

STEERING THE BUSINESS DOWN THE RIGHT PATH

NED TOOLKIT

overview/ summary

Foreword

In early 2016 AFM created a new AFM Development and Conference Committee, reflecting the desire from AFM members to offer extra support to members on the human resources front.

The Committee has been busy exploring the range of training and development needs across AFM membership, and early on recognised the opportunity to give greater support on corporate governance in general, and to NEDs in particular.

This is an area where AFM has been active for a long time, particularly through the Annotated Corporate Governance Code. But we are also seeing greater intensity from regulators on this issue, with the Senior Insurance Managers Regime, rules covering board responsibilities, and greater attention to individual board member responsibilities and accountabilities.

With the creation of revised Senior Management Functions, comes greater likelihood that regulators will wish to interview directors who either fulfil or aspire to those roles. NEDs need to exhibit a good understanding of the business and its prospects and its operating environment. The purpose of this toolkit for NEDs is mainly to help

preparing NEDs for upcoming regulatory interviews, though it might also be valuable in induction or ongoing training.



David Thompson, Chair, AFM Development and Conference Committee, October 2016

Introduction to the Toolkit

The toolkit is designed to help with various regulatory interviews, including both formal interviews when a person is proposed for a Senior Management Function (SMF) - the successor to what were previously called Significant Influence Functions (SIF), and less formal interviews when a supervisory team asks to see individually meet one or more NEDs during a supervisory visit.

The framework for NEDs is changing, with the Senior Insurance Managers Regime (SIMR) introduced from March 2016. The Bank of England and Financial Services Act 2016 has also been passed, and this will require the certification regime in place for banks and building societies to be introduced into insurance too. The intention is for this toolkit to be regularly updated as the regime develops. As well as our interpretation of the regime, feedback from members, and especially from NEDs is crucial to keeping the toolkit topical and relevant.



Previously, the PRA interviewed a proportion of all new NEDs on appointment, as all NEDs held a SIF and had to be approved. The changes in the SIMR include the formal division of the NED category into “approved” NEDs who carry out Senior Management Functions (chairman, senior independent director, and chairs of certain board committees) and “notified” NEDs - the remainder. Going forward, since NEDs taking up SMF roles will all require formal approval, the expectation is that many such NEDs (prospective SMFs) will be interviewed at that stage, but that notified NEDs (who do *not* require formal approval) will *not* be interviewed on initial appointment.

Hence the majority of these interviews will involve the “approval” of an existing notified NED, who is already on the Board. A minority of interviews will involve a new director: typically, where that NED is being brought in directly into an SMF role. This explains the balance of emphasis in the rest of the self-testing tool towards testing and consolidating the knowledge of existing directors who will not have been interviewed on initial appointment.

The toolkit consists of a two part self-testing challenge tool (pre and post-SMF interview), to which further resources will be added over time. The **self-testing challenge tool** was developed by AFM, using our best understanding of what the regulator is looking for, following informal conversation with experienced supervisors and other research. It concentrates on developing the NED’s ability to think and respond

appropriately but, although we provide reference to a range of materials for those who would like to consider them, does not entail vast amounts of reading.

The toolkit as a whole is restricted to AFM members: members and NEDs are therefore asked not to share any part of the toolkit outside the society.

Warning and disclaimer

The toolkit has been developed by AFM only for AFM members. Whilst every attempt has been made to ensure the content is accurate and relevant, NEDs or NED candidates should not rely on its authenticity. As a condition of our approval to use this material, no user can make any future claim to AFM if the use of this material results in a failure to be appointed, or in other regulatory sanction.

'Top 10' questions for initial SMF interviews

There are many questions a regulator could conceivably ask on a SMF interview and it would be highly impracticable, and probably undesirable, to prepare for all of them. However, the headings in Part 1 give a clue to the key themes. Treat many of these indicative questions - not as something to which you have to develop a "model answer", but as a prompt to clarify and deepen your own understanding.

Please do not be daunted by the number of questions set out in the toolkit. No one can possibly know everything and the key themes are clear. You will already have information on many of the topics covered - the key point of this toolkit is to raise awareness of areas of regulatory focus.

The 'top ten' most likely questions we believe will come up in regulatory interviews are:

- *Are you clear about the basic business of your society - how does it make its money?*
- *What skill set do you offer to the Board and how did you acquire those competences?*
- *Are you familiar with what the regulator(s) expect of your proposed role? And what you are, and are not, responsible for?*
- *Give an example where you have challenged, and successfully influenced, a recommendation or decision.*
- *Demonstrate how you will find the time to carry out your new role.*
- *What are the main responsibilities of a NED?*
- *Explain how a Board's collective responsibilities and a director's individual responsibilities work together.*
- *What are the key requirements of the regulatory conduct rules relevant to NEDs?*
- *Are you clear what expectations the regulators have for your Board, individually and collectively?*
- *Can you outline the main areas of risk that face a modern insurer and how they might be mitigated?*