (the Commission) issues these guidelines to assist registrants and licensees under the Act to understand their obligations for effective corporate governance.

This Corporate Governance and Oversight Assessment Criteria (Assessment Criteria) should be read in conjunction with the Commission's 'Risk Based Supervision Framework for Insurance Companies'.<sup>1</sup> The supervisory framework is a risk-based structured methodology designed to facilitate proactive and dynamic assessment of insurers regulated by the Commission. The framework outlines the steps that the Commission follows in assessing the risk profile of insurance companies. Assessing operational management, corporate governance and oversight for each of the insurer's significant activities is a critical component of determining the insurer's overall risk profile. The elements for each oversight function are based on international best practices<sup>2</sup> and have taken into consideration the features of the domestic market.

Assessment Criteria have been provided for the following functions:

- Board of Directors
- Senior Management
- Internal Audit
- Compliance
- Actuary
- External Audit

It is important to note that the unique circumstances of an institution are key considerations in assessing the effectiveness of the institution's Oversight Functions. This requires the use of judgement in applying criteria and performance indicators included in the Assessment Criteria, in the context of the institution. The circumstances of each institution will determine the relative importance of the individual criteria and performance indicators in arriving at an overall rating for a function.

## PURPOSE

The purpose of this guidance note is to provide an overview of the characteristics, responsibilities, and key elements involved in good corporate governance which contribute to the entity's overall risk rating. The Assessment Criteria provides guidance to Senior Management, Board of Directors and other oversight functions. The Assessment Criteria will also be used to guide supervisory judgment in assessing an insurer's risk profile.

The Commission's primary objective in assessing the Oversight Functions is to determine the extent to which it can use the work of these functions to ensure that appropriate controls are in place and are being followed at the operational level.

The Assessment Criteria may be revised from time to time, based on experience gained through implementation and as industry and international practices change over time.

## COMPONENTS OF THE ASSESSMENT CRITERIA

Overall assessment of an oversight function involves evaluating the characteristics and performance of the function in executing its mandate across all significant activities in conjunction with the Commissions' Corporate Governance and Oversight Assessment Criteria, in the context of the institution.

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<sup>1</sup> [Risk Based Supervision Framework for Insurance Companies.](#)

<sup>2</sup> [Insurance Core Principles and Common Framework for the Supervision of Internationally Active Insurance Groups.](#)

More specific components of the Corporate Governance and Oversight Assessment Criteria are defined below:

1. **Definition of Function** – Gives a high-level definition of the function according to best practices.
2. **Characteristics of the Function** – Describes the characteristics typical of a well performing oversight function.
3. **Responsibilities of The Function** – Describes the typical role and day to day activities of a well performing oversight function.
4. **Performance Indicators** – Provide examples of indicators that guide supervisory judgement in assessing the function's performance.
5. **Assessment Ratings** – Describe the rating categories used by the supervisor in assessing the function's effectiveness.

## EXPLANATION OF TERMS USED IN THE DOCUMENT

### “Appropriateness/Adequacy of”, and “extent to which”

Terms such as “adequacy of”, “appropriateness of” and “extent to which” are used to allow supervisors to scale the Assessment Criteria to the nature, scope, complexity and risk profile of each institution. The terms require supervisors to use sound and informed judgement in applying the criteria to the unique circumstances of each institution. This approach is necessary because the Assessment Criteria, like the Supervisory Framework, are designed to apply to all types and sizes of institutions supervised by the Commission.

### Considerations

The term “Considerations” in the assessment criteria introduces the key components of each essential criterion that will be evaluated when assessing the effectiveness of the institution's oversight functions. The “Considerations” however are not exhaustive and do not pre-empt the evaluation of any process, policy or filing as the Commission deems necessary.

### Generally Accepted Industry Practices

The term “generally accepted practices” is not a reference to codified standards, but to practices observed by the Commission to be in general use at institutions of comparable size and complexity within the industry, and which the Commission considers acceptable (including meeting all legal and regulatory requirements). The sophistication of an institution's oversight practices will depend on the nature, scope, complexity and risk profile of its activities.

### Independence

“Independence” of a risk management/oversight function means that the function is not subject to the undue influence of operational management in the areas it oversees, nor is it directly involved in the management or execution of the activities in those areas. To be effective, an oversight function needs to be independent of the department, process or activity it is mandated to oversee.

### Corporate Governance and Oversight

The term “corporate governance and oversight” refers to board and management functions, processes, structures and information used for directing and overseeing the operations of an institution. In general, corporate governance and oversight involves relationships between an organization's Board, management, shareholders, customers and employees. It provides the structure through which the objectives of the company are set and the means of attaining these objectives and monitoring performance are determined. In conducting a review of a firm's corporate governance and oversight functions the objective is to determine that they are appropriate for the risk profile and structure of the particular entity



and effective in overseeing operational management.

**Significant Activities**

As noted in the Supervisory Framework, “Significant Activities” are activities that are material to an institution’s operations and/or strategies, and can be lines of business, business units, or other institution-wide processes such as the investment function or information technology. The Commission will generally group an institution’s activities in a manner that is consistent with the way in which the institution is structured and managed.



## BOARD OF DIRECTORS

The Board of Directors (Board or BOD) is a group of individuals comprising the governing body of the insurance company, as such, the Board must have sufficient authority, powers and resources to be able to discharge its duties fully and effectively.

Board members are required to do the following:

- Act in good faith, honestly and reasonably.
- Exercise due care and diligence.
- Act in the best interests of the insurer and policyholders, putting those interests ahead of his/her own interests.
- Exercise independent judgment and objectivity in his/her decision making, taking due account of the interests of the insurer and policyholders.
- Not use his/her position to gain undue personal advantage or cause any detriment to the insurer.

The Board of Directors is responsible for providing oversight of management and operations of the institution, the corporate governance structure of the insurer begins with the Board. The Board is responsible for establishing and implementing a corporate governance framework for sound and prudent management of the insurer. Corporate governance involves relationships between an organization's Board, management, shareholders, customers and employees.

### Board of Directors Characteristics

The key characteristics of a well-performing Board of Directors are:

1. **Independence** – The Board and Board Committees must establish clear and objective independence criteria for the governance of the overall firm. It is good practice for the Chair of the Board to be a non-executive Board member and not serve as chair of any Board committee in order to have some checks and balances. Board Members should avoid personal ties or financial or business interests conflicting with those of the insurer. Conflicts should be managed when they cannot reasonably be avoided. The Board must have documented procedures and policies in place to identify and address conflicts of interests, this could include disclosure of potential conflicts of interests, requirements for arm's length transactions, abstention of voting and, where appropriate, prior approval by the Board or shareholders of professional positions or transactions.
2. **Competency** – Members of an insurer's Board should possess the necessary experience, skills, knowledge and applicable professional qualifications to perform their duties with competency and provide effective leadership, direction and oversight of the insurer's business processes. The Board should have access to training and seminars etc., on an ongoing basis, to maintain the necessary skills, knowledge and understanding of the insurer's business to be able to fulfill their roles.
3. **Adequacy** – An insurer's Board should have adequate funding and other resources to accomplish its objectives and fulfill its responsibilities efficiently and effectively. The Board should have access to services of external consultants or specialists where necessary or appropriate, subject to due procedures for appointment and dismissal of such consultants or specialists.
4. **Credibility/Accountability** – The Board should have suitable practices and procedures to ensure some level of accountability on its own behalf. The Board should ensure that these practices and policies are followed and reviewed periodically to evaluate their effectiveness and adequacy. Moreover, the Board should review its own performance to ascertain whether members collectively and individually remain effective in discharging the respective roles and responsibilities assigned to

them and identify opportunities to improve the performance of the Board as a whole. This review should be conducted at least annually.

### **Responsibilities of the Board of Directors**

The main responsibilities of the Board include:

- Reviewing and approving organizational structure, including clearly defining the roles and responsibilities of its committees, management and key persons in control functions to promote an appropriate separation of the oversight function from the management responsibilities. The Board should take due account of whether the relevant member has the degree of independence and objectivity required to carry out the functions of the committee to which the member is assigned.
- Providing the overall strategy and direction for the insurer and overseeing its proper overall management, while leaving the day-to-day management of the insurer to Senior Management. The separation of the roles of the Chair of the Board and the Chief Executive Officer (CEO) reinforces a clear distinction between accountability for oversight and management.
- Setting, approving, and overseeing the implementation of the insurer's overall business objectives and strategies, considering the long-term financial safety and soundness of the insurer, the interests of its policyholders and other stakeholders, and the fair treatment of customers.
- Ensuring that management and individuals in other oversight functions are qualified and competent.
- Ensuring that the insurer's corporate governance framework and overall business objectives and strategies are reviewed at least annually to ensure that they have been properly implemented and that they remain appropriate in light of any material changes in the organisational structure, activities, strategy, and regulatory and other external factors.
- Providing oversight of the design and effective implementation of sound risk management and internal control systems.
- Ensuring that the company undertakes its Own Risk and Solvency Assessment (ORSA) regularly to assess the adequacy of its risk management and current and likely future, solvency position.
- Providing for an independent assessment of, and reporting on, the effectiveness of the insurer's operations.
- Approving remuneration policies and practices for Board members, Senior Management and persons in key control functions that would discourage excessive or uncontrolled risk taking and is aligned with the corporate culture, objectives, strategies, identified risk appetite, and long-term interests of the insurer, and has proper regard to the interests of its policyholders and other stakeholders.
- Monitoring performance against business objectives, strategies and plans, and requiring timely corrective actions where warranted.
- Providing effective oversight over senior management.
- Ensuring that there is a reliable financial reporting process for public and supervisory reporting and the financial reporting process includes clearly defined roles for the Board, Senior Management and External Auditors.

