



NED TOOLKIT

**Association of Financial
Mutuals**

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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 Corporate Governance Code. But we have also seen greater intensity from regulators on this issue, with the Senior Manager & Certification 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 both for induction and ongoing training, as well as to help prepare NEDs for upcoming regulatory interviews.

Feedback from members on the original Toolkit has been very positive and we believe the new Toolkit will prove to be even more valuable, in helping to demonstrate the professionalism and commitment of individuals, organisations and the sector as a whole.

This is a completely revamped version of the Toolkit, and we owe a massive debt of gratitude to Paul Harwood of Holloway Friendly Society, who singlehandedly developed and wrote the document in his spare time.



Peter Green, Chair, AFM Development and Conference Committee, April 2019

Welcome to the 2nd Edition of the NED Toolkit

Non-Executive Directors of insurance companies are held to very high standards.

For that reason, this Toolkit is very extensive. As well as being a development tool, the Toolkit can be seen as a way of preparing an existing or prospective NED for a regulatory interview. Being interviewed by a regulator is not a regular occurrence and can be daunting. It pays to prepare- indeed, it's essential. With these dual uses in mind, the Toolkit is set out around a series of questions that a NED or prospective NED might want to explore.

The first edition of AFM's Non-Executive Director Toolkit provided context to possible regulatory questions. For the second edition, the focus has shifted to how a Non-Executive Director might draw on their skills and experience to provide meaningful answers to a wider set of governance and regulatory questions.

Applying this approach, we think that the questions in this Toolkit are useful on a stand-alone basis, allowing a Non-Executive Director and a Board to reflect on their composition, performance and so on.

As with the first edition, the Toolkit has been organised into two parts, covering questions for the new and for the experienced Non-Executive Director. There is a new third section: questions for groups of Directors to consider. These questions might provide interesting CPD exercises.

After this introduction, the Toolkit is split into three discrete sections:

- Part A. Questions for the new Non-Executive Director
- Part B. Questions for the Experienced Non-Executive Director
(with sub-sections on You and Your Firm, Your Performance on the Board, and Your Firm and Risk)
- Part C. Questions for Discussion by Groups of Directors

There are Top 10 questions, and callout articles for all readers at the end of this introduction, covering:

1. What documents about your firm should you be familiar with?
2. A Skills & Experience Template for an Insurance Director
3. What regulatory documents should you be familiar with?

Introduction

Why be a Non-Executive Director?

This is the question at the heart of your decision to serve on a Board. It is at the heart of the regulatory interview too, albeit posed in different ways: before an appointment: Why do you want the job? Why are you suitable? What value will you add? After starting: What have you discovered? How have you helped? What are your plans, now you know more about your firm?

This Toolkit is a set of questions, broadly split between pre-appointment and post-appointment. It imagines that these questions might be posed by a regulator, but they are more likely to be useful for self-assessment or broader thinking about the functioning of a Board. Where a NED is to be interviewed, we are not suggesting that a Director will be asked every single question: there are a number that are close relatives. However, reviewing all of them should be useful preparation, and may be revealing for a Director at any stage of their service.

Approach

The approach builds on the previous version of the Toolkit. It is not its purpose to provide standard answers: instead, we have sought to draw out the facts, an individual's knowledge, understanding and experience and how these might combine to describe what a Non-Executive Director might do to add value to the Board.

The approach is different between Part A and Part B.

Part A focuses on taking a CV and drawing out deeper reflection based on a role with your chosen firm. Part B is more straightforward, covering the top-of-the-head response and then suggesting context and depth for a more insightful response.

Part C is a short list of tricky issues that a Board might face. Considering them together might allow a Board to understand new or different structures that might be required.

How to Use this Toolkit

Being interviewed by a regulator is a valuable opportunity to demonstrate and share your knowledge, learning and experience so that the interviewer gains a sense of what you are or would be like in a governance role. By presenting a wide range of possible questions, the toolkit seeks to minimise the risk that the interviewer might take away an incorrect impression.

There are no right answers to the questions. When using the Toolkit as a development resource, consider what evidence and response might best reflect what happens in your organisation, or which shows you or your firm in the best light.

Approved Roles

A number of Non-Executive roles require pre-approval. Regulators reserve the right to interview a candidate for approved roles. There are some sections in the toolkit that cover these positions.

Roles typically requiring regulatory pre-approval include:

- Chair of the Board
- Chair of the Audit Committee
- Chair of the Risk Committee
- Chair of the Remuneration Committee
- Chair of the Nomination Committee
- Senior Independent Director

The Chair of the Investment Committee is not pre-approved, but the questions are still relevant.

The questions in these sections might still be useful for Non-Executive Directors in considering how they contribute to Board or Committee meetings.

Repetition, Depth etc.

Some questions are close cousins. We have not attempted to weed them out.

There are some areas crying out for more in-depth questioning: we have resisted that temptation. The question set will never be complete.

Suggestions for new questions or other developments are always welcome.

Disclaimer

This document has been prepared by AFM, for AFM members only. While efforts have been made to ensure accuracy, this document should only be used as a guide and not relied upon. As a condition of our approval to use this material, no user can make any future claim on AFM if the use of this material results in a failure to be appointed or in any other regulatory action or sanction.

The Regulatory Direction

Accountability & Responsibility

The SMCR (Senior Managers & Certification Regime) is unequivocally about accountability and responsibility. Your firm's Management Responsibilities Map will show who is responsible, under the regime, for which areas of your firm's business. If you have Prescribed Responsibilities, be ready to explain how you discharge them. Questions might start with:

“as the person responsible for area X, how do you evidence that the regulations have been met?”

The detail

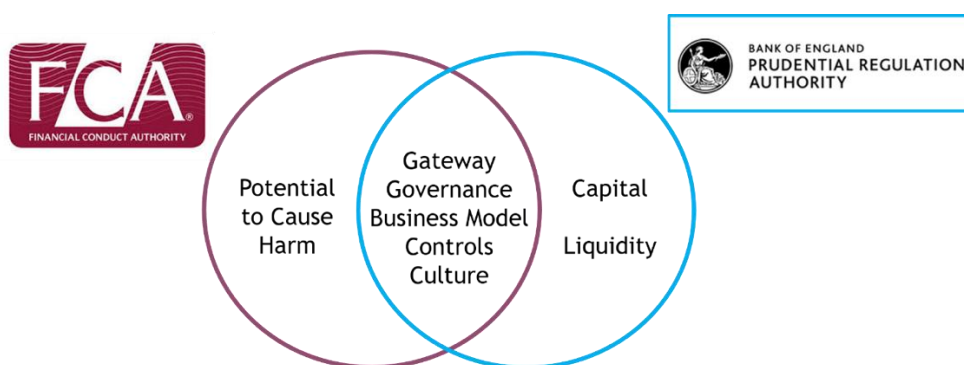
You may be asked questions about detail. You might want to rehearse how you will reply when the detail is not to hand. It is perfectly reasonable to take documents with you to an interview and to refer to them for the detail.

The supplementary questions are often most difficult:

“what steps have you taken to address [the situation we just talked about]”

“what are your plans in respect of [the situation we just talked about]”

Whilst the two regulators have clear and separate responsibilities, there is a good degree of overlap:



A focus on risk

In each section of the Toolkit, we explore the role of NEDs in managing risk. The approach mirrors the Solvency 2 approach to risk management: *identify, measure, monitor, manage, report*, along with the mantra for operational risk: *identify, deter, detect, respond and recover*.

The Importance of a Group

Are you expected to have all the answers, or to work within a diverse group to make good quality decisions? It is important to emphasise the importance of proper discussion, questioning, challenge, evidence, demonstration, reasonable steps, taking expert advice in certain cases, receiving explicit assurances and testing them. All good Board behaviours.

I Don't Know

Is fine. Commit to finding out and respond fast.

Never Bluster.

Good luck!

Top 10 Questions

Top 10 Questions - Pre-Appointment

- A1.1 What is the core business of your firm?
- A1.3 What is your firm's business model?
- A1.10 A well-prepared candidate for a position as a Director (Executive or Non-Executive) will be aware of gaps in their knowledge and skills. What plan is in place to ensure those gaps are closed?
- A1.15 What are the key attributes of a successful Board?
- A1.19 What does effective challenge look like?
- A1.21 What sources of assurance will help confirm that your responsibilities have been satisfactorily discharged?
- A2.4 Are the responsibilities of your role clearly and fully documented?
- A2.7 What are you likely to do in your first few months in the role, if appointed?
- A3.2 What are the key prudential risks your firm faces?
- A3.13 What is Business Continuity Management ('BCM') and why is it important? How good is your firm's BCM?

