

Response to IAIS consultation on application paper on supervising diversity, equity and inclusion – governance, risk management and culture perspective

Our reference:	EXCO-DEI-24-012	Date:	14 June 2024
Referring to:	IAIS public consultation on application paper on supervising diversity, equity and inclusion – the governance, risk management and culture perspective		
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Pages:	7	Transparency Register ID no.:	33213703459-54

1. General Comments on the Application Paper

Insurance Europe welcomes the opportunity to respond to the IAIS application paper on supervising diversity, equity and inclusion. DEI are priorities for the (re)insurance industry and Insurance Europe and its members are committed to encouraging and promoting these values across sector.

3. Comments on section 1.1 Context and Objective

Insurance Europe welcomes the IAIS approach, emphasising the importance of considering local circumstances, especially the legal, cultural, and historical context, when reading the application paper. This approach ensures that any actions taken by insurers or supervisors are not only effective but also culturally appropriate and in line with local legislation and the supervisory mandate.

4. Comments on Box 1 interpretation of the term's diversity, equity and inclusion in this paper

Insurance Europe welcomes the holistic approach taken by the IAIS in its interpretation of diversity, equity and inclusion.

5. Comments on section 1.2 Related work by the IAIS

Insurance Europe agrees that impactful DEI efforts can be facilitated by making best practice guidance available. Insurance Europe has been taking a proactive approach to improving inclusivity by promoting industry initiatives, working to increase understanding of good practices and engaging with experts and social partners. In 2022, Insurance Europe launched its [DEI Hub](#) showcasing the initiatives taken by the industry to promote equal access,



opportunity and inclusivity in the workplace. This platform facilitates the sharing of material and good practices from around Europe. We also encourage the IAIS to play their role in facilitating the sharing of best practices.

Insurance Europe is also proud to have signed a landmark [joint declaration](#) with the European insurance social partners that makes a commitment to support companies in making DEI an integral component of their culture and of their business strategies. The text of the declaration covers issues such as equal opportunities, training and inclusive recruitment policies. Company-based measures should ensure that there are structures and mechanisms in place that foster equality, diversity, inclusion and non-discrimination in the workplace. The text is an actionable tool that provides guidance for Europe's insurance companies on the key principles to introduce in any DEI strategy.

6. Comments on section 1.3 Proportionality

Insurance Europe welcomes the emphasis given by the IAIS on proportionality, advocating for the consideration of local circumstances and appropriate nuances. This offers a better balance that can yield better outcomes than a disproportionate arbitrary approach.

Considering factors such as company size and type is particularly crucial. Smaller companies, for example, may encounter various challenges when it comes to e.g. data collection and anonymisation of personal data. Larger companies also tend to have different challenges, for example, ensuring complete data declaration across all employees. Additionally, large companies don't always have the same ability to move quickly on some initiatives, especially if they are part of a broader group structure that requires alignment across jurisdictions.

A proportionate approach is also important in helping companies to adequately meet objectives whilst not compromising on the quality of DEI initiatives.

7. Comments on section 2 Why DEI within an insurer matters to ICP's 7, 8 and corporate culture

Insurance Europe agrees that prioritising and maintaining a strong focus on DEI will *"help insurers build positive corporate cultures that better support sound prudential and consumer outcomes"*. It is important that the sector not only attracts diverse talent but that it is also inclusive, so that it can retain talent and support employees to thrive within their organisations.

Notwithstanding the benefits, Insurance Europe agrees with the IAIS that it is important that insurers maintain a balanced approach to DEI. There is a risk that over-emphasising DEI or going about it ineffectively could be detrimental to corporate governance and risk management and culture outcomes. For example, excessive focus on DEI could create a culture where challenge is frustrated by fears of not being perceived as politically correct. In such instances the benefits of constructive challenge would be lost. We believe these risks, especially the risk of creating a culture where *"challenge is stymied by fears of not being perceived as politically correct"*, can be mitigated by ensuring a company has a culture of psychological safety.

In addition, it must be recognised that every insurance company will be at a different point in their DEI journey and that each individual corporate journey is vital to the overall collective progress on diversity across the industry.