### **Board of Directors' Oversight Assessment Criteria**

The following criteria describe the characteristics to be used in assessing the quality of the Board's oversight of management and the operations of the institutions. The assessments are made in the context of the nature, scope and complexity of the insurer. In developing an overall assessment of the Board its



performance will also be taken into consideration.

Essential Elements	Assessment Criteria
<b>Composition</b>	<p>1. Board (including Board committees) is appropriately constituted to be effective in discharging its corporate governance responsibilities:</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. Adequacy of policies and practices to determine the size of the Board in accordance with regulatory requirements, appropriateness of directors' qualifications, knowledge, skills experience and level of commitment required to fulfill Board responsibilities.</li> <li>ii. Appropriateness of the composition of the Board relative to the policies, established practices and regulatory requirements.</li> <li>iii. Adequacy of policies and practices to recommend the selection, approval, renewal and succession of directors.</li> <li>iv. Policies and practices surrounding the number and knowledge base of independent non-executive directors represented on the Board.</li> </ul>
<b>Role and Responsibilities</b>	<p>1. Board policies and practices are adequate for effectively carrying out its role and responsibilities.</p> <p><u>Considerations:</u></p> <p>Policies ensure:</p> <ul style="list-style-type: none"> <li>i. Board is provided with timely, relevant, accurate and complete information.</li> <li>ii. Promote independent, effective and timely decision making and include practices for setting Board agenda and priorities.</li> <li>iii. The Board internally reviews and has approval processes for outsourcing of any material activity or function and to verify, before approving, that there was an appropriate assessment of the risks, as well as an assessment of the ability of the insurer's risk management and internal controls to manage them effectively</li> <li>iv. Directors' compensation promotes prudent decision making and self-assessment of Board performance on an annual basis.</li> <li>v. There is a reliable financial reporting process for both public and supervisory purposes that is supported by clearly defined roles and responsibilities of the Board, Senior Management and the external auditor.</li> <li>vi. The establishment and monitoring of work plans for fulfilling Board goals and responsibilities.</li> </ul> <p>2. Role and responsibilities of the Board (including role and responsibilities of Board committees) and committee reporting requirements to the Board are adequate given nature of the firm (see Insurance (General) Regulation, 2010.</p> <p><u>Considerations:</u></p> <p>The extent to which the Board's responsibilities include:</p> <ul style="list-style-type: none"> <li>i. Appointing and approving the appointment of Key management including the CEO</li> <li>ii. Approving organization's structure, human resources and employee compensation policies, business strategy and objectives, financial statement and disclosures, risk management strategies, liquidity, funding and capital management policies, management systems, codes of</li> </ul>

	<p>conduct and ethics and communication and disclosure policies</p> <p>iii. Reviewing the abovementioned policies.</p> <p>iv. Obtaining assurances on a regular basis that the institution's risk management, control environment and management information systems are appropriate and operating effectively.</p> <p>v. The existence of policies and practices to periodically develop, approve and review the role and responsibilities of the Board and Board committees.</p> <p>vi. Ensuring that there are systems and controls to promote appropriate, timely and effective communication with the Commission and with relevant stakeholders.</p> <p>3. The Board has adequate powers and resources to be able to discharge its duties fully and effectively.</p>
<b>Committees</b>	<p>1. Board Committees of the firm are appropriately constituted (see Insurance (General) Regulations, 2010) and it is effective in discharging its role in overall governance responsibilities.</p> <p><u>Considerations:</u></p> <p>i. Appropriateness of Board committee structure and mandate relative to business and risk profile.</p> <p>ii. Adequacy of knowledge and experience of Board committee members.</p> <p>iii. Adequacy of policies to establish and review Board committee mandates.</p> <p>iv. Extent to which Board committee mandates promote independent and comprehensive oversight, with timely and regular reporting to the Board.</p>

### Performance Indicators

The performance indicators collectively with the characteristics are used to assess how well the Board carries out its responsibilities. The assessment of performance is derived from the assessments of Significant Activities. Accordingly, the function's performance across the insurer's Significant Activities (taking their materiality into account) is the key driver of the overall assessment of the function.

The following are examples of indicators that guide supervisory judgement in assessing the Board's performance:

- Active involvement in the selection and performance evaluation of the CEO and other members of Senior Management as appropriate
- Performs a regular independent in-depth review and evaluation of the insurer's business objectives and strategies and risk tolerance limits.
- Regularly reviews the insurer's corporate governance and risk management structures, policies and practices
- Clearly sets out the type and quality of information it requires and related frequency.
- Actively engages in the review of information provided by Senior Management for Board approval, including challenging management's assumption.
- Requires effective and timely resolution of issues identified by others, including Compliance, Internal Audit, actuary, external auditors, etc.

### Assessment Ratings – Board of Directors

An overall rating of the Board of Directors considers both its characteristics and the effectiveness of its performance in carrying out its role and responsibilities in the context of the nature, scope, complexity, and risk profile of the institution. Characteristics and examples of performance indicators that guide supervisory judgement in determining an appropriate rating are set out below.

#### **Strong**

The Board is appropriately constituted and effective in charging its corporate governance responsibilities. The policies, skill level, experience and expertise of the Board are more than adequate given the nature, size and complexity of the insurer. The Board has consistently demonstrated highly effective performance in many instances more superior to generally accepted standards.

No apparent cause for regulatory concern.

#### **Acceptable**

The Board is adequately constituted and satisfactory in charging its corporate governance responsibilities. The policies, skill level, experience and expertise of the Board are adequate given the nature, size and complexity of the insurer. The Board has demonstrated effective performance on a consistent basis.

There are no material regulatory concerns.

#### **Needs Improvement**

The Board is generally well constituted and is largely satisfactory in charging its corporate governance responsibilities. Shortcomings in policies, skill level, experience and/or expertise of the Board are apparent, though not so serious as to cause immediate prudential concern.

The Board generally demonstrate effective performance, but there are some areas where effectiveness needs to be improved.

#### **Weak**

The Board has issues with its composition and ability to adequately carry out its corporate governance responsibilities. Critical shortcomings in policies, skill level, experience and/or expertise of the Board is apparent. Overall, the Board has demonstrated serious instances where effectiveness needs to be improved.

There is material cause for regulatory concern.

## SENIOR MANAGEMENT

Senior Management would include those individuals at the highest level (typically the C-suite) responsible for overseeing the effective management of the institution's operations. They frequently have policy-making responsibilities. Because the supervisory framework and assessment criteria are applicable to institutions of all types and sizes, the number and titles of Senior Management will vary based on the size and complexity of an institution and how it is organized.

### Senior Management Characteristics

A well-performing Senior Management function has the following characteristics:

1. **Authority** – Senior Management should have appropriate authority to facilitate appropriate delegation of responsibilities to middle management and control functions. To be able to discharge its own role and responsibilities properly, policies should clearly define the powers of senior management to make decisions, implement corrective measures when necessary and determine overall strategy of the business.
2. **Competency** – Senior Management should possess the necessary experience, skills, knowledge and applicable professional qualifications to perform their duties with competency and provide effective leadership, direction and management of the insurer's business processes. There should be clear and transparent processes for engaging persons with appropriate competencies and integrity to discharge the functions of the Senior Management.
3. **Adequacy** – An insurer's Senior Management should have adequate funding and other resources to accomplish its objectives and fulfill its responsibilities efficiently and effectively. Senior Management should have access to services of external consultants or specialists where necessary or appropriate, subject to due procedures for appointment and dismissal of such consultants or specialists.
4. **Credibility/Accountability** – There is a direct relationship between organizational culture of integrity and compliance and the level of credibility and accountability of persons in key positions. It is fundamental that senior management has standards of conduct and codes of ethics which include procedures for dealing with conflicts of interests. Clear lines of accountability and channels of communication between persons in Senior Management and Key Persons in Control Functions is also key to ensure the firm achieves its strategic goals and objectives.

### Responsibilities of Senior Management

An overall assessment of Senior Management considers both its characteristics and effectiveness in executing its responsibilities which include:

- Developing business objectives, strategies, policies (including policies for risk management and risk appetite), organizational structure and controls for Board approval.
- Promoting sound risk management, compliance and fair treatment of customers.
- Developing and undertaking own risk and solvency assessment (ORSA) regularly to assess the adequacy of risk management and current and likely future, solvency position.
- Effectively overseeing the operations of the insurer (including outsourced activities) to ensure day-to-day operations are carried out in accordance with Board approved business objectives, strategies and policies.
- Implement effective measures to deter, prevent, detect, report and remedy fraud.
- Developing and promoting sound corporate governance practices.
- Providing the Board with sufficient and timely information to enable it to carry out its responsibilities, including monitoring and reviewing performance and risk exposures of the insurer,



as well as the performance of Senior Management.