Top 10 Questions - Post-Appointment

- B1.1 What is your firm's high-level business strategy?
- B1.10 Describe your induction programme and/or ongoing training? Are these programmes adequate and suited to your needs?
- B1.14 Are you appropriately informed about important developments within your firm?
- B2.2 Describe how the Board works collectively. Give an example of where opinions differed and how a conflict was resolved.
- B2.4 How does your Board assess emerging risks? What emerging risks are on your firm's radar at the moment, and how are you addressing them?
- B2.20 What one thing you would improve about the Board?
- B2.24 When did the Board last discuss succession planning?
- B2.35 The Chair is the 'critical friend' of the CEO: how well do they work together?
- B2.41 Do you have enough time to carry out your role effectively?
- B3.15. How is risk management embedded into your firm's business?

Box 1. What documents about your firm should you be familiar with?

Public documents

1. Financial statements
2. Solvency & financial condition review
3. Rules (memorandum and articles)
4. Terms of reference for all Board Committees
5. Matters reserved for the Board

Internal Documents - stand alone

1. Business plans, business model and strategy documents
2. Management responsibilities map and other organisation charts
3. Internal ORSA report
4. Regular supervisory review
5. Actuarial valuation report
6. Approved risk tolerance/risk appetite statement
7. Compliance plan
8. External/Independent auditor reports
9. Business continuity plans

Internal Documents - series

1. Board packs and minutes
2. Committee packs and minutes
3. Management accounts and management information packs
4. Internal audit reports

Policies

- 1 ORSA policy
- 2 Investment policy (which may include Liquidity policy and Capital policy)
- 3 Conduct Management policy
- 4 Supplier policy (may include outsourcing policy)
- 5 Financial crime prevention policy (may include anti-money laundering etc.)
- 6 Equality & diversity policy
- 7 Risk policies
- 8 Seeking external advice for the Board policy
- 9 Compliance policy
- 10 Internal audit policy

This is not an exhaustive list. Your level of familiarity will vary according to the documents and Committee responsibilities: for examples, NEDs need an intimate knowledge of the ORSA, but less so some of the operational reports and policies.

Box 2. A Skills & Experience Template for an Insurance Director

Here is a list of possible skills.

Operational Skills

Strategic design, dev and implementation
Product design, pricing
Financial reporting
Management information design
Process design, implementation, management
Control design, implementation, management
Project or change management
Reinsurance

Functional Skills

Actuarial
Finance, accounting and control
Corporate finance
Underwriting, administration & claims
Sales & Marketing
HR, training and talent management
Risk management
Legal & compliance
Information Technology
Internal Audit
External Audit

Corporate Finance Skills

Bought a company
Sold a company
Created a company
Raised debt
Raised equity
Re-organised
Merged

These skills and experience might be acquired in a range of different roles: for example:

Roles

as an Executive lead
as part of an Executive team
as a Professional (accountant, lawyer etc.)
as a Manager
as an Expert
as a Consultant
as a Practitioner
as a Customer

Box 2. A Skills & Experience Template for an Insurance Director Cont...

Skills might be acquired in a range of different specialism:

By product

Life Insurance/term/endowments
Critical Illness
Income protection
Whole of Life/Guaranteed Over 50s
Health cash plans
Medical insurance
Pensions

By provider type

Life insurer
Investment or Savings Provider
Composite insurer
General insurer

Proprietary
Mutual

Manufacturer
Distributor
Reinsurer

Regional
National
International

Small
Medium
Mega

Start up
Established
Aggressive

By distribution

Independent financial advisors
Direct sales force
Tied agents
Direct
Affinity groups

A mix of skills, acquired in a diverse mix of experiences, can bring depth to a Board.

Box 3. What regulatory documents should you be familiar with?

The documents below are the most relevant to NEDs: most NEDs will find that the corporate governance papers are most critical, though this might vary by role.

PRA Documents

1. The ***PRA's approach to insurance supervision*** (October 2018) which includes the ***PRA's 8 Fundamental Rules***
2. The ***PRA Rulebook***
NEDs should be able to find their way to relevant sections, such as the discrete sections for Solvency II firms and Non-Directive insurers
3. ***Corporate Governance: Board responsibilities*** (July 2018)
4. PRA's ***strengthening accountability*** webpage

FCA Documents

1. The ***FCA Handbooks*** are online including a helpful timeline feature
2. The FCA's ***Principles for Business*** (section 2.1)
3. The FCA's webpage for ***How we supervise firms***
4. The FCA's ***'Business Plan'*** including ***'risk appetite'***
5. COCON - Annex 1: ***Guidance on the role and responsibilities of Non-Executive Directors***
6. FCA's ***Senior Managers and Accountability Regime*** webpage

AFM Documents

1. ***Guide to corporate governance***
2. ***The Duties of Directors of Mutual and Not-for-profit Insurers***
3. ***AFM Corporate Governance Code***

Part A. Questions for the New Non-Executive Director

This part of the toolkit poses a number of questions that Directors- including prospective NEDs- may ask themselves in research and preparing for a new role; they may equally be the issues regulators will explore should they ask to interview a NED candidate. The approach is not to provide standard answers, but to make the answer to each question richer, so that genuine insight can be drawn out.

Each question is considered from the perspective of an individual's knowledge and experience (which could perhaps easily be seen from a CV) and uses that to draw out what an individual understands by a situation and they what might do as a result in the Boardroom. The template is set out below.

Greater understanding and reflection should lead to better governance.

Template Example	
Question	
<i>Framing your response</i>	
<u>Knowledge</u> What do you know that will help you and the firm? <i>Regulators want to confirm that you have a good high-level grasp of the business of your firm.</i>	<u>Understanding</u> How have you translated your knowledge into understanding that will benefit your firm? <i>Regulators are keen to test that you have drawn conclusions from the knowledge you have.</i>
<u>Experience</u> What have you done or been part of that allows you to bring wisdom to the firm? <i>Your experience should be evident from your CV. Regulators want to see which areas of your experience you see as relevant or important to your Non-Executive role.</i>	<u>Action</u> How will you apply your experience to serve appropriately as a Non-Executive? <i>This is the important part of the challenge process. What will you do? The answers need to be Non-Executive in nature.</i>
<i>For more information</i>	

The contents are organised into three sections. **You & Your New Firm** covers the core questions that every Director should be capable of answering about themselves and the firm on whose Board they sit or are thinking of sitting. **You & Your New Board** covers the dynamics of the Board, how you perceive them and your part on a collegiate Board. **Your New Firm & Risk** draws out some high-level questions driven by the PRA and FCA activities in respect of prudential and conduct risk.

Contents

A1. **You & Your New Firm**

- Your Firm
- Your Skills & Experience
- Your Views on Governance

A2. **You & Your New Board**

- Where you are considering a specific role
- Questions about the Regulators and Regulation

A3. **Your New Firm & Risk**

A1. You & Your New Firm - Question List

About Your Firm

- A1.1 What is the core business of your firm?
- A1.2 What is distinctive about your firm?
- A1.3 What is your firm's business model?
- A1.4 Describe the competitive environment in which your firm operates
- A1.5 How did you research your firm before deciding to apply to join the Board?
- A1.6 Are you familiar with the governance arrangements at your firm?
- A1.7 Why does culture matter?

About Your Skills & Experience

- A1.8 What skill set do you offer the Board? How did you acquire those competencies?
- A1.9 How will you complement the skills and experience of your new Board colleagues?
- A1.10 A well-prepared candidate for a position as a Director (Executive or Non-Executive) will be aware of gaps in their knowledge and skills. What plan is in place to ensure those gaps are closed?
- A1.11 What about your new firm is very different from your previous roles or experience?
- A1.12 If you come from outside the financial services sector, how will you acquire/ have you acquired the key financial competences needed to serve on the Board, and of the regulatory environment in which it operates?
- A1.13 Do you have previous adverse regulatory history? If so, how will you explain why that should not be an impediment to your approval?
- A1.14 Is there anything from your past roles that, with hindsight, you might do differently?

About Your Views on Governance

- A1.15 What are the key attributes of a successful Board?
- A1.16 What are the benefits of a diverse Board?
- A1.17 How should a Board evaluate its performance?
- A1.18 What is your experience of Board evaluations?
- A1.19 What are the main responsibilities of a Non-Executive Director?
- A1.20 What does effective challenge look like?
- A1.21 What is your approach to challenge?
- A1.22 What sources of assurance will help confirm that your responsibilities have been satisfactorily discharged?

A1.1 What is the core business of your firm?

Framing your response

The most basic of first questions! An easy one to start with.

Knowledge

What do you know?
What material have you seen?
What questions have you asked?