8. Comments on Box 2 What is groupthink and why does it matter to insurers?

Insurance Europe acknowledges the significant risk posed by groupthink, which can hinder both the attraction of diverse talent and the fostering of a culture that encourages employees to question, suggest, and contribute to better risk management.

Emphasising both attractiveness and inclusion is crucial once diverse talent enters the sector as they complement each other in minimising the risks associated with groupthink.

In addition to improving the soundness of companies, reduced groupthink facilitated by diversity and inclusion can also increase consumer confidence in the sector, resulting in better business outcomes.

9. Comments on section 3 What should a supervisor look out for?

Acknowledging that there are several relevant indicators a supervisor should and could look out for, it is recommended that a data-driven approach is considered and that supervisors, where possible, utilise data already collected within companies and reported to their local authorities. Supervisors as part of their 'soft powers' can endorse/assist/work with these initiatives to support greater DEI in the industry and to encourage the uptake of companies signing up to well-established and governed voluntary initiatives.

10. Section 3.1 Relevant matters to look at.

As stated in paragraph 28 of the paper, "*Supervisors may focus first on whether there is diverse representation at the board and senior management level with a view to assessing potential risk of groupthink where key decisions are made.*" While this is important due to the concentration of decision-making responsibility on senior levels of organisations, if companies are not encouraged to nurture a pipeline of diverse talent at all levels, the focus of the supervisory effort may be too narrow to create change at the required speed. We appreciate that the IAIS has included a mention of the importance of focusing on building a diverse pipeline of talent under section 3.2 *Warning signs an insurer might need to enhance its DEI efforts.*

We agree that it is important to measure employees' experiences of inclusion, as this can serve as a valuable indicator of organisational culture. We also believe that inclusion should be monitored consistently. Supervisors are encouraged to refer, where possible, to best practice guidance on inclusion metrics that may be relevant to each jurisdiction.

11. Comments on section 3.2 Warning signs an insurer might need to enhance its DEI efforts.

Overall, Insurance Europe supports the range of early warnings identified by the IAIS. However, supervisors should be careful to point to DEI factors as the cause of such challenges as these challenges could also originate from other reasons other than DEI issues. It is important to carefully consider the context in order to identify the right factors in relation to such challenges.

For example, in paragraph 35 (high employee attrition levels and/or retention challenges), we suggest adding at the end of this paragraph "*Supervisors should be careful to consider context in relation to retention challenges as there can be many other reasons for these challenges other than lack of DEI.*" A similar sentence could be introduced under other warning signs.

The IAIS suggests that supervisors could monitor DEI dynamics in board meetings by "*supervisors observing board meetings to see the group dynamics of the board and how comfortable board members are to contribute*

and challenge". However, the IAIS then goes on to acknowledge: "recognising that the presence of supervisors may in some cases change the board's behaviour during a meeting, holding interviews with individual directors can provide additional insights into regular practices."

The recommendation that supervisors may attend and monitor board meetings should be omitted. The IAIS itself recognises that such supervisory action could stifle board discussions and potentially compromise the quality, frankness and effectiveness of these meetings, thus undermining good governance. Supervisors should explore alternative supervisory techniques, such as conducting interviews or review board minutes.

Finally, supervisors can also look at best practices from some of the well-established charters in the market in order to mitigate the risk of companies not purposefully following through on their DEI pledges. In many EU jurisdictions, national initiatives such as the "Women in Finance Charter" initiative publishes a transparent Annual Review, where companies that have not met their targets are listed. These companies will also be asked why they haven't met their targets, which allows for a proportional and transparent approach. Similar approaches could be suggested to other charters.

12. Comments on Box 3 What is DEI-washing

Insurance Europe condemns DEI washing. As stated by the Application Paper, it can *"lead to poorly defined insurance needs, leaving consumers without suitable product options – and may impact ESG ratings"*

It is recommended that that strategies, pledges, targets, and other statements on DEI are supported by internal policies that hold the companies accountable and that supervisors are wary of tactics that enable DEI washing (such as hiring a particular demographic only at entry level with no plans to ensure they reach higher levels of seniority).