- Maintaining adequate and orderly records of the internal organization.

### Senior Management Assessment Criteria

The criteria below describe essential elements of the characteristics to be used in assessing the quality of the Senior Management oversight of the operations of the institutions. The assessments are made in the context of the nature, scope and complexity of the insurer. In developing an overall assessment of Senior Management their performance will also be taken into consideration.

Essential Elements	Assessment Criteria
<b>Mandate</b>	<ol style="list-style-type: none"> <li>Board has delegated responsibilities for developing and implementing policies and practices for the effective management of the insurer's operations, including business objectives, strategies and plans and a risk management framework.</li> </ol> <p><u>Considerations:</u></p> <ol style="list-style-type: none"> <li>Adequacy of policies and practices to delegate responsibilities from the CEO to other members of Senior Management and to regularly review the appropriateness of the delegation.</li> <li>The mandates for Senior Management positions are adequate and clearly define lines of authority, responsibility and accountability. Extent to which these mandates are communicated across the institution.</li> </ol>
<b>Structure, Independence and Reporting</b>	<ol style="list-style-type: none"> <li>Senior management is adequately organized/structured to facilitate appropriate delegation of responsibilities from the CEO to other key senior management personnel and corporate oversight functions.</li> </ol> <p><u>Considerations:</u></p> <ol style="list-style-type: none"> <li>Adequacy of policies and practices to regularly review senior management organization structure.</li> <li>Clearly defined lines of authority, responsibility and accountability.</li> <li>Clarity and appropriateness of reporting lines.</li> </ol> <ol style="list-style-type: none"> <li>Committee structured used by senior management is adequate.</li> </ol> <p><u>Considerations:</u></p> <ol style="list-style-type: none"> <li>Extent to which senior management committees are used to oversee the management of significant activities and related risks.</li> <li>Extent to which senior management committee mandates are clearly defined and communicated within the organization.</li> </ol>
<b>Experience, Expertise and Effectiveness</b>	<ol style="list-style-type: none"> <li>The experience, knowledge, skill level and integrity of senior management is adequate given the nature and complexity of the firm.</li> </ol> <p><u>Considerations:</u></p> <ol style="list-style-type: none"> <li>Experience, qualification and technical ability relative to the role and nature of the firm.</li> <li>Adequacy of policies and practices to regularly review the range of qualifications, knowledge, skills and experience required to fulfill senior management responsibilities.</li> <li>Adequacy of policies and practices for the selection, appointment and succession of senior management.</li> </ol>

	<p>iv. Individuals' history and track record for integrity, propriety and success in business.</p> <p>2. Senior management is effective in operation and execution of its responsibilities and duties.</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. Effectiveness of senior management in establishing business objectives, strategies, overall policies and procedures and plans</li> <li>ii. Effectiveness of senior management in monitoring firm's performance against objectives established</li> <li>iii. Regularity in which senior management reviews liquidity, funding and capital management policies</li> <li>iv. Effectiveness of senior management in ensuring approved policies are being adhered to.</li> <li>v. Effectiveness of senior management in establishing risk management policies and procedures commensurate with the nature and complexity of the firm.</li> </ul> <p>3. Senior management has adequate knowledge of business profile</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. Management understands significant issues in the market sector in which the firm operates.</li> <li>ii. Management understands key inherent business risks and vulnerabilities of the primary lines of business in which they are responsible for.</li> </ul>
<b>Board Oversight</b>	<p>1. Board oversight is adequate given the risk profile of the firm.</p> <p><u>Considerations:</u></p> <p>Extent to which Board (or a Board committee) approval is required for:</p> <ul style="list-style-type: none"> <li>i. The institution's organization structure and structural amendments</li> <li>ii. Senior management's organization structure and structural amendments</li> <li>iii. Senior management appointments and mandates</li> <li>iv. Business objectives, strategies and plans</li> <li>v. Liquidity, funding and capital management policies</li> <li>vi. Policies and practices for managing significant activities and related risks</li> <li>vii. Significant human resource policies and practices.</li> <li>viii. Communication and disclosure policies and practices</li> </ul> <p>2. There are adequate policies and practices to promote full, open and timely disclosure of significant issues to the Board (and/or Board Committees).</p>

### Performance Indicators

The assessment of performance is derived from the assessments of Significant Activities. Accordingly, Senior Management's performance across the insurer's Significant Activities (taking their materiality into account) is the key driver of the overall assessment of the function. The performance indicators collectively with the characteristics are used to assess how well Senior Management carries out its responsibilities.



The following are examples of indicators that guide supervisory judgement in assessing Senior Management's performance. The success of the function depends on the extent to which the senior management:

- Develops appropriate strategies and plans to attain business objectives for approval by the Board of Directors, including risk policies, limits, practices and reporting systems.
- Actively monitors execution of Board approved strategies, plans, policies, etc. for successful execution.
- Proactively reviews business objectives, strategies, plans, policies and limits in response to significant changes and adverse trends in the external environment.
- Sets appropriate tone from the top through the way it carries out its duties.
- Successfully builds an effective organization by attracting, developing and retaining high calibre staff.
- Keeps the Board of Directors and its Committees fully apprised on a timely basis.

### Assessment Ratings – Senior Management

The following statements describe the rating categories for the assessment of Senior Management's oversight of the institution's activities and related risks, with due consideration to the institution's safety and soundness. An overall rating of Senior Management considers both its characteristics and the effectiveness of its performance in executing its mandate, in the context of the nature, scope, complexity, and risk profile of the institution.

Characteristics and examples of performance indicators that guide supervisory judgement in determining an appropriate overall rating are set out in the following table.

#### **Strong**

The mandate, organization structure, experience, expertise, integrity and practices of Senior Management are more than appropriate given the nature size and complexity of the insurer. Senior Management's leadership, strategy and knowledge base are an ideal fit for the business(s) which it manages. Senior Management has consistently demonstrated highly effective performance in many instances more superior to generally accepted standards.

No apparent cause for regulatory concern.

#### **Acceptable**

The mandate, organization structure, experience, expertise, integrity and practices of Senior Management are adequate given the nature size and complexity of the insurer. Senior Management's leadership, strategy and knowledge base are a good fit for the business(s) which it manages. Senior Management has demonstrated effective performance on a consistent basis.

There are no material regulatory concerns.

#### **Needs Improvement**

The mandate, organization structure, experience, expertise, integrity and practices of Senior Management are weak given the nature size and complexity of the insurer. Senior Management's leadership, strategy and knowledge base are an acceptable fit for the business(s) which it manages.

Senior Management generally demonstrates effective performance, but there are some areas where effectiveness needs to be improved.

#### **Weak**

The mandate, organization structure, experience, expertise, integrity and practices of Senior Management are weak given the nature, size and complexity of the insurer. Senior Management's leadership, strategy and knowledge bases are a bad fit for the business(s) which it manages. Senior Management has demonstrated serious instances where effectiveness needs to be improved.

There is material cause for regulatory concern.





## INTERNAL AUDIT

Internal audit is an independent function within an insurer that assesses adherence to and effectiveness of operational and organizational controls and governance practices. In addition, internal audit may also assess adherence to and effectiveness of compliance and risk management policies and practices.

### Internal Audit Characteristics

The following are key characteristics of a well-performing internal audit function:

1. **Independence/Authority** – It is a fundamental principle of risk management that the internal audit function in an insurer is sufficiently independent of the business activities to be able to discharge its responsibilities objectively. Terms of reference should establish the authority of the internal audit function to independently carry out its responsibilities.
2. **Competency** – Staff should possess the necessary experience, skills, knowledge and applicable professional qualifications to perform their duties with competency. The function must possess the necessary competences to challenge current practice, reinforce best practices and be a catalyst for organization-wide improvement. Internal audit staff must be well versed in the strategic objectives of the organisation and be able to effectively identify risks and weakness in control activities which may hinder the insurer from achieving those strategic objectives.
3. **Adequacy** – The internal audit function should have adequate resources to accomplish its objectives and fulfill its responsibilities. Adequate internal audit resources, planning, policies and practices are important for assessing the effectiveness and adequacy of organization wide systems and practices. Internal Audit's resources should be reviewed regularly and adjusted as necessary to ensure they are sufficient.
4. **Credibility/Accountability** – The audit function of an insurer should have full accountability to the Board, more specifically the Audit Committee. The Audit Committee should be involved in the planning and scope of internal audit and determine the frequency in which internal audits are conducted. The structure of the Internal Audit function should allow for direct reporting and escalation of significant issues identified to the Board or Board Committee.