"I have been through a formal induction process, which included interviews with Executive and Senior Managers. I have read previous board papers, the strategy, business model and risk tolerance statement."

Left-hand side questions are factual. They give input to consider your response to the right-hand side questions. While you might be asked left-hand side questions, the answers are unlikely to demonstrate your qualities.

Understanding

What have you concluded are the strengths and weaknesses of your firm?
What are its capabilities?
What opportunities does it have?
What threats does it face?

"The firm faces declining sales in an increasingly competitive market. It needs to strengthen its balance sheet."

"It has excellent systems. It needs to develop and market attractive products and, through their sale, reduce its overhead per policy. The market is stable, so the firm will have to fight to grow its share. The management is of the right quality."

Right-hand side questions are about you, your thinking, and how you justify your response

Experience

What have you done previously that is relevant to the core business of your firm?
What makes you uniquely of use as a Non-Executive Director?

"I have previously been involved in similar turnarounds where product development and innovation were key to success. I know the pitfalls of this work and have some experience of the steps needed to improve the chances of success. I don't have experience in this market sector, but the experience I have will translate - and others are doing the actual work"

Action

Having identified your conclusions about the firm and the experience that is relevant in your background, how will you apply this experience?

"I intend to provide support to the Chief Executive and marketing functions by listening to their product development and commenting appropriately".

For Other Information

Your induction should cover this question. Annual reporting will be a good start.

A1.2 What is distinctive about your firm?

Framing your response

Distinctiveness might arise from the firm's history. Strategy might draw on your firm's distinct features for competitive advantage, if possible.

Knowledge

A firm can be distinctive by management style, balance sheet strength, sales structure, product, distribution...and so on. Your firm may well explain why it is distinctive during your interview.

Understanding

Knowing what makes your firm distinctive, what conclusions have you drawn about how this might affect its prospects and plans? Do you agree with the distinctive features that have been suggested?

Experience

What have you done previously that is relevant to the issues arising from your firm's distinctiveness?

Action

How will you use your experience to help govern the firm, given its areas of distinctiveness?

What areas have you identified where you need more information or will rely on other Non-Executives Directors?

For Other Information

Areas for consideration include your firm's market (local, regional or national), customer profile, product segments, niche appeal...and so on.

A firm is distinct in comparison with its peers. So what describes these peers? There are many sources of publicly-available information about products and providers, for example, follow links to [Financial Adviser](#), [Cover Magazine](#) and [Money Marketing](#).

A1.3 What is your firm's business model?

Framing your response

A business model may or may not be documented. Put simply, it describes how the firm makes sales and makes money and thus ensures its future.

Knowledge

Major business model headings are distribution, customer, and product.

Business models might include the financial profile (how premium is transformed into value) and the competitive landscape, and the value chain profile (which services add value to the customer and when).

Understanding

A firm's business model is expected to capitalise on its strengths and opportunities, and address or neutralise its weaknesses and threats.

Do you think that your firm's business model has done that? Has it missed anything important in your view?

Experience

Are you familiar with this particular business model? How have business models you have seen differed or been similar?

Action

What areas of the business model most need, and are you most capable of providing, oversight?

With what areas are you less familiar?

For Other Information

What might be included in a business model? You might want to consider:

- your firm's main business activities
- its core products by geography of the business and its customers or members
- whether its activities extend beyond what is usually core for the sector
- product plans
- view on advice
- means of business delivery (e.g. business sold direct, by intermediaries, online, post, telephone, white labelling etc.)
- its main competitors (e.g. other mutuals, insurers, comparison websites)

A1.4 Describe the competitive environment in which your firm operates

Framing your response

Depending on the firm, the factors describing the competitive environment may be well documented and well-known, or may have nuances that require some thought.

There are layers of market knowledge: from the macro-economic to the highly specific sector-, product- or distributor-specific.

Knowledge

How does your firm explain its competitive environment? How does it measure these factors? How sensitive is performance to them? Where do competitors fit on a chart of these factors?

Understanding

How is your firm poised to perform given the competitive environment? What levers is it relying on? How does it know that these are the relevant competitive factors?

Experience

What competitive factors have you previously faced, and which succeeded or failed?

How relevant is this experience?

Action

What areas of competition have most chance of affecting your firm? How will you monitor them? What areas are new to you, and mean you will need to rely on others?

For Other Information

Who are your biggest competitors?

What is the basis of their competition?

Is there a mutuality dividend in a competitive market?

Is the market growing, stable or shrinking?

Is there room for innovation?

Are there any market disrupters on the horizon?

A1.5 How did you research your firm before applying to join the Board?

Framing your response

This is an easy question to ask, but a difficult one to answer compellingly. Reading the website and the financial statements is an obvious first step.

See the Summary: What documents about your firm should you read?

Knowledge

There are a number of public and private documents that, as a Board Director, you should have considered.

Having read it, how good is the firm at communicating? Or did you already know the firm because of previous work?

Understanding

What did your research lead you to conclude? What was different in practice when you spoke to the firm.

By balancing these questions, you can demonstrate your thoughtfulness and reflection.

Experience

What attracted you to this firm, as distinct from all the others which you might consider a Non-Executive position for?

What questions did your research lead you to, and were they answered satisfactorily?

Action

What areas, based on your research and conversations with the firm, will you be pressing the Board to develop - or are you comfortable that the Board and management share your views on the issues that need to be addressed. In either case, you should be prepared to list the issues.

For Other Information

The press, information provided at interview, public documents, previous history of directors or executives: these sources might provide background information.

Should you admit that you asked other people for their views on your firm? It might sound like you listen to gossip. Presumably no-one would swear to the views they shared, and they might be out-of-date or prejudiced anyway.

Not researching beforehand would be regarded as a mis-step. Boards need informed interested and curious Directors, and it would be an unusual trait not to have done some homework before taking next steps.

A1.6 Are you familiar with the governance arrangements at your firm?

Framing your response

The report and accounts have to describe the governance arrangements, and Solvency II specifies the System of Governance that insurers must adopt (for a non-Directive insurer this is simplified).

Knowledge

The governance arrangements are described in the financial statements, the Regular Supervisory Report (for Solvency II firms) and the Management Responsibilities Map.

The composition and the activities of the governance committees will be described in the financial statements. Committees should have written terms of reference. There should be a schedule of matters reserved for the Board.

Understanding

You should form a view on the quality of the governance arrangements. In general, governance should be proportionate. Your appointment may represent a strengthening of governance.

Central to this is understanding how the governance arrangements fit with business activities, functions and reporting lines.

Experience

What governance experience do you have that means your views on the firm's governance are acted on?

Action

What changes to governance do you expect the firm to be making- the answer may be none! Governance structures need to be worked at to be effective.

For Other Information

The Management Responsibilities Map ('MRM') should include Senior Managers, as defined by the regulations, and the terms of reference of each Board Committee. It may also set out who sits on which committee. In particular, you are expected to know who is responsible to the Board for the major lines of activity of your firm.

Details of executives and senior managers not covered in the MRM can be requested. Ideally, you will meet these people as part of your induction.

Knowing how the firm works is important. It is a requirement of the regulations to understand how information and decisions are communicated.

The AFM produces a governance code for mutuals and reports on the extent of its use every year. The AFM Corporate Governance Code was launched on 1 January 2019 and can be seen [here](#). The latest AFM report on governance is [here](#).

A1.7 Why does culture matter?

Framing your response

Are you up-to-date on regulatory pronouncements on culture: in summary, they say it is important because financial scandals wouldn't have happened in the right cultures?

There are a lot of articles and speeches that remind us how important culture is, but precious little on what to do to create the right culture.

Knowledge

How does the firm describe its culture? What does the Board do to assess and to manage culture? What is the Board's view about what needs to change in the Board's culture?

Understanding

How would you describe your firm's culture? Are there things about it that need to change? Does the Board challenge appropriately? Is the firm committed to assessing and managing the firm's culture? Is the tone at the top appropriately set (by the CEO and Board)? Are behaviours consistent with the desired culture?

Experience

What cultures have you worked in? How did you improve them or maintain them? Have you tested or influenced culture from afar (as Non-Executives Directors have to)?

Action

What are the culture questions that you will be discussing with your colleagues?

For Other Information

The PRA and FCA have made a number of statements about culture in recent years. It is important to understand their position on culture at the time of the interview.

The Financial Reporting Council has performed extensive research into culture and the role of Board. The failure of the Equitable Life, an old, established mutual, still has resonance for mutuals today.

A1.8 What skill set do you offer the Board? How did you acquire those competencies?

Framing your response

Are you suitable for this position? That is at the heart of this question.