It is further recommended that a pragmatic definition of "DEI washing" remains, given the multiple forms DEI washing can take. Supervisors can help detect this behaviour by sharing case studies and discussing with companies.

13. Comments in Box 4 Indicators of positive action on DEI at an insurer

Insurance Europe appreciates the IAIS' list of indicators that highlight positive DEI action for insurers.

It should be pointed out that while remuneration can be a useful tool to drive good DEI outcomes (eg incentives, performance targets and consequence management), if not carefully considered, it can lead to a box-ticking culture where the focus is merely on reaching certain quantitative diversity metrics, without leading to genuine commitment to sustainable improvements.

Furthermore, Insurance Europe welcomes the inclusion by the IAIS of *"Clear accountabilities set, e.g. prescribed responsibilities"* as indicated in Box 4 of the paper, *Indicators of positive action on DEI at an insurer* detailed under tools used.

Insurance Europe believes that allocating DEI as a prescribed responsibility to a board member or governing body can help improve the DEI situation in a company. It would guarantee the commitment of the top levels of the organisation.

14. Comments on section 4 What can a supervisor do in response?

While recognising that progressing towards more diverse representation and embedding more inclusive practices is a learning curve for all institutions, supervisors may consider using their convening powers to work together with the industry on identifying challenges and sharing learnings and steps to overcome them. This may be particularly helpful where common challenges exist, including in creating a diverse pool of candidates for both insurers and supervisors alike, as well as identifying and working through barriers certain groups of individuals may face once within the workforce (eg flexible working). Partnering with other suitable organisations to drive attention/progress on DEI (eg peer supervisors, government or similar agencies, professional bodies etc.) can also support a broader approach that provides diversity of thought and experience, including from other sectors.

If taking more formal action, supervisors should ensure that there is a sufficiently clear connection between the lack of DEI and its contribution to the adverse outcome for the insurer. This will ensure that any follow up action is not only proportionate but also achieves the intended objectives as it addresses the root causes of such challenges.

15. Comments on section 4.1 Industry-wide approach

Insurance Europe agrees that it is of high importance for supervisors to act as role models by showcasing best practice within their own organisations. In addition to cooperating with other relevant authorities, supervisors can engage with trade bodies and other representative associations on DEI (as mentioned under "4.1.1 Use of soft powers"). This can help drive through consistent messaging, and insurers may wish to engage with the supervisor through their own representative body. This will also ensure efficient communication of key messaging.

If the IAIS would take on an educational role it could provide a strong foundation to promote the importance of DEI in the market. The IAIS' actions to inform, educate, and promote the implementation of DEI, along with insurers' actions, will be key to implement and increase awareness of DEI policies.

16. Comments on section 4.1.1 Use of soft powers

Insurance Europe welcomes the recognition that *'advancing diverse representation and embedding more inclusive practices is a learning curve for all institutions.'* Additionally, we recognise the role of supervisors in facilitating shared learnings and best practices, exemplified by suggested initiatives such as roundtable discussions.

17. Comments on section 4.1.2 Incorporating DEI themes into supervisory approaches.

Paragraph 48 of the paper states that, *"where supervisors have less insight into DEI through regular supervision, they may consider conducting a thematic industry wide study (or selecting certain insurers), including through surveys and document reviews."* While surveying and interviewing companies on DEI is a good way to gain insights from the market, supervisors should ensure that review samples intended to produce industry-wide insights are proportional to market size, in order to ensure findings that are representative. Insurers vary greatly in size, business model, and location, which, along with limitations set out by local data protection rules, will influence their approaches to DEI as well. In addition, it would be beneficial for participating companies to receive constructive and practical feedback on their submissions.

The principle of proportionality should also be applied. The size of the company must be taken into consideration, as small and medium-sized companies may not have the capacity to place individual responsibility for DEI on

one person. Especially in these cases, it should rather be a collective responsibility, which could be argued is more in line with the cultural embeddedness of DEI in the organisation — starting with the tone from the top — chair, board and executives and throughout the organisation.