### Responsibilities of Internal Audit

An overall assessment of the Internal Audit function considers both its characteristics and effectiveness in executing its responsibilities, which include:

- Establishing, implementing and maintaining a risk-based audit plan to examine and evaluate general or specific areas, including on a preventive basis.
- Ensuring all material areas of risk and obligation of the insurer are subject to appropriate audit or review over a reasonable period of time.
- Reviewing and evaluating the adequacy and effectiveness of the insurer's policies and processes and the documentation and controls in respect of these, on a legal entity and group-wide basis, and on an individual subsidiary, business unit, business area, department or other organizational unit basis.
- Reviewing levels of compliance by employees and organizational units with established policies, processes and controls, including those involving reporting.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify and report such information.
- Ensuring that the identified risks and the agreed actions to address them are accurate and current.
- Evaluating the means of safeguarding insurer and policyholder assets and, as appropriate, verifying

the existence of such assets and the required level of segregation in respect of insurer and policyholder assets.

- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's control functions.
- Coordinating with the external auditors and, to the extent requested by the Board and consistent with applicable law, evaluating the quality of performance of the external auditors.
- Conducting regular assessments of the internal audit function and audit systems and incorporating needed improvements.

### Internal Audit Assessment Criteria

The following criteria describe the essential elements of the characteristics to be used in assessing the quality of the institutions internal audit function. The assessments are made in the context of the nature, scope and complexity of the insurer, while the performance of the Internal Audit function will also be taken into consideration. Where an insurer does not have an internal audit function the Commission will assess the extent to which duties of the internal audit function are being carried out by others within or outside of the institution.

Essential Elements	Assessment Criteria
<b>Mandate/Terms of Reference</b>	<p>1. Mandate/Terms of Reference of the Internal Audit Function is sufficiently robust and aligned with the business and risk profile of the firm</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. Objectives of the internal audit function are clear and actively communicated within the institution.</li> <li>ii. Process of approval of Mandate/Terms of Reference of Internal Audit.</li> <li>iii. Internal audit adequately covers all the areas of risk of which the firm is exposed.</li> <li>iv. Ability to have unrestricted access to institution's records, information and personnel.</li> <li>v. Role within the overall risk and control framework is apparent.</li> <li>vi. Relationship with external auditors/reporting accountants is apparent.</li> </ul>
<b>Structure, Independence and Reporting Lines</b>	<p>1. The structure of internal audit is aligned with delivering Mandate/Terms of Reference of the function.</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. Clarity of responsibility and reporting lines.</li> <li>ii. Independence and use of reporting of lines (sufficiently direct reporting line to Audit Committee; Availability of Access to Chairman and CEO; Potential access to the Commission; Regularity of use of such access).</li> <li>iii. Clarity and appropriateness of relationship with the Compliance Function, compliance monitoring role, auditing of compliance.</li> <li>iv. Credibility and standing of the internal audit function and its reports with senior management, external auditors and the Board.</li> </ul>



<b>Resources</b>	<p>1. The resources of the internal audit function are adequate and are aligned with delivering Mandate/Terms of Reference of the function.</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. Quality, experience and adequacy of internal audit staff resources given the business and risk profile of the firm and the requirements to complete the Audit plan.</li> <li>ii. Adequacy of the function's processes to determine the required: <ul style="list-style-type: none"> <li>a) Level of resources necessary to carry out responsibilities.</li> <li>b) Continuing professional development programs to enhance staff competencies.</li> </ul> </li> <li>iii. Sufficiency of staff development programs.</li> </ul>
<b>Methodology and Practices</b>	<p>1. Internal Audit Methodology adequately conforms to generally accepted industry practices and reflects the risk profile of the firm.</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. Use of risk-based methodology and representation of the risk profile of the business in The Bahamas in the methodology</li> <li>ii. Taxonomy of risk, definitions used and rationale for risk scoring system used by internal audit</li> <li>iii. Use of automated tools and systems for developing the risk profile</li> <li>iv. Process for alerting management to high-risk issues</li> <li>v. Process for responding to incidents, setting up investigations led by internal audit</li> <li>vi. Market, underwriting, credit, liquidity, operational and reputational risk.</li> </ul>
<b>Planning</b>	<p>1. The audit plan is adequate.</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. Approval process for the audit plan in line with the business and risk profile.</li> <li>ii. Process for deciding coverage of business and infrastructure areas based on IA's risk assessment methodology.</li> <li>iii. Extent of reliance on business's own self-assessment.</li> <li>iv. Contingency planning for inclusion of other responsibilities, special projects etc. within the audit plan.</li> </ul>
<b>Reporting</b>	<p>1. Audit reports effectively capture the identified risk issues and follow up process is adequate.</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. Adequacy of policies and practices to follow-up on the resolution of audit findings and recommendations.</li> <li>ii. Policies and practices for communicating audit results/ reaching agreement/ acceptance of issues identified in the internal audit.</li> <li>iii. Clarity of issues identification and prioritization process.</li> <li>iv. Distribution of audit report to appropriate levels of senior management.</li> </ul>
<b>Quality Assurance</b>	<p>1. Issues identified in the audit process are comprehensively tracked and there is a robust follow up process to ensure outstanding issues are eliminated.</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. Adequacy of processes for ensuring recommendations from internal</li> </ul>

	<p>audit are addressed in a timely fashion.</p> <ul style="list-style-type: none"> <li>ii. Adequacy of processes for monitoring outstanding exceptions or recommendations.</li> <li>iii. Board/Audit Committee awareness of material audit issues and commitment to resolution.</li> <li>iv. Extent of inclusion in list of issues tracked and resolved issues identified in the on-site examination process of the Commission and the supervision process more generally.</li> <li>v. Extent of inclusion of external recommendations from external auditors and others.</li> <li>vi. Escalation process for issues that have not been addressed.</li> </ul>
<b>Senior Management and Board Oversight</b>	<ol style="list-style-type: none"> <li>1. Policies and practices establish the role and responsibilities of Senior Management and the Board with respect to the internal audit function.  <u>Considerations:</u> <ul style="list-style-type: none"> <li>i. Policies and/or practices establish the extent to which Board (or Audit Committee) and Senior Management approval is required for: <ul style="list-style-type: none"> <li>a) The appointment and/or removal of the function head.</li> <li>b) The function's mandate and resources.</li> <li>c) The function's annual work plan.</li> </ul> </li> <li>ii. Adequacy of policies and practices to report periodically to the Board (or Audit Committee) and Senior Management on audit findings, recommendations and progress in meeting annual audit plan (including the impact of any resource limitations).</li> <li>iii. Adequacy of policies and practices to perform regular independent reviews of the function (including feedback received from the institution's external auditor) and to communicate the results to the Board (or Audit Committee) and Senior Management.</li> </ul> </li> <li>2. Board oversight is adequate given the risk profile of the firm.  <u>Considerations:</u>  Extent to which Board (or a Board committee) approval is required for: <ul style="list-style-type: none"> <li>i. The appointment and/or removal of the function head.</li> <li>ii. The remuneration and disciplining of the function head.</li> <li>iii. The function's mandate and resources.</li> </ul> </li> <li>3. Board oversight is adequate given the risk profile of the firm.  <u>Considerations:</u>  Extent to which Board (or a Board committee) approval is required for: <ul style="list-style-type: none"> <li>i. The appointment and/or removal of the function head.</li> <li>ii. The remuneration and disciplining of the function head.</li> <li>iii. The function's mandate and resources.</li> </ul> </li> </ol>

### Performance Indicators

The performance indicators collectively with the characteristics are used to assess how well the Internal Audit Function carries out its responsibilities. The assessment of performance is derived from the assessments of Significant Activities. Accordingly, the function's performance across the insurer's Significant Activities (taking their materiality into account) is the key driver of the overall assessment of the

function.

The following are examples of indicators that guide supervisory judgement in assessing management's performance. The success of the function depends on the extent to which the Internal Audit function:

- Actively seeks relevant information from others (e.g. Compliance, Senior Management, actuary, external auditors, etc.) in developing risk based supervisory strategies and plans.
- Reviews business plans and strategies to identify activities that could materially impact the insurer and ensures that they will be effectively managed and overseen.
- Effective and timely execution of its risk-based audit plans, including timely reporting and follow-up of identified issues for satisfactory resolution.
- Considers pervasiveness and significance of its findings both at the Significant Activity level and in aggregate across the insurer's activities.
- Proactively communicates significant findings to the Board (Audit Committee) and regularly engages the Board (Audit Committee) in discussions on the appropriateness of its audit strategies and adequacy of its resources.

### Assessment Ratings – Internal Audit

The following statements describe the rating categories for the assessment of the Internal Audit function's oversight of the effectiveness of, and adherence to, the institution's organizational and procedural controls.

An overall rating of the Internal Audit function considers both its characteristics and the effectiveness of its performance in executing its mandate in the context of the nature, scope, complexity, and risk profile of the institution. Characteristics and examples of performance indicators that guide supervisory judgment in determining an appropriate rating are set out below.

#### **Strong**

The organization structure, resources, methodologies and practices of the Internal Audit function are aligned with delivering the mandate/terms of reference of the function and are appropriately robust given the business and risk profile of the firm. The Internal Audit function has consistently demonstrated highly effective performance, in many instances, more superior to generally accepted and professional standards.