Knowledge

Describing your knowledge has presumably been part of the Director appointment process. You should understand how your knowledge will complement that of the Board.

Understanding

How does your knowledge apply to the circumstances (current position and ambitions, perhaps problems to be solved) of your new firm?

Experience

Along with your knowledge, your experience will be valued. What particular experiences have you had that are relevant to your new firm? You should understand how your experience will complement that of the Board, given the plans and expected work ahead.

Action

How do you expect to be putting your knowledge and experience to work for your new firm? Have you discussed these ideas with the Chair and Chief Executive? How do you expect your contribution to be evidenced, especially where you have a regulated role?

For Other Information

Qualifications and training are important, as are personal characteristics. How would you assess your competence in the areas in which you are skilled? Are you up-to-date with current thinking? Are you a member of a relevant industry body?

A1.9 How will you complement the skills and experience of your new Board colleagues?

Framing your response

In an ideal world, the Board skills assessment will identify gaps which the Nominations Committee (where there is one) seeks to fill with its recruitment.

Knowledge

What does the latest Board skills assessment say? How will your skills plug into the findings?

Understanding

What other skills and experience do you bring, that perhaps has not shown up in the assessment? Is the Board mature? Does it need modernising? How technical is it? What is the Board's emotional intelligence? How long has the CEO been in place? Is this a problem or an advantage?

Experience

As important as the skills and knowledge that you have is the acuity with which you wield them.

Action

What problems will you especially be able to help tackle? How do you plan on doing that? Have you discussed the actions with the Chair? The CEO? Other Board members?

For Other Information

If you are taking on a specific Senior Manager function or chairing a Committee, it is appropriate to focus on your proven leadership qualities and authority. Your willingness and experience in challenging executives may also be relevant. You may have reached a conclusion about the extent to which these are evident at the Board already, or perhaps the need for a new face to bring fresh challenge.

A1.10 A well-prepared candidate for a position as a Director (Executive or Non-Executive) will be aware of gaps in their knowledge and skills. What plan is in place to ensure those gaps are closed?

Framing your Response

Some gaps will persist: the Board will rely on others with complementary skills and experience to provide more expert oversight in those areas.

Other gaps can be addressed through training or practice. A structured recruitment will base the recruitment profile on the gaps the Board needs to close and will match candidates to that profile. Even so, the Board may have gaps, or perhaps areas where it is relatively weak. The induction plan will address gaps for the new Director. A different plan may be needed for the Board as a whole.

Knowledge

There should be a plan.

What are the gaps or weaknesses in your knowledge and skills? What are the gaps or weaknesses in the Board's overall knowledge and skills?

For both, what plans are in place to address the gaps?

Plans might include the use of expert advice, training, experience etc..

Understanding

Do you agree with the firm's assessment of the gaps and weaknesses? Do you agree with the planned actions?

Experience

In your experience, does the Board have enough strength and depth, and distinctiveness in thinking to ensure robust challenge? Does it have enough rigour to ensure that governance standards are maintained?

Action

Are there criteria important to individual Director or Board success that are missing from the assessment? Is the assessment at the right level?

Have you discussed your views with the Chair and the Chief Executive?

For Other Information

There are many publications on Board skills and how to address them.

A1.11 What about your new firm is very different from your previous roles or experience?

Framing your response

Non-Executive Directors can contribute because of their familiarity with the business and to issues facing a firm. They can contribute because they bring a fresh perspective, drawn from similar, but different, experiences.

Those differences will enable a NED to offer a positive contribution. An effective Director need not be imbued in ‘how things are done’ and can use their curiosity to draw out valuable insight.

Knowledge

Why the sector? Why the firm? First appointment? Next in the portfolio?

How you characterise the differences will be important for the follow-on questions. Expect ‘how will that be useful?’ and other supplementaries.

Understanding

How are the differences catered for in your induction? How will you know if your contribution is useful?

How you explain the differences is of more importance than the differences themselves.

Experience

To what extent will you rely on other Board Directors’ competence? How much of an all-rounder are you?

How have you behaved as a Non-Executive Director in the past or seen others behave?

How well do you know the governance of your area of expertise?

Action

What will you do as a result of the differences?

When will you be comfortable to state a contrary opinion?

If this is your first Non-Executive role, how will you resist the temptation to behave like one of the Executive?

For Other Information

The interview process, followed by your induction, will give you some idea of the firm. Over time, those impressions will develop, based on what you see. It may be a useful practice to reflect on your impressions from time to time, to see what has changed and why, and to assess the nature of the change (better or worse governance?).

How will you find out what is different? By talking to and reading about your new firm. If possible, you might talk to others who are involved in the sector more intimately than you have been.

A1.12 If you come from outside the financial services sector, have you, or how will you, acquire the key financial competences needed to serve on the Board, and of the regulatory environment in which it operates?

Framing your response

There is a wealth of positive consequences from bringing in experienced professionals from outside the industry or the sector. That said, the insurance sector is heavily regulated. New entrants might find the degree of required technical understanding challenging. Expertise elsewhere on the Board is useful, as is a well-structured induction programme.

Knowledge

The response should be factual, and demonstrably connected to your induction. You might have a 12-18 month induction programme. It might include external courses/access to external advisors.

Understanding

What do you understand the critical areas of competence to be? How does your induction programme address them? How do you know that you have understand what you need to? Who will you be relying on (to what extent and for how long)?

Experience

Have you had to absorb this sort of learning in your recent work life? Is this simply 'another set of rules' to be understood? Or does it require disciplined study? What makes you the sort of person who thrives when faced with the unfamiliar?

Action

If you find it all too difficult, how will you know? And what will you do?

These are really hard questions to answer, but they indicate honesty and humility, self-understanding and integrity. Who wouldn't want to demonstrate these qualities?

For Other Information

The AFM runs a number of events for new and experienced Non-Executive Directors.

A1.13 Do you have previous adverse regulatory history? If so, how will you explain why that should not be an impediment to your approval?

Framing your response

You must ensure any issues will have been fully disclosed to your new Board.

It is important not to attempt to re-draw the past. There is no point in producing arguments about the fairness of any past regulatory action. Best identify the cause of the issues, what you would do differently to prevent a firm suffering similar issues and show how you are better able to support a Board and a firm as a result.

Knowledge

You will know your version of events leading to a regulatory issue. It is important that you can describe the experience- and the learning that resulted.

Understanding

Why is the matter not a barrier to your new firm? Your response may be to do with experience gained, including the resolution of a difficult situation.

Experience

What has the experience taught you? What insight can you bring to a different Board to help avoid any repetition?

Action

How sensitive are you to situations that might have something in common with your experience? Do things have to change or be amended at your new firm?

For Other Information

There is very little available material about life after regulatory censure.

A1.14 Is there anything from your past roles that, with hindsight, you might do differently?

Framing your response

The nature of Non-Executive Director work is that you should always be reflecting on how things could be improved. It would be a short conversation were you to answer this question 'no'.

Knowledge

Reflection is an important skill, especially for Non-Executive Director roles. You will know what the facts were and how things could have been done better.

Understanding

How might the knowledge that you gained be useful in your new/current role?

Experience

Given this knowledge and the subsequent understanding, how have your red lines changed? What would you now tolerate, that you wouldn't have done before? What would you call out sooner?

Action

Is there a need to use this experience specifically in your firm? If there is no obvious need, what signals lead you to that conclusion? What would have to change for you to think 'Ah, I need to talk about this now'.

For Other Information

There are many case studies about personal development when faced with difficult situations. No-one is perfect. It is worth thinking about what experiences have shaped your professional character for the better.

A1.15 What are the key attributes of a successful Board?

Framing your response

There are many articles on what makes a successful Board. It is important that the characteristics of the Board reflect the position of the firm and the industry in its business cycle.

Knowledge

What boards have you had experience of (probably as an employee, at the very least)? Which were good? Which were bad? What made them good or bad?

Understanding

What attributes do you see your firm's Board having and needing? Is there an appetite to make the necessary change?

Experience

To what extent do your outlook, skills and/or personality complement the needs of your firm?

Action

What will you do to contribute to the success of the Board?

For Other Information

Attributes of good Boards include being neither too large nor too small, having the right balance of skills, being cohesive but able to handle conflict, the absence of factions and a common purpose.

More modern attributes include a well-planned strategy and objectives, clear direction, an appropriate range of skills and experience, high-quality Non-Executive Directors, effective decision making, a strong induction processes, a sound culture, being able to challenge constructively, to avoid interfering in executive decisions, to be committed to reflection and to self-renewal. As a result, the modern high-quality Board sees its accountability as paramount.

Boards of mutual are usually accountable to their membership. Engagement with the membership tends to be difficult to achieve, but this should not prevent it being on Board agendas. Being accountable to owners is a primary Board responsibility.

A1.16 What are the benefits of a diverse Board?

Framing your response

Diversity can take many forms, but the key elements are about the opportunity of having different people involved in a Board, to offer a range of contributions and to avoid a Board become stale or unable to think broadly about the market and the strategy of the business.

Knowledge

What does a diverse Board look like? What does the firm's Diversity Policy say about targeting diversity?

Understanding

Do Boards with more women make better decisions? What about race, age, disability or social status? How about life experience?

Experience

If you have been involved in a Board which was diverse, how did that affect the quality of decisions?

Action

What does the Board need to do to ensure diversity is maintained or improved?

For Other Information

Diversity within the Board is a hot topic, which continues to develop. Diversity of thought is an important factor, alongside characteristics such as gender and race, and for a mutual, where the interests of customers are uppermost, a diverse Board will help ensure decision-making is effective and reflects the interests of customers.

There is a fair amount of material on Board renewal, diversity etc. (see for example the website of [ICAEW](http://www.icaew.com)). Increasingly, firms have to consider how they avoid groupthink now and in the future, and a clear diversity plan will help support this.

A1.17 How should a Board evaluate its performance?

Framing your response

Best practice is externally facilitated evaluation every three years, with a lighter approach in intervening years. The Senior Independent Director should lead the appraisal of the Chair, and individual Non-Executive Directors should be set objectives, report their CPD and be appraised at least annually.

Knowledge & Experience

Do you have a view, either theoretical if you have not been through a Board performance process, or based on experience?

What reading have you done about Board appraisal and performance management?

Have you discussed Board performance evaluation with the Chair or other members of the Board?

Understanding

What do you understand the performance management process to be at your firm?
Do you think that it will be effective?

Action

What changes do you expect to see?

For Other Information

External appraisal of Boards every three years is being seen as increasingly routine and required. Other approaches include self-assessment questionnaires, one-to-one meetings between the Chair and Directors or an internal Board assessment programme. There are many organisations who can help to craft something appropriate.

Have you seen the results of your firm's last external Board evaluation?

A1.18 What is your experience of Board evaluations?

Framing your response

This is a variant of the prior question.

Knowledge

How does your firm perform its evaluations? How does it feel about regular external evaluation? How thorough and integrated was the last appraisal? Is the appraisal process transparent?

Understanding

Is there a difficulty with evaluation at your firm? Is the firm trying something new? What changes might you be gently encouraging?

Experience

Have you had any experience in Board evaluation? If you have, was it good or bad? If it was good, why? What changed as a result? If bad...same questions.

Action

How will you assist the development of the Board's performance evaluation?

For Other Information

External appraisal of Boards every three years is being seen as increasingly routine and required. Other approaches include self-assessment questionnaires, one-to-one meetings between the Chair and Directors or an internal Board assessment programme. There are many organisations who can help to craft something appropriate.

Have you seen the results of your firm's last external Board evaluation?

A1.19 What are the main responsibilities of a Non-Executive Director?

Framing your response

The Board of an insurer is responsible for everything that happens in the firm.

On that basis, what is the point of this question? Firstly, there is the standard answer you can draw from a textbook. Then there is the knowledge of the strength from a team working together, and the experience of a solid team working to protect policyholder benefits and to run a financial services business properly.

Knowledge

There are many lists available that describe the responsibilities of members of a Board, and the difference between the roles of Executive and Non-Executive Director.

Understanding

What makes for an effective discharge of Board responsibilities? Avoidance of groupthink, effective challenge, appropriate performance management, robust appraisal of Board and Executive.

Experience

What is your experience of a Board working effectively? Or disfunctionally? What were the positive indicators or warning signs? What were the trigger points for a different type of Board dynamic?

Action

Is your Board working well or badly? Have you discussed your conclusions with the Chair and Chief Executive? Is there a plan for change, or for building on the quality work that has been done?

For Other Information

There are many publications listing responsibilities for Non-Executive Directors. Commonly, they include:

- providing effective oversight and, if necessary, challenge;
- helping develop proposals on strategy;
- scrutinising the performance of management in meeting agreed objectives, and monitoring the reporting of performance;
- taking steps to be satisfied about the integrity of financial information and robustness of controls;
- overseeing systems of risk management;
- scrutinising the design and implementation of remuneration policies;
- providing objective views on resources, appointments and removals, succession planning, and standards of conduct.

FCA guidance is [here](#); PRA's statement on board responsibilities is [here](#).

The AFM has published '[Duties of Directors of Mutual and not-for-profit insurers](#)'.

A1.20 What does effective challenge look like? Give an example when you challenged a decision. What was the impact of your challenge?

Framing your response

Effective Non-Executive challenge is a multi-faceted skill: challenges should be firm, fair and not unreasonable. They need to be balanced and at an appropriate level. This is one area that new Non-Executive Directors may find difficult: there is a difference between Executive and Non-Executive challenge.

Challenges don't have to result in a change. A successful challenge might lead to extra management information, so that a particular (new) risk can be tracked. It may oblige the Executive to explain their proposal better. A successful challenge will lead to a better quality decision being made.

Challenge need not be combative, nor should it be over-dramatic. Incisive, logical and measured are the preferred characteristics of robust challenge.

Knowledge

Do you have to be an expert to provide effective challenge? Clearly not. Effective challenge will allow your firm to make better decisions.

What does ineffective challenge look like?

Understanding

Is your firm used to effective challenge? How do you know? If not, how will you bring it about?

Experience

Are you able to challenge effectively? Can you give examples of challenges that led to an improved decision?

Action

What signals will you look for? How will you know if your firm is resistant to challenge? What will you do in that case?

For Other Information

Challenges are needed in all areas of Board business, including ethics, culture, business strategy, risk management, business activities and proposals, financial performance, management information and data quality.

It might be useful to consider examples of situations where you have effectively challenged others, and what the impact was on the decision made.

A1.21 What is your approach to challenge?

Framing your response

Challenge is central to effective Board and Committee governance.

There is a balance to be struck between robust and respectful challenge. Boards have been described as ‘critical friends’ to the Executive, which conveys some sense of the balance between questioning and support.

The most effective challenge will depend on how the personalities involved interact.

Knowledge

Do you need to know more to make an effective challenge? Obviously not. Sometimes the most naïve sounding question is what everyone around the table wants to ask, but dare not.

An educated or technical challenge may be better made in private, to avoid the appearance of a public sparring match. Thus, there needs to be the opportunity for private discussions: that they exist is an indicator of a Board working well.

Understanding

Framing your challenge is important. Understanding where the Executive is coming from is a useful perspective to consider alongside your own.

A good Executive team will understand the usefulness of challenge on grounds of conduct, prudence, reputation, solvency and so on. You might have to balance these perspectives with achieving corporate goals (new markets, new sales, improving services, managing expenses, underwriting and so on).

Experience

Experience in challenging Executives will be useful: being challenged, when you were an Executive, might also be formative. Remember what it felt like? Are there better challenges or better phrasing that might be used?

Action

Have you discussed the challenge process with the Chair and Chief Executive, and the appropriate tone of challenge? How will you record your challenges? Should you be asking them to be formally minuted?

For Other Information

There is no right way to challenge in any given situation. An experienced individual will be able to read the room, to make appropriate points in ways that are useful and constructive, and to help the Board as a whole make better decisions.

Business coaches or mentors may be able to offer additional help. In the first instance though, a Non-Executive should talk to their Chair.

A1.22 What sources of assurance will help confirm that your responsibilities have been satisfactorily discharged?

Framing your response

The only source, really, is the Board/Committee papers and minutes, because you need a demonstrable documented history to show orderly governance. So how much material is there and how accurate and insightful is it?

Knowledge

As a high-level, the assurance should be contained in the Terms of Reference for relevant Committees and the Compliance Plan, Audit Plan, Risk Management Plan. policies and so on.

At a more detailed level, the assurance should be contained in the papers and the minutes dealing with conduct etc..

Understanding

Are you comforted by the materials? How would you test their integrity? How independent is the assurance you are receiving?

Is there a development plan to identify and address gaps?

Experience

If you have previously run a function (as an Executive) that provided assurance, or received assurance as a Non-Executive, how does the equivalent in your new firm match up?

Action

What conclusion have you drawn about the quality and quantity of the sources of assurance? Is the trend improving or worsening?

For Other Information

No-one will guarantee that a set of assurance sources will be sufficient. Assurance is about compiling a patchwork of input which results in a robust sense that all required matters are being attended to, in line with their materiality and proportionality.

A2. You & Your New Board - Question List

Where you are considering a specific role (but interesting questions even if not)

- A2.1 What motivated you to apply for/agree to take up the role?
- A2.2 What support will your firm provide so that you can carry out your role effectively?
- A2.3 Are there any areas where you believe that you require further training in order to be fully suited to your new role?
- A2.4 Are the responsibilities of your role clearly and fully documented?
- A2.5 How will you find the time to carry out your new role?
- A2.6 You need personal authority to chair the Board or a Committee. How can you demonstrate that authority?
- A2.7 What are you likely to do in your first few months in the role, if appointed?
- A2.8 Are you familiar with what the regulators expect of your proposed role? What you are, and are not, responsible for?
- A2.9 How does your role fit with other parts of your firm's overall governance?
- A2.10 What are the principal regulatory policy developments (recent, current or impending) affecting the area that your role covers?
- A2.11 What sources of knowledge and advice will help you discharge your responsibilities?

Questions about the Regulators and Regulation

- A2.12 What expectations does the PRA have for your Board, individually and collectively?
- A2.13 How is the PRA strengthening accountability in financial services?
- A2.14 What expectations does the FCA have of your Board, individually and collectively?
- A2.15 How is the FCA strengthening accountability in financial services?
- A2.16 When might you be held accountable by a regulator?
- A2.17 What are the regulatory conduct rules for Non-Executive Directors?
- A2.18 If you receive an attestation request from a regulator, what are your obligations?

A2.1 What motivated you to apply for/agree to take up this role?	
<p><i>Framing your response</i></p> <p>Be honest about what encouraged you to apply.</p>	
<p><u>Knowledge</u></p> <p>Why the sector? Why the firm? Next in the portfolio?</p> <p>How does this appointment complement, and not conflict, with your other directorships? How does it fit with your ambitions?</p>	<p><u>Understanding</u></p> <p>What can you add to this specific firm? Why is it right for you at this time? How will it help you develop?</p>
<p><u>Experience</u></p> <p>What governance expertise have you built up, which will be useful to your new firm?</p>	<p><u>Action</u></p> <p>What roles, formal and informal, do you expect to play at your new firm?</p>
<p><i>For Other Information</i></p> <p>This is probably one of those questions that has a vanilla answer in 90% of cases. In the remaining 10%, there might be an interesting reason!</p>	

A2.2 What support will your firm provide so that you can carry out your role effectively?

Framing your response

There is a good question to research, and your answer is likely to include: induction, a training/CPD programme, access to appropriate personnel in your firm (to help with IT and administration etc), Company Secretarial time and access to professional advice when required.

Knowledge

The response should be factual, based on the discussions that you have had with the firm, possibly with the Company Secretary.

Understanding

Are you confident that the planned support will address the areas that it needs to?

Experience

How does the support available match that which you have seen in other organisations? Does it matter, if the right things are addressed?

Action

How will you respond if the right support is not forthcoming? How will you judge if the Board is missing an essential external view? Put a different way, how will you satisfy yourself that the Board has taken a proper account of external factors, and is avoiding groupthink?

For Other Information

The PRA published a consultation paper in 2015 on Corporate governance: Board responsibilities. Paragraph 8.2 says:

“8.2 The PRA expects non-executive directors to be given adequate support to enable them to carry out their duties. Such support should include appropriate and relevant induction and ongoing training and professional advice (as mentioned above) as well as other practical assistance including office accommodation and staff support. The Corporate Governance Code expects, and the PRA’s rules on the Senior Managers and Senior Insurance Managers Regimes require, the chairman to lead the development and monitoring of effective policies and procedures for the induction, training and ongoing professional development of board members, in particular non-executives.”

A2.3 Are there any areas where you believe that you require further training in order to be fully suited to your new role?

Framing your response

Is this a trick question? No: be honest. You know best what is unfamiliar about the firm. Maybe you have worked in an identical firm, and there is nothing further you need training on...but you will want to take steps to maintain your understanding.

Maybe you have not been Non-Executive before? Some training on Executive/Non-Executive difference may be useful.

Knowledge

Consider your experience and your firm and how well there is a match.

It is worth recognising that if you commit to something in a regulatory interview, the regulator may well ask you how it went in subsequent interviews.

Understanding

How have you arranged to receive this training? How will you know if it has worked? What action will you take if it hasn't? How will new gaps be identified?

Experience

Have you ever been in a situation where, looking back, you wished you had more knowledge before you made a decision? What steps can/did you take to ensure there is no repetition?

How would you feel about having to say that you need help to master an issue?

Action

Have you discussed your additional needs with your Chair? Is this an item on your annual performance review agenda?

For Other Information

The Board may well have a skills self-audit, which may have been used to set the specification for its recent recruitment. You could use it to score yourself to see where you might need to focus your CPD, but also where the expertise lies within the Board.

A2.4 Are the responsibilities of your role clearly and fully documented?

Framing your response

The Management Responsibilities Map includes details of the Prescribed Responsibilities. The Terms of Reference and Matters Reserved describe the main business for the Board.

There are a number of publications on the responsibilities of directors.

Knowledge

The documentation will give you the facts. The firm should explain to you how those responsibilities might need to be expressed at your firm.

Understanding

Do you agree with the issues presented and how your role and responsibilities will interact with them?

Experience

What experience do you have of the roles that are now being undertaken?

Action

What do you plan to do as a result?

For Other Information

The AFM has a guide on the responsibilities of Directors.

ICSA produces a useful template Director Appointment letter.

A2.5. How will you find the time to carry out your new role?

Framing your response

It is important that you are not overcommitted. If your portfolio of roles is significant, it is an easy allegation that you have insufficient time to carry out your duties properly.

Knowledge

How many hours per month do you think that this job will take? Plus or minus?
When are the busy, and the slacker, times?

How much capacity will you have to handle emergencies?

Do you have any other financial reporting roles with, for example, the same year end?

Understanding

In theory, what role would you drop if there was a problem at this firm? Or will you work more than 35 hours per week? But you can't do that, and maintain acuity, for a protracted period?

Experience

Have you faced time pressure before? How did you handle it?

Action

How do you plan to tackle these issues? What can you, in particular, bring to them?

For Other Information

Your letter of appointment will probably state an expected time commitment. Non-Executive Director work is seldom evenly spread. Outside the formal meetings, there may be additional reading, calls, one-to-one meetings. If a crisis threatens, you may be required to devote significant time at short notice to overseeing the response. Will your commitments allow you to behave as required?

A2.6 You need personal authority to chair the Board or a Board Committee. How can you demonstrate that authority?

Framing your response

What a cheeky question! But right on the nose. The temptation is to say ‘...I’ve never had a problem with that...’, but that’s the cheap response!

Authority is a combination of knowledge, understanding, experience and an ability to act. Your Non-Executive Director authority derives from your peers on the Board and the regulatory framework within which you are obliged to work.

Knowledge

What do you know about the firm, the industry, the commercial environment, running a business from a functional perspective, the regulatory environment, the drivers of success and failure etc.?

Understanding

What does your knowledge lead you to conclude about the firm? How does it allow you to contribute to or lead the resolution to the issues faced or decisions that need to be made?

Experience

Have you faced similar decisions or issues before? How did you resolve them? What lessons did you learn/what will you do differently?

Action

What plan have you agreed with the Chair (if not you) and the Chief Executive about how you will lead the Board or Committee?

For Other Information

You should be prepared to talk about difficult past experiences, your role in them, and what you learned (as per the Experience box above).

A2.7 What are you likely to do in your first few months in the role, if appointed?

Framing your response

Once appointed, it would be unwise to accept in good faith everything that has gone before. This sort of position can be uncomfortable. Everything needs to be challenged, without undermining the Executive or prior Board decisions.

There is a regulatory expectation that new Senior Managers review the risk management framework for their area of responsibility and recommend changes if required.

Knowledge

What do you know of the decisions to be made and the issues to be handled at your firm? Where is it in the strategy planning cycle? What performance issues are there? How has culture been considered?

Understanding

Given this knowledge, what you think you can bring to these issues?

Experience

Have you faced similar issues in the past? How close have your previous experiences been? What would you do differently - and hence be able to advise - as a result?

Action

What plan have you agreed with the Chair and Chief Executive?

For Other Information

Depending on the role, there may be specified requirements, processes or documentation that fall under your responsibility. You should be familiar with their current content and have a plan for their review.

The FSA enforcement case *FSA v Pottage* involved a new chief executive. It provides useful background.

A2.8 Are you familiar with what the regulators expect of your proposed role? What you are, and are not, responsible for?

Framing your response

As a Director, you are accountable for everything. Your specific responsibilities will depend on the roles that you hold. At the very least, you should be aware of your Prescribed Responsibilities. The suggestions below are made in the context of a particular role.

For Committee Chairs, the Committee Terms of Reference will be a good start. For Board Chairs, the Matters Reserved for the Board should be useful.

It would be very unusual for a Board or Committee to have no area of its governance that needs strengthening, reviewing, or developing. Ideally, the Board will be working to ensure that its governance structures are constantly re-aligning themselves with the needs of the business. Arguably having Non-Executive Directors who can ensure that oversight is effective in delivering governance structures that are relevant, timely and insightful.

Knowledge

What are the areas of specific interest for you, in your role, for this firm?

Understanding

What are the challenges for you in this role? Given the state of your firm, what are the challenges that this Committee or Board will have to wrestle over the next three years? How well prepared is the Board or Committee to achieve its role? Where are the strengths and weaknesses? How do these translate into the business activities of your firm?

Experience

What experience have you had in this role or on this type of committee before? How has it prepared you for your role at this firm? What have you learned from your previous experiences that you want to bring to this role?

Action

Where do you plan to improve or develop over the next three years (your Committee/Board) given your role. What are the challenges? What areas

For Other Information

You may like to talk to the previous role holder or people in other firms who have held this role in other firms. The AFM would be happy to help find appropriate contacts if that would be useful.

A2.9 How does your role fit with other parts of your firm's overall governance?

Framing your response

Every organisation will have its own culture. It will have its own problems to address, which might seem on the surface identical to other problems you have faced, but might have very different causes, roots and/routes to a solution. An informed answer to this question might differ markedly from the standard textbook response.

Knowledge

Your induction should help satisfy you on the answer to this question.

Understanding

More interesting is the Board or Committee's share of the work: what problems does it has to address, working with what other Committees or working how with the Board? Are there personality issues to be handled? people with strong views? Stakeholders with particular views?

Experience

What experience do you have of handling situations of this type? What resources can you call on to understand and resolve situations? How have you previously worked with governance structures to ensure an appropriate result?

Action

Have you agreed what the problems are with the Chair and Chief Executive? Do they see things in the same was as you? How have you reconciled any differences in view?

For Other Information

There is no substitute for doing to job to understand how an organisation functions or doesn't. You might consider your expectations and how you will react if they are not satisfied. You might too be pleasantly surprised.

A2.10 What are the principal regulatory policy developments (recent, current or impending) affecting the area that your role covers?

Framing your response

This is a current affairs question. The starting point will be the business plans for the regulators (PRA and FCA), which set out the issues that they plan to address over a 12-18 month period.

Knowledge

Your firm can help with the latest developments.

Understanding

How well do you understand what the regulators are trying to achieve? How do their aims fit with those of your firm? How will your Members be affected? Will you sell more or less? Will your firm cost more or less to run?

Experience

How used are you to considering and implementing regulatory change? Have you had a positive experience in responding to consultations? Have you served on panels and committees that make industry contributions to policy?

Action

How should your firm react to regulatory change? Is there the right sort of attitude? Is the firm properly resourced to absorb regulatory change?

For Other Information

The publications of consultants might help, the importance of an issue being reflected in the weight of material being produced. Your firm will be able to show how the various policy thinking affects, or does not affect, it.

A2.11 What sources of knowledge and advice will help you discharge your responsibilities?

Framing your response

There are organisations available that provide support and information for the Non-Executive Director to an insurer, in addition to the AFM, such as ICSA and the IoD.

You also have the right, as a Board member, to independent professional advice (check your appointment letter and any policy that your firm has in this regard).

Knowledge

What information sources have you been able to use? How useful were they?

Understanding

When might you need advice? How would you tell if you were out of your depth? How would you justify the cost of the advice? What if you didn't agree with the advice?

How broad and deep is your firm's approach to director CPD? Does it have links with high quality advisors? Are there a pool of industry experts to whom you can turn for broad market advice?

Experience

Have you had experience when a Board sought external advice? Was it a positive or negative experience, and why? Have you been in a situation where, on retrospect, you should have sought advice? What did you learn from that experience?

Action

How will you judge whether advice is necessary? Are your colleagues of a similar mind, or is there resistance - or too much keenness to consider advice?

For Other Information

Contact with others who have experienced similar problems may be invaluable. The AFM will always seek to assist the Directors of member firms, where possible.

A2.12 What expectations does the PRA have for your Board, individually and collectively?

Framing your response

Regulation is an important component of the Board environment for insurers. Being subject to two regulators, with distinct, sometimes overlapping, mandates, and being charged with ultimate responsibility for ensuring compliance means that Directors must approach their work professionally.

That said, most of the rules are common sense and reasonable. Most are subject to oversight by professionals (actuaries, auditors, compliance people and so on). While professionals cannot take the responsibility from the Board, they are expected to explain what they are doing and how they meet, on the Board's behalf, the regulatory standards expected.

Knowledge

It is not just enough to know the regulations; you must also keep an eye on how the regulations are being implemented (via the published business plans).

Understanding

How do the rules and consultations affect your firm? How will your firm be affected by the business plan items proposed?

Experience

Have you had experience in dealing with the regulator over particular issues? These might be problems as well as consultations or interviews. Learnings from this sort of experience can be invaluable for your current Board.

Action

Does your Board have a formal approach and structure to ensuring compliance with regulatory requirements (not just a compliance function)? Is your Board aware of the implications of current regulatory business plans on the firm's activities?

For other information

The PRA sets out clearly its expectations of both insurers and their Boards and management, in a single document: The PRA's [approach to insurance supervision](#). You should understand where PRA is coming from - especially, its primary general objectives and the [eight Fundamental Rules](#). See too the PRA's paper on [corporate governance - Board responsibilities](#).

A2.13 How is the PRA strengthening accountability in financial services?

Framing your response

This is a question that means considering not just what the PRA website says, but also how that is interpreted in your firm.

Knowledge

You have to know the basics, as do your Board colleagues. You may want to encourage the firm to provide training and update material on these issues. AFM seminars provide useful opportunities for external understanding too.

Understanding

How will the regulatory business plan and actions affect your firm? What research needs to be done or what changes are required? Is there a plan? Are they on track? Is there appropriate Board reporting (does there need to be?)

Experience

How well placed are you to express a view on progress towards regulatory goals? If you have never worked in a governance function, you may be new to these areas - in which case, ask your firm the questions above. If you have experience of implementing regulatory change, what have you seen done well and what have you seen fail?

Action

The range of possible actions extends from keeping a watching brief to assisting in implementation of tricky, intrusive regulation. Assisting might mean making sure that the right structures are in place and that appropriate external input is sought.

For other information

There is a wealth of information about the implementation of the Senior Managers and Certification Regime: PRA has plenty of clearly-written material in particular. In summary, the PRA wants to know that there is a named individual accountable for every aspect of a firm.

A2.14 What expectations does the FCA have of your Board, individually and collectively?

Framing your response

This sort of question requires a general, rather than a highly detailed, response.

Knowledge

The FCA's remit is broad. You should have a good understanding of your firm's approach to:

- Conduct, culture and governance
- Risk appetite
- Senior Managers & Certification Regime
- Systems and controls
- Relationships with members
- Relationships with regulators
- Relationships with policyholders*
- Product governance
- Sales and advice
- Advertising and promotion
- Reward and remuneration
- Customer care
- Complaints handling
- Vulnerable customers

and any development plans in each area.

These areas should be covered in your induction.

*policyholders with no membership rights

Understanding

What do you think of the firm's approach and its plans? Are there weaknesses? What are the strengths (and how, in either case, would you know if the situation was getting better or worse?)?

Are there any big conduct issues that will require decision or action on the horizon?

Experience

Have you been involved in addressing conduct issues, at any level? What did you learn as a result? How has your experience shaped your perception of the management of conduct issues?

Action

Have you discussed your views with your Chair and/or the Chief Executive? If not, what are your plans to? If you have, what did you conclude?

For Other Information

See the FCA webpage on [Culture and Governance](#), and a recent FCA speech on [transforming culture in financial services](#).

FCA's thematic review on '[fair treatment of longstanding customers in the life insurance sector](#)' explores this theme further.

A2.15 How is the FCA strengthening accountability in financial services?

Framing your response

The Senior Managers & Certification Regime ('SM&CR') describes how individuals in financial services will be made more accountable.

The FCA notes: "The rules will make it easier for firms and regulators to be clear about who is responsible for what. Clear individual accountability should focus minds, drive up standards, and make firms easier to run and to supervise.

"And if things go wrong, it will allow senior managers to be held to account where they are at fault for misconduct that falls within their area of responsibility. It will also hold individuals working at all levels within relevant firms to appropriate standards of conduct."

Knowledge

Have you studied your firm's Management Responsibilities Map? As part of your induction. It shows how the FCA and PRA's Prescribed Responsibilities are allocated to Senior Managers in your firm.

What is your firm's approach to certification? Have you received Board training on SMCR? What is the plan for training throughout the firm?

Understanding

Are you satisfied that, if there is a problem, those accountable can be identified? Are they really the right people to be held accountable? How good are the structures in place for ensuring accountability?

Experience

The SM&CR regime is new. What experience have you had of similar approaches to ensuring accountability? What has worked and what has not?

Action

Are you fully satisfied about the arrangements made? Have you discussed your conclusions with the Chair and Chief Executive?

For Other Information

FCA has set out clear expectations on SM&CR [here](#).

A2.16 When might you be held accountable by a regulator?

Framing your response

Both regulators are keen to ensure that individuals are accountable for the activities at regulated firms. Non-Executive Directors might be held to account if they:

- (a) are 'knowingly concerned' in a contravention of a regulatory requirement and knew about the facts of a breach, although not necessarily that it was a breach,
- (b) breached the 'duty of responsibility' - i.e. failed to take reasonable steps to stop a regulatory breach in an area that he or she was responsible for, or
- (c) breach one or more of the five individual, and four Senior Manager, conduct rules.

Knowledge

Do you know what possible breaches may be being investigated at your firm?

How is your firm ensuring that activities are carried on with due skill, care and attention?

Do you know how your firm meets the Threshold Conditions? Do you know how it creates a framework in which the conduct rules can be followed?

Understanding

Based on what you have seen, what do you think? Do you have a sense of how effective the measures are? Do they have an appropriate scope and depth?

Turning requirements into questions may provoke some interesting discussions at the Board.

Experience

Your experience in being held to account for regulatory outcomes is extremely important. It is important too, if your executive experience is in a non-compliance area, that you are well-briefed on the scope and depth of the regulatory requirements.

Action

How mature are the structures in place to ensure conduct and other regulatory outcomes? What is the plan to develop them?

For Other Information

The regulatory framework is well established and developing. Regulators routinely update their views in their business plans, speeches, enforcement etc. Consultancies then add their own views. It is worth being plugged in to these information sources, and to be familiar with the conduct rules within the SM&CR (see A2.17 below).

A2.17 What are the regulatory conduct rules for Non-Executive Directors?

Framing your response

The Conduct Rules and the Senior Management Conduct Rules are:

Rule 1: You must act with integrity.

Rule 2: You must act with due skill, care and diligence.

Rule 3: You must be open and cooperative with the FCA, the PRA and other regulators.

Rule 4: You must pay due regard to the interests of customers and treat them fairly.

Rule 5: You must observe proper standards of market conduct.

SC1: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively.

SC2: You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system.

SC3: You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate person and that you oversee the discharge of the delegated responsibility effectively.

SC4: You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice.

Knowledge

What is your firm's policy on conduct management? What reporting is provided?

Understanding

Are you convinced? Are the gaps evident? Is there a keenness to improve/address the issues identified?

Experience

Have you led a conduct management programme, or been a participant? Have you received input before as a Non-Executive?

Action

How mature are the structures in place to ensure conduct and other regulatory outcomes? What is the plan to develop them? (same as the earlier question).

For Other Information

The regulatory framework is well established and developing. Regulators routinely update their views in their business plans, speeches, enforcement etc. Consultancies then add their own views. See FCA's webpage on SM&CR [here](#).

A2.18 If you receive an attestation request from a regulator, what are your obligations?

Framing your response

An attestation is a firm's formal statement about action it will take. Attestations are one of the supervisory tools adopted by FCA and PRA, and must be taken seriously. Under the new conduct rules, not responding would probably contravene Rule 3.

Knowledge

You must be open and honest with the regulator. Hopefully, this is no different from your interactions with the Board and others in the firm. As a result, the firm will know your thoughts and concerns, so nothing you say to the regulator should be a surprise. If you think it might be, you should be talking to your Chair: keeping things to yourself until asked by the regulator is not a good look.

Understanding

Your understanding is expected to drive your actions: "if this is what you thought, what action did you take".

It is important to think through, always and regardless of regulatory attestation, whether you have properly shared your understanding, including any concerns.

Experience

Your experience drives your insight. It is worth continuing to reflect on how your strengths are used in the Boardroom. The regulator may - quite reasonably - tailor its questions to their expectations of someone with your experience.

Action

Is there anything you think that you have not shared with the Chair? If there is, you are sort of obliged to mention it, otherwise, you are not doing the right sort of job.

For Other Information

FCA information on attestations is [here](#).

A3. Your New Firm & Risk - Question List

- A3.1 What are the main areas of risk that face insurers? How might they be mitigated?
- A3.2 What are the key prudential risks your firm faces?
- A3.3 What systems, policies, procedures or other tools serve to control and mitigate prudential risks?
- A3.4 What incentives to risk-taking are addressed by prudential regulation?
- A3.5 How much risk will your firm entertain? Do you know? Who decides?
- A3.6 What do you understand by three lines of defence?
- A3.7 How will key items of management information help you check that the scale of the main risks facing your firm fall within the declared risk appetite?
- A3.8 Why does recovery and resolution planning matter? What responsibility does the Board have? Are you familiar with the key elements of your firm's arrangements?
- A3.9 What are the key retail conduct risks your firm faces?
- A3.10 What systems, policies, procedures or other tools serve to control and mitigate retail conduct risks?
- A3.11 What are the expectations of Non-Executive Directors regarding conduct risk?
- A3.12 What are the key operational risks your firm faces? What systems, policies, procedures or other tools serve to control and mitigate operational risks?
- A3.13 What is Business Continuity Management ('BCM') and why is it important? How good is your firm's BCM?
- A3.14 What risks are posed by the wrong business culture?

A3.1 What are the main areas of risk that face insurers? How might they be mitigated?

Framing your response

This is a general knowledge question. Solvency II sets out the major areas of risk which can be measured. There are then the risks that are harder to measure (strategy, liquidity etc.).

Knowledge

There are many sources of risk to insurance firms. Your firm is required to consider *all* risks in its annual ORSA. The ORSA list may be the best start.

Aside from the typical insurer risks, there will be firm-specific, sector-specific and industry-specific risks. These might be identified by the firm or through industry reading, attendance at events etc..

Understanding

Having reviewed ideas about insurer risk, which ones apply to your firm? How will you measure them, monitor them, manage and report them? How does your firm identify new risks?

What emerging risks has your firm faced? Are its plans to address them sensible?

Experience

What experience have you had in the management of the risks that affect your firm? How can you use your experience to help your firm?

Action

What reporting do you expect to see on risk? Are you satisfied with the risk management plans or do you expect improvements? Have you discussed your thoughts with the Chair and Chief Executive, or other relevant people? What have you decided to do as a result?

For Other Information

There are many publications about different insurance risks and many industry forums which discuss risks of all types.

Presentations at AFM's Integrated Assurance network and Risk Forum offer useful insight into prudential and conduct risk. The Institute for Risk Management publishes regular reports on risk, including risk culture (a full version available from AFM).

A3.2 What are the key prudential risks your firm faces?

Framing your response

Prudential risks are those that affect the security of policyholder benefits. Under Solvency II (the primary prudential legislation for insurers), policyholder benefits are secured by having sufficient capital and a sound system of governance.

A simplified approach exists for non-Directive insurers.

Knowledge

The Solvency II directive sets out lists of quantifiable risks. It recognises that non-quantifiable risks exist.

Prudential risks are mitigated by holding more capital and/or having a sound system of governance. How much capital does your firm hold for each major risk? How well established is its system of governance?

The Own Risk & Solvency Assessment (or ORSA) is the Board's examination of all the risks affecting the firm. It identifies how sensitive various risks and combinations of risks are.

Understanding

Based on the work that you have seen, are you comfortable with the agreed Board risk tolerances (or risk appetite) statements?

How would you respond to an assertion that your firm was taking insufficient risk as its prudence is affecting financial performance?

What did you conclude from the ORSA?

Experience

What risks have you managed before? What did you learn from their management? How might this experience help your firm (or if there is no obvious way, what generic skills have you acquired from your experience)? Have you seen an ORSA process before? What experience do you have of reviewing an ORSA process?

Action

How will/have you communicated your view on risk and the ORSA to the Chair, the Chief Executive or other relevant people?

For Other Information

Risks have upside and downside. They affect the asset and liability sides of the balance sheet. Risks might be firm specific, sector-, industry-, product-, distributor- or country/economy-specific.

A3.3 What systems, policies, procedures or other tools serve