Additionally, Insurance Europe has the following wording suggestion (in *italics*) in paragraph 45: Consideration of DEI can be integrated into existing supervisory practices, *in line with their supervisory mandate*, in particular to form part of general supervisory approaches related to governance, risk management and corporate culture.

18. Comments on section 4.1.3 Develop requirements

The development of additional requirements should be particularly considered in the context of local circumstances, especially the legal, cultural, and historical context and should be in line with the supervisory mandate. Additional requirements could be helpful in certain circumstances. However, Insurance Europe wants to highlight the role and the importance of social partners as they are the ones uniquely positioned to drive and promote effective change. They play a crucial role in the governance of the employment relationship and are key players in industrial relations. They are, therefore, best placed to design initiatives that work in the real world and, at the same time, respond to the needs of different groups of workers.

If supervisors do decide to develop requirements, companies should have the freedom to set their own DEI strategies and internal policies based on their context and needs. In this regard, companies should have the flexibility to measure inclusion in ways that best suits their organisational needs and that is aligned with the ways in which they measure culture and employee engagement more holistically.

20. Comments on section 4.2.1 Understanding an insurer's approach to DEI

Paragraph 59 of the paper states: *"on the human resources side, remuneration, training, benefits and career opportunities should be similar and accessible to all employees with equivalent skills and work experience, and supervisors may be able to enquire on this during regular engagement and on-site inspections."* Insurance Europe is supportive of positive action. Positive action allows additional help to be provided for talent who share a 'protected characteristic'. Companies can take proportionate action to eliminate or reduce disadvantage, meet different needs and increase participation. In the context of an insurance company, this could mean mentoring schemes, development initiatives, networks and outreach that are open to everyone but targeted toward talent from underrepresented backgrounds.

In the EU, social partners are uniquely positioned to drive and promote effective change. They play a crucial role in the governance of the employment relationship and are key players in industrial relations. They are therefore best placed to design initiatives that work in the real world and, at the same time, respond to the needs of different groups of workers.

21. Comments on section 4.2.2 Undertake review work to examine DEI related arrangements and plans.

Insurance Europe welcomes the IAIS's approach recognising the diverse methods to assess and validate the effectiveness of DEI initiatives. It is key to ensure that policy and practice are aligned.

In paragraph 61 the IAIS notes that *"supervisor(s) may consider undertaking a targeted review of the insurer's approach to DEI."* It further notes that *"a targeted review could be linked to quantitative and qualitative assessments and include evidence-based engagements to explore and verify the design and effectiveness of DEI initiatives"*. The IAIS should stress that these "targeted reviews", if necessary, must be proportionate. Full



reviews can absorb considerable regulatory resources, as well as company resources, especially if additional data gathering and analysis work is required and should not be undertaken except in cases where a review is necessary and where the supervisors' objectives cannot be attained in more proportionate ways.

Supervisors, where possible, should also leverage existing data that has been gathered by companies (e.g. employee engagement data) in such reviews, rather than automatically requiring new data to be gathered from scratch.

Finally, Insurance Europe suggests being cautious with review material that is commercial in nature, i.e. awards and prizes as mentioned in paragraph 63 of the paper. If such material is used to assess the DEI efforts of an insurer, the supervisor is encouraged to ensure that the organising entity is credible and independent. Awards within the DEI space that are paid-for may raise concerns over the awarding criteria and impartiality of the awarding institution.

22. Comments on Box 5 Collecting and using data as part of a DEI strategy

Insurance Europe recognises that data collection is an important tool. Gathering and using data that give insight into the presence or not of diversity and the degree of inclusion or exclusion within an insurer, in jurisdictions where it is legal and culturally acceptable, can be a powerful component of insurer-initiated DEI actions and action by the supervisor.

Supervisors should leverage existing data where possible. Any collection of an insurer's data by a supervisor should be proportionate and reasonable in scope. Many of Insurance Europe's members collect data from their member companies to measure progress on DEI. This data is generally very difficult to gather and can only be done on an voluntary and anonymous basis.

Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out over €1 000bn annually — or €2.8bn a day — in claims, directly employ more than 920 000 people and invest over €10.6trn in the economy.