No apparent cause for regulatory concern.

#### **Acceptable**

The organization structure, resources, methodologies and practices of the Internal Audit function are aligned with delivering the mandate/terms of reference of the function and are sufficiently robust given the business and risk profile of the firm. The Internal Audit function has demonstrated effective performance on a consistent basis.

There are no material regulatory concerns.

#### **Needs Improvement**

The organization structure, resources, methodologies and practices of the Internal Audit function are aligned with delivering the mandate/terms of reference of the function but are inadequately robust given the business and risk profile of the firm.

The Internal Audit function generally demonstrates effective performance, but there are some areas where the effectiveness needs to be improved.

**Weak**

The organization structure, resources, methodologies and practices of the Internal Audit function are aligned with delivering the mandate/terms of reference of the function but are inadequate given the business and risk profile of the firm. The Internal Audit function generally demonstrates ineffective performance, and there are several areas that need to be improved.

There is material cause for regulatory concern.

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## COMPLIANCE

Compliance is an independent function in insurers responsible for assisting the Board in the fulfilment of its risk mitigation and oversight duties. The function aims to ensure that the insurer meets its ethical responsibilities, legal, regulatory and supervisory obligations, and promotes a compliance culture. Failure of the compliance function to execute its role in overall governance of the firm may result in adverse consequences, including legal or regulatory sanctions, material financial loss, or reputational damage to both the insurer and industry.

### Compliance Characteristics

A summary of the key characteristics of a well-performing Compliance function are:

1. **Independence/Authority** – It is a fundamental principle of compliance practice that the compliance function should be sufficiently independent of the business activities to be able to discharge its responsibilities objectively. Terms of reference should establish the authority of the compliance function to act on its own initiative to carry out its responsibilities.
2. **Competency** – Compliance staff should possess the necessary experience, skills, knowledge and applicable professional qualifications to perform their duties with competency. Staff must have the resources necessary to keep abreast of changing legal and regulatory requirements and have the necessary expertise and authority to effectively communicate these changes within the institution and take appropriate measures to ensure the firm's compliance.
3. **Adequacy** – The Compliance function should have adequate resources to accomplish its objectives and fulfill its responsibilities. Inadequate compliance activities, training, policies and practices renders the insurer vulnerable to major financial and reputational losses which arise as a result of violations of legal and regulatory obligations. The function's resources should be organized in a manner to effectively identify, address and escalate violations and potential violations in a timely manner on an enterprise- wide basis. Adequacy of the function's resources should be reviewed regularly and adjusted as necessary.
4. **Credibility/Accountability** – The credibility of the compliance function is essential to the establishment of a sound compliance culture within the organization. The Compliance function should be free from conflict of interest and should also be subject to at least annual reviews/audits.

### Responsibilities of Compliance

An overall assessment of the Compliance function considers both its characteristics and effectiveness in executing its responsibilities which include:

- Developing an ethical corporate culture that values responsible conduct and compliance with internal and external obligations through active communication and ongoing employee training on appropriate code of conduct.
- Identify, assess, report on and address key legal and regulatory obligations, including obligations to the insurer's supervisor, and the risks associated with such.
- Ensuring the insurer has the appropriate policies, procedures, and controls in place to adhere these legal and regulatory requirements.
- Monitoring adherence to these policies and procedures.
- Identifying, evaluating and reporting potential or actual violations of legal and regulatory obligations to Senior Management and the Board of Directors.
- Facilitating and ensuring there are appropriate means for the confidential reporting by employees of concerns, shortcomings or potential or actual violations in respect of insurer internal policies,



legal or regulatory obligations, or ethical considerations.

- Ensuring, where appropriate, necessary corrective measures are implemented to address compliance shortcomings including ensuring that adequate disciplinary actions are taken and any necessary reporting of violations to the Commission is made.
- Regularly monitoring or reviewing the compliance function and systems via self-assessments and implementing any necessary upgrades.

### Compliance Assessment Criteria

The assessments are made in the context of the nature, scope and complexity of the insurer. In developing an overall assessment of the Compliance function its performance will be taken into consideration especially with regard to the essential elements described below.

Essential Elements	Assessment Criteria
<b>Mandate/Terms of Reference</b>	<ol style="list-style-type: none"> <li>Mandate/Terms of Reference clearly articulates the role and objectives of the function including setting policies and procedures, education and training, advising and monitoring adherence to policies and procedures.  <u>Considerations:</u> Mandate should establish:               <ol style="list-style-type: none"> <li>Objectives of the function.</li> <li>Role of function in the firm.</li> <li>Right of access to the Board, Senior Management and business records including personnel.</li> <li>The requirement to express an opinion on the adequacy and effectiveness of the compliance processes and status of compliance.</li> </ol> </li> <li>Mandate/Terms of Reference are actively communicated within the firm.</li> </ol>
<b>Structure, Independence and Reporting</b>	<ol style="list-style-type: none"> <li>The compliance function has the appropriate level of seniority, authority and autonomy within the firm to carry out its responsibilities effectively.  <u>Considerations:</u> <ol style="list-style-type: none"> <li>Reporting lines and accountability of the function.</li> <li>Links between compliance function and internal/external auditors.</li> <li>Independence of the function from the institution's business activities and day-to-day compliance processes.</li> <li>Authority to directly access Board on matters of non-compliance.</li> <li>Authority to directly, on its own initiative, communicate with personnel.</li> </ol> </li> <li>The compliance function reports to the Board or one of its committees.  <u>Considerations:</u> The extent to which the compliance function reports on:               <ol style="list-style-type: none"> <li>Key compliance risks faced by the insurer.</li> <li>Performance of various business lines/significant activities against compliance standards.</li> <li>Compliance issues involving management and/or other key personnel and status of investigations or actions taken.</li> <li>Any material compliance breaches and the status of investigations or actions taken.</li> <li>Disciplinary actions taken by the Commission.</li> </ol> </li> </ol>





	<p>vi. Information on the function's strategy, long term and short-term goals.</p> <p>vii. Resources including personnel, budget etc.</p>
<b>Resources</b>	<p>1. The resources of the compliance function are adequate and are aligned with delivering Mandate/Terms of Reference of the function.</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. Adequacy, experience and skill of compliance staff.</li> <li>ii. Sufficiency of staff development programs.</li> <li>iii. Adequacy of the function's processes to determine the required level of resources necessary to carry out responsibilities and continuing professional development programs to enhance staff competencies.</li> <li>iv. Access to records, information, personnel and systems.</li> </ul>
<b>Methodology and Practices</b>	<p>1. The function's methodology and practices conform to generally accepted industry and regulatory compliance practices and is appropriate for executing its mandate.</p> <p><u>Considerations:</u></p> <p>Methodology should establish practices and procedures for:</p> <ul style="list-style-type: none"> <li>i. Identification, escalation, recommendation, follow-up and tracking of significant breaches in requirements.</li> <li>ii. Initiating, amending, developing and communicating new compliance policies in line with changes in legislation or business activities.</li> </ul> <p>2. There are established practices and procedures for keeping abreast of new and changing legislation and changes in the institution's risk profile.</p>
<b>Senior Management and Board</b>	<p>1. Policies and practices establish the role and responsibilities of Senior Management and the Board with respect to the compliance function.</p> <p><u>Considerations:</u></p> <p>The extent to which there is an expressed expectation to:</p> <ul style="list-style-type: none"> <li>i. Have Compliance function report periodically to the Board (or Board committee) and Senior Management on compliance issues, recommendations and status of compliance.</li> <li>ii. Have periodic, independent reviews of function, and to communicate results to the Board (or a Board committee) and Senior Management</li> </ul> <p>2. Board oversight is adequate given the risk profile of the firm.</p> <p><u>Considerations:</u></p> <p>Extent to which Board (or a Board committee) approval is required for:</p> <ul style="list-style-type: none"> <li>i. The appointment and/or removal of the function head.</li> <li>ii. The remuneration and disciplining of the function head.</li> <li>iii. The function's mandate and resources.</li> </ul> <p>3. The Board adopts a code of conduct or takes other appropriate means to commit the insurer to comply with all applicable laws, regulations, supervisory decisions, and internal policies and conduct its business ethically and responsibly.</p>



### Performance Indicators

The performance indicators collectively with the characteristics are used to assess how well the Compliance function carries out its responsibilities. The assessment of performance is derived from the assessments of Significant Activities. Accordingly, the function's performance across the insurer's Significant Activities (taking their materiality into account) is the key driver of the overall assessment of the function.

The following are examples of indicators that guide supervisory judgement in assessing the function's performance.

The success of the function depends on the extent to which the Compliance function:

- Develops and communicates new and revised compliance policies and legal and regulatory requirements to all impacted areas of the insurer on a timely basis, including assisting management in integrating the requirements into business activities.
- Actively monitors adherence to compliance requirements across the insurer's operations and follows-up on significant breaches for timely resolution.
- Identifies potential areas of compliance vulnerability and risk; develops/implements corrective action plans for resolution of problematic issues and provides general guidance on how to avoid or deal with similar situations in the future.
- Escalates significant breaches of compliance requirements to Senior Management and the Board.
- Periodically monitors compliance practices for continued effectiveness.
- Promotes and sustains a compliance culture within the firm.

### Assessment Ratings – Compliance

The following statements describe the rating categories for the assessment of the Compliance function's oversight of the institution's compliance with applicable laws, regulations and guidelines.

An overall rating of the Compliance function considers both its characteristics and the effectiveness of its performance in executing its mandate. Characteristics and examples of performance indicators that guide supervisory judgement in determining an appropriate rating in the context of the nature, scope, complexity and risk profile of an institution are set out below.

#### **Strong**

The mandate/terms of reference, methodology, structure, independence, reporting lines and resources of the compliance function are highly appropriate given the business and risk profile of the firm. The compliance function has consistently demonstrated highly effective performance in many instances more superior to generally accepted standards.

No apparent cause for regulatory concern.

#### **Acceptable**

The mandate/terms of reference, methodology, structure, independence, reporting lines and resources of the compliance function are appropriate given the business and risk profile of the firm. The compliance function has demonstrated effective performance on a consistent basis.

There are no material regulatory concerns.

#### **Needs Improvement**

The mandate/terms of reference, methodology, structure, independence, reporting lines and resources of the compliance function may be less than satisfactory relative to the institution's size and complexity.

The Compliance function generally demonstrates effective performance, but there are some areas

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where the effectiveness needs to be improved.

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**Weak**

The mandate/terms of reference, methodology, structure, independence, reporting lines and resources are generally inadequate relative to the institution's size and complexity. The compliance function has demonstrated serious instances where effectiveness needs to be improved.

There is material cause for regulatory concern.

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## ACTUARIAL FUNCTION

The Actuarial Function is an independent function either present within the insurer or outsourced to a qualified service provider capable of evaluating and providing advice regarding technical provisions, premium and pricing activities, as well as compliance with statutory and regulatory requirements. It ensures that certain control tasks of an insurer are based on expert technical actuarial advice. An ineffective or inadequate actuarial function exposes the insurer to serious risks including risks to earnings and capital, solvency and policyholder protection.

The Insurance Companies Act mandates the requirement of an independent valuation actuary for Life & Health Insurance Companies (Section 62). Actuarial methodology is equally relevant to the pricing and claims reserving for General Insurance companies. A company's Board of Directors and its Senior Management are required to consider the adequacy of insurer's product pricing and claims reserving and determine if they require actuarial services given the nature, size and complexity of operations.

### Actuarial Function Characteristics

The following are key characteristics of a well-performing actuarial function:

1. **Competency** – The actuarial function's staff should possess the necessary skills, knowledge, experience, and applicable professional qualifications to perform their duties competently. The actuarial function plays a key role as part of the insurer's overall systems of risk management and internal controls.
2. **Adequacy** – The actuarial function should have sufficient resources to accomplish its objectives and fulfill its responsibilities. A strong actuarial function is well resourced and properly staffed and authorised to fulfill its objective. The actuarial function's resources should be regularly reviewed and adjusted as necessary to ensure they are sufficient.
3. **Accountability** – The actuarial function should have access to and periodically report to the Board. Written reports on actuarial evaluations should be made to the Board, Senior Management, or other Key Persons in Control Functions, or to the Insurance Commission as necessary, appropriate, or as required by legislation.

### Responsibilities of the Actuarial Function

An overall assessment of the Actuarial Function considers both its characteristics and effectiveness in executing its responsibilities which include:

- Conducting periodic actuarial investigations to determine and report on the statutory technical provisions of the insurer.
- Assessing the impact of any non-insurance activities of the insurer
- Ensuring compliance with regulatory and technical provisions
- Performing scenario/stress testing based on the Commission's guidelines/requirements
- Evaluating and providing advice to the insurer on matters including:
  - The insurer's insurance liabilities, including policy provisions and aggregate claim liabilities, as well as determination of reserves for financial risks;
  - Asset liability management regarding the adequacy and the sufficiency of assets and future revenues to cover the insurer's obligations to policyholders and capital requirements, as well as other obligations or activities;
  - The insurer's investment policies (considering both the nature and term of liabilities and the available investments);
  - The valuation of assets;

- An insurer's solvency position, including a calculation of minimum capital required for regulatory purposes and liability and loss provisions;
- An insurer's prospective solvency position by conducting capital adequacy assessments and stress tests under various scenarios, and measuring their relative impact on assets, liabilities, and actual and future capital levels;
- Risk assessment and management policies and controls relevant to actuarial matters or the financial condition of the insurer;
- The fair treatment of policyholders regarding distribution of profits awarded to participating policyholders;
- The adequacy and soundness of underwriting policies;
- The development, pricing and assessment of the adequacy of reinsurance arrangements;
- Product development and design, including the terms and conditions of insurance contracts and pricing, along with estimation of the capital required to underwrite the product;
- The sufficiency, accuracy and quality of data, the methods and the assumptions used in the calculation of technical provisions;
- The research, development, validation and use of internal models for internal actuarial or financial projections, or for solvency purposes as in the ORSA; and
- Any other actuarial or financial matters determined by the Board
- Reporting in accordance with the Insurance (General) Regulations, 2010 (Regulations), and section 347 of the Act.
- Completing and submitting the Actuarial Certificate per Form 24 of the Act.

### Actuarial Function Assessment Criteria

The following criteria describe the characteristics to be used in assessing the quality of the Actuarial Function of the institutions. The assessments are made in the context of the nature, scope and complexity of the insurer. In developing an overall assessment of the function its performance will also be taken into consideration.

Essential Elements	Assessment Criteria
<b>Qualifications</b>	<ol style="list-style-type: none"> <li>Persons performing this role should demonstrate their relevant experience, skills and knowledge through applicable professional qualifications and compliance with actuarial standards.</li> </ol> <p><u>Considerations:</u></p> <ol style="list-style-type: none"> <li>The actuary is a fellow by qualification of a professional examination body of actuaries that is internationally recognized. e.g. the Society of Actuaries (SOA)</li> </ol>
<b>Expertise</b>	<ol style="list-style-type: none"> <li>Actuarial expertise should include skills to assess the risks inherent in assets and liabilities, determine capital adequacy, determine the adequacy of premiums and establish technical provisions for both life and non-life insurance and insurance- related business.</li> </ol> <p><u>Considerations:</u></p> <ol style="list-style-type: none"> <li>Years of experience in respective insurance field i.e. life insurance, general insurance or pensions.</li> <li>Compliance with relevant requirements of the Standards of practice and Code of Conduct of the Caribbean Actuarial Association (CAA).</li> <li>Familiarity with current insurance legislation.</li> </ol>

	iv. Relevant training and ongoing professional development.
<b>Independence and Quality Assurance</b>	<p>1. The structure and independence of the Actuarial Function are adequate and aligned with effectively delivering its mandate.</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. Clarity of responsibility and reporting lines.</li> <li>ii. Independence and use of reporting lines i.e. availability of access to the BOD and CEO, potential access to the Commission and regularity of use of such access.</li> </ul> <p>2. Appropriateness and adequacy of policies and practices for quality assurance and monitoring.</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. The appropriateness and adequacy of policies for handling conflicts of interest and confidential information.</li> <li>ii. The appropriateness and adequacy of policies to support communications with regulators and whistleblowing.</li> <li>iii. Use of independent peer review process.</li> <li>iv. Monitoring compliance with generally accepted actuarial standards.</li> </ul>
<b>Resources</b>	<p>1. The resources of the Actuarial Function are adequate and are aligned with delivering the mandate of the function.</p> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. Appropriateness of the function's collective qualifications and competencies to carry out mandate.</li> <li>ii. Adequacy and appropriateness of management/IT systems.</li> <li>iii. Adequacy of access to relevant data/information.</li> </ul>
<b>Technical Provisions and Valuation</b>	<p>1. The Actuarial Function ensures the appropriateness of methodologies and assumptions used in the calculation of technical provisions:</p> <p><u>Considerations:</u></p> <p>The Actuarial Valuation should include (but not limited to):</p> <ul style="list-style-type: none"> <li>i. Ensuring the accuracy of the data or qualifying any potential material inaccuracy.</li> <li>ii. Ensuring control systems are adequate and documented.</li> <li>iii. Using valuation methods appropriate to the portfolio of business.</li> <li>iv. Making appropriate provision for future expenses of administration.</li> <li>v. Taking into account recent relevant credible experience and trends of the country, industry or insurer about future mortality and morbidity.</li> <li>vi. Ensuring assets are appropriately valued and imposed regulatory limits on individual investments are applied.</li> <li>vii. Making allowance for applicable taxes and any tax relief on expenses.</li> <li>viii. Making allowance for the effect or possible effect of derivatives and other financial instruments.</li> <li>ix. Taking account of reinsurance arrangements, implicit financing provisions and possible lapsation or unenforceability of such arrangements.</li> <li>x. Including adequate margins in the valuation assumptions.</li> </ul>

	<ul style="list-style-type: none"> <li>xi. Making adequate explicit or implicit provisions for mismatching of assets and liabilities.</li> <li>2. The extent to which the actuarial function performs solvency/capital adequacy stress tests and scenario tests.</li> </ul>
<b>Product Design and Pricing Oversight</b>	<ul style="list-style-type: none"> <li>1. The function's product design and pricing methodology conform to generally accepted industry practices and are adequate given the size, nature and complexity of the firm.</li> </ul> <p><u>Considerations:</u></p> <p>The extent to which the actuary:</p> <ul style="list-style-type: none"> <li>i. Approves the rate of premium chargeable for new products.</li> <li>ii. Is involved in the design of insurance products.</li> <li>iii. Ensures that products are designed in a way that they can be appropriately priced from both the perspective of the policyholder and insurer.</li> <li>iv. Ensures consistency with product pricing.</li> <li>v. Regularly assesses the rate of premium of existing products to ensure its current adequacy.</li> <li>vi. Liaises with others such as marketing, underwriting and investment experts in the design of insurance products.</li> </ul>
<b>Reporting</b>	<ul style="list-style-type: none"> <li>1. On an annual basis the Actuarial Function should report to the BOD on at least the following: <ul style="list-style-type: none"> <li><u>Considerations:</u></li> <li>i. A description of the methodologies applied to assess the sufficiency of technical provisions and an explanation on why such methodologies were chosen.</li> <li>ii. A description of the relevant underlying assumptions used to calculate technical provisions and to assess its sufficiency, including an analysis of the level of uncertainty if applicable.</li> <li>iii. A general description of the data used to perform the calculation of technical provisions.</li> <li>iv. A description and justification of the differences identified among the estimates of technical provisions of different years, if material.</li> <li>v. The results of periodic experience studies and a comparison with underlying assumptions used to determine the technical reserves. The report should include comments on and explain any sources of deviation that appear in the results of the analysis.</li> <li>vi. An opinion on the overall underwriting policy.</li> <li>vii. An opinion on the overall reinsurance policy.</li> <li>viii. A description of the risks and methodology, underlying the calculation of the capital requirements.</li> </ul> </li> <li>2. The Actuarial Function should also present to the BOD at least annually, any existing or potential material risks to solvency that it identifies together with recommendations as to how these can be addressed.</li> <li>3. The Actuarial Function should report in accordance with the Insurance (General) Regulations, 2010 ("Regulations") and Insurance Act, Chapter 347 ("the Act").</li> </ul>



## 4. Any other matters as determined by the Board

Performance Indicators

The performance indicators collectively with the characteristics are used to assess how well the Actuarial function carries out its responsibilities. The assessment of performance is derived from the assessments of Significant Activities. Accordingly, the function's performance across the insurer's Significant Activities (taking their materiality into account) is the key driver of the overall assessment of the function.

The following are examples of indicators that guide supervisory judgment in assessing the function's performance.

- Quality and completeness of actuarial report relative to actuarial standards and the Commission's guidance.
- Coordinates and oversees the calculation of technical provisions.
- Ensures appropriateness of technical provision methodologies, models and assumptions.
- Assesses data quality.
- Reports to management on reliability of technical provisions.
- Provides a view to management on underwriting policy and reinsurance.
- Contributes to risk management.
- Oversees the product development, design and pricing process.
- Regular review of the function's responsibilities, adequacy of resources and performance.

Assessment Ratings – Actuarial Function

The following statements describe the rating categories for the assessment of the Actuarial Function's oversight of the effectiveness of, and adherence to, the institution's organizational and procedural controls. An overall rating of the Actuarial Function considers both its characteristics and the effectiveness of its performance in executing its mandate in the context of the nature, scope, complexity, and risk profile of the institution.

Characteristics and examples of performance indicators that guide supervisory judgment in determining an appropriate rating are set out as follows:

**Strong**

The qualifications, expertise, methodologies and practices of the Actuarial Function are aligned with delivering the mandate of the function and meet or exceed what is considered necessary given the nature, scope complexity and risk profile of the firm. The Actuarial Function has consistently demonstrated highly effective performance. The function's characteristics and performance are more superior to generally accepted and professional standards.

No apparent cause for regulatory concern.

**Acceptable**

The qualifications, expertise, methodologies and practices of the Actuarial Function are aligned with delivering the mandate of the function and meet what is considered necessary given the nature, scope, complexity and risk profile of the firm. The characteristics and performance of the Actuarial Function meet generally accepted actuarial practices.

There are no material regulatory concerns.

**Needs Improvement**



The qualifications, expertise, methodologies and practices of the Actuarial Function are aligned with delivering the mandate of the function and generally meet what is considered necessary given the nature, scope, complexity and risk profile of the institution, but there are some significant areas that require improvement. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner.

The Actuarial Function's characteristics and or performance do not consistently meet generally accepted actuarial practices.

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**Weak**

The qualifications, expertise, methodologies and practices of the Actuarial Function are not fully aligned with delivering the mandate of the function and are inadequate given the nature, scope, complexity and risk profile of the firm. The Actuarial Function's performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. The function's characteristics and/or performance often do not meet generally accepted actuarial practices.

There is material cause for regulatory concern.

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## EXTERNAL AUDIT

An external auditor is an independent function performed by a qualified and licensed audit service provider whose primary role is to express an opinion on whether management has fairly presented the information in the financial statements in accordance with International Financial Reporting Standards.

The Insurance Act (Section 60) requires the auditor to provide an audit opinion on the annual financial statements of insurance companies. This requirement would generally be met by audits performed in accordance with International Standards on Auditing. The auditor is required to perform an onsite assessment of the company's books and records, and the insurer's internal controls over financial reporting. Moreover, the auditor must report matters likely to be material to the Commission, this could include material fraud, suspicion of material fraud and regulatory breaches or other significant audit findings identified during the audit.

The Commission relies on the audit opinion on the financial statements, and uses the work done by the external auditor in its own assessment of the risks and risk management practices of the insurance company.

### Responsibilities of External Audit

The external auditor must be able to do the following:

- Identify and assess the risks of material misstatement in the insurer's financial statements, taking into consideration the complexities of insurance activities and the need for insurers to have a strong control environment.
- Appropriately respond to the risks of material misstatement in the insurer's financial statements.
- Communicate effectively with the internal audit function and the actuarial function.

In arriving at an opinion on the financial statements of an insurance company, the External Auditor considers:

- Whether financial statements are free from material misstatements and have been prepared in accordance with International Financial Reporting Standards.
- The appropriateness of accounting policies used, and the reasonableness of accounting estimates made by management.
- Effectiveness of the control environment with respect to financial reporting.
- The insurer's environment including internal and external factors i.e. corporate policies, industry practices, regulatory guidelines and business trends.
- Risks, material weaknesses, significant deficiencies and control gaps that could influence the required opinion.
- Management's correction of problems and whether such responses are adequate to correct problems identified.
- Whether audit evidence raises doubt about the ability of the client to continue as a going concern in the foreseeable future.

### External Audit Assessment Criteria

The following criteria describe the essential elements of external audit and are to be used in assessing the quality of the audit of the institutions. The assessments are made in the context of the nature, scope and complexity of the insurer. In developing an overall assessment of the function its performance will also be taken into consideration.

Essential Elements	Assessment Criteria
<b>Knowledge and Competence</b>	<ol style="list-style-type: none"> <li>The audit firm should be qualified and appropriately authorized by the relevant professional body. <u>Considerations:</u> <ol style="list-style-type: none"> <li>At a minimum the engagement Partner is a licensee of The Bahamas Institute of Chartered Accountants in good standing.</li> </ol> </li> <li>The audit team should be sufficiently comprised of individuals with the relevant professional qualifications and experience. The firm should have procedures that set minimum competency criteria for members of an insurer's audit team. <u>Considerations:</u> <ol style="list-style-type: none"> <li>The extent to which the audit engagement team has proficient knowledge and understanding of, and practical experience with: <ol style="list-style-type: none"> <li>the insurance sector, the insurer specific risks, the operations and activities of insurance and insurance audits</li> <li>applicable accounting, assurance and ethical standards, and industry practice.</li> <li>regulatory requirements in the areas of capital, technical/actuarial reserves and a general understanding of legal and regulatory framework applicable to insurers.</li> </ol> </li> </ol> </li> </ol>
<b>Expertise</b>	<ol style="list-style-type: none"> <li>The audit team has access to specialized/technical expertise as needed. <u>Considerations:</u> <ol style="list-style-type: none"> <li>Professional standing, reputation, and relevant experience of experts used.</li> <li>Appropriate use of industry and technical expertise.</li> </ol> </li> </ol>
<b>Resources</b>	<ol style="list-style-type: none"> <li>The resources of the external audit firm are adequate to carry out the roles and responsibilities of the function in an effective and timely manner. <u>Considerations:</u> <ol style="list-style-type: none"> <li>Appropriateness of the firm's collective qualifications and experience to carry out its responsibilities.</li> <li>Access to specialized technical resources, ongoing professional development and other resources to support its work.</li> </ol> </li> </ol>
<b>Independence and Quality Assurance</b>	<ol style="list-style-type: none"> <li>The external auditor is independent in fact and appearance with respect to the insurer and its related entities. <u>Considerations:</u> <ol style="list-style-type: none"> <li>Absence of conflict of interest in fact or appearance.</li> <li>Absence of significant influence by senior management and/or BOD.</li> <li>Absence of engagement in any non-audit services which may impair objectivity.</li> <li>Direct reporting to the Board and /or Audit Committee.</li> <li>Access to internal audit reports.</li> </ol> </li> <li>Appropriateness and adequacy of policies and practices regarding independence, quality assurance and monitoring</li> </ol>

	<p><u>Considerations:</u></p> <p>The appropriateness and adequacy of policies:</p> <ul style="list-style-type: none"> <li>i. For rotation of members of the audit engagement team.</li> <li>ii. For handling conflicts of interest and confidential information.</li> <li>iii. To support communications with regulators and whistleblowing.</li> <li>iv. For handling complaints and allegations of noncompliance with professional standards or the firm's system of quality control.</li> <li>v. To support use of engagement quality reviews.</li> </ul>
<p><b>Methodology and Practices</b></p>	<ol style="list-style-type: none"> <li>1. External Audit methodology adequately conforms to generally accepted industry standards and practices and is appropriate applied given the nature, size and complexity of the insurer.</li> </ol> <p><u>Considerations</u></p> <ul style="list-style-type: none"> <li>i. Audit is performed in accordance with internationally accepted auditing standards.</li> <li>ii. Audits work is tailored to address the significant risk and issues applicable to insurance companies generally and to the company under audit specifically.</li> </ul> <ol style="list-style-type: none"> <li>2. The external auditor should exercise professional skepticism when planning and performing the audit of an insurer, having due regard for the specific challenges in auditing an insurer.</li> </ol> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. The external audit challenges management assertions actively considering whether there are alternative accounting treatments that are preferable to those selected by management and documenting the approach, the evidence obtained, the rationale applied, and conclusions reached.</li> </ul> <ol style="list-style-type: none"> <li>3. The external auditor should have adequate systems of quality control that emphasizes quality and consultation, and these should be well documented.</li> </ol> <p><u>Considerations:</u></p> <ul style="list-style-type: none"> <li>i. The firm has adequate and appropriate policies and procedures for quality control which are well documented and communicated to the engagement team.</li> <li>ii. Audits are subject to an engagement quality control review. <ol style="list-style-type: none"> <li>a. Ensuring each audit engagement team member acquires the appropriate skills, knowledge and experience to perform an insurance company audit.</li> <li>b. Ensuring that independence rules and ethical standards are adhered to.</li> <li>c. Ensuring that the audit firm's policies and procedures on quality control adhered to.</li> </ol> </li> </ul> <ol style="list-style-type: none"> <li>4. The external auditor should identify and assess the risk of material misstatement in the insurer financials, taking into consideration the complexities of insurers activities and need for a strong control environment.</li> </ol>



	<p><u>Considerations</u></p> <ul style="list-style-type: none"> <li>i. The auditor assesses the inherent and control risk to determine the risk of material misstatements at the financial statement and assertion levels.</li> <li>ii. The auditor gains an understanding of internal controls that are relevant to the audit, and particularly of the control environment designed by the insurer.</li> <li>iii. Changes in circumstances or developments both internal and external to the insurer are factored into the audit team's risk assessment.</li> <li>iv. The auditor performs extensive test of controls over financial reporting to assess whether and to what extent, the auditor can rely on them and whether they are commensurate with the nature, volume and complexity of the insurer activities.</li> <li>v. The auditor considers to what extent the work of the internal auditor may be used in carrying out its assessment.</li> <li>vi. The auditor identifies and reports on deficiencies in internal controls to the appropriate levels within the insurance company.</li> </ul> <p>5. The external auditor should respond appropriately to the significant risk of material misstatement in the insurer's statements.</p> <p><u>Considerations</u></p> <p>The extent to which the auditor:</p> <ul style="list-style-type: none"> <li>i. Applies special audit considerations for areas where significant risk of material misstatements is identified (e.g. applying a lower materiality threshold).</li> <li>ii. Evaluates potential audit differences in the context of the impact on regulatory capital or other regulatory ratios.</li> <li>iii. Discusses areas of high risk with those charged with governance</li> </ul>
<p><b>Communication and Reporting</b></p>	<p>1. The external auditor reports to the audit committee and/or the Board on all relevant matters to enable the audit committee/Board to carry out its oversight responsibilities.</p> <p><u>Considerations</u></p> <ul style="list-style-type: none"> <li>i. Significant deficiencies in the control environment.</li> <li>ii. Key areas of significant risk of material misstatements.</li> <li>iii. Significant areas of management and auditor judgement.</li> <li>iv. Relevant matters which are likely to be significant to the responsibilities of those charged with governance and overseeing the strategic direction of the entity are reported promptly to the Board and/or audit committee in writing.</li> <li>v. Other deficiencies are communicated to senior management.</li> <li>vi. The auditor reports directly to and is able to communicate effectively with the Board and/or audit committee, including attending some audit committee meetings.</li> </ul> <p>2. The external auditor should have an effective relationship with the Insurance Commission that includes appropriate communication channels for exchange of information.</p> <p><u>Considerations</u></p> <ul style="list-style-type: none"> <li>i. The external auditor communicates matters to the Commission that are</li> </ul>

- likely to be of material significance to the functions of the Commission.
- ii. The external auditor reviews supervisory correspondence and assess the extent to which relevant matters affect the audit scope and procedures.
  - iii. The external auditor makes working papers available to the Commission upon request.

### Performance Indicators

The performance indicators collectively with the characteristics are used to assess how well the External Auditor carries out its responsibilities. The assessment of performance is derived from the assessments of Significant Activities relative to internal controls on financial reporting. Accordingly, the function's performance across the insurer's Significant Activities (taking their materiality into account) is the key driver of the overall assessment of the function.

The following are examples of indicators that guide supervisory judgment in assessing the function's performance.

- Quality of audited financial statements relative to compliance with IFRS and requirements of the Insurance Act.
- Timeliness of audited financial statements and management letters to the company.
- Review and discussion with auditors of matters addressed in management letter and management representation letter.
- Effectiveness of follow up of internal control recommendations to company management
- Use of experts where appropriate to evaluate complex recognitions, measurement or disclosure requirements.
- Discussion with auditor of key areas of audit risk and work done by auditor to obtain the necessary audit assurance.
- Documentation and minutes of discussions with management and audit committee of complex and contentious matters of accounting, internal controls or financial reporting.
- Reasonable assurance about the effectiveness of internal controls over financial reporting, the accuracy and timeliness in recording transactions and the accuracy and completeness of financial and regulatory reports.
- A review of audit working papers is undertaken where the work done by the external auditor can be used in the Commission's assessment of the risk profile of the institutions.

### Assessment Ratings – External Audit

The following statements describe the rating categories for the assessment of the External Audit function's oversight of the effectiveness of, and adherence to, the institution's organizational and procedural controls. An overall rating of the External Audit function considers both its characteristics and the effectiveness of its performance in executing its mandate in the context of the nature, scope, complexity, and risk profile of the institution. Characteristics and examples of performance indicators that guide supervisory judgment in determining an appropriate rating are set out below.

#### **Strong**

The qualifications, expertise, methodologies and practices of the External Audit function are aligned with delivering the mandate of the function and meet or exceed what is considered necessary given the nature, scope complexity and risk profile of the firm. The External Audit function has consistently demonstrated highly effective performance. The function's characteristics and performance are more

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superior to generally accepted and professional standards.

No apparent cause for regulatory concern.

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### **Acceptable**

The qualifications, expertise, methodologies and practices of the External Audit function are aligned with delivering the mandate of the function and meet what is considered necessary given the nature, scope, complexity and risk profile of the firm. The characteristics and performance of the External Audit function meet generally accepted actuarial practices.

There are no material regulatory concerns.

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### **Needs Improvement**

The qualifications, expertise, methodologies and practices of the External Audit function are aligned with delivering the mandate of the function and generally meet what is considered necessary given the nature, scope, complexity and risk profile of the institution, but there are some significant areas that require improvement. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner.

The External Audit function's characteristics and or performance do not consistently meet generally accepted actuarial practices.

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### **Weak**

The qualifications, expertise, methodologies and practices of the External Audit function are not fully aligned with delivering the mandate of the function and are inadequate given the nature, scope, complexity and risk profile of the firm. The External Audit function's performance has demonstrated serious instances where effectiveness needs to be improved through immediate action. The function's characteristics and/or performance often do not meet generally accepted actuarial practices.

There is material cause for regulatory concern.

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INSURANCE COMMISSION  
OF THE BAHAMAS

# GUIDELINES FOR CORPORATE GOVERNANCE AND OVERSIGHT ASSESSMENT CRITERIA

## CONSULTATIVE PAPER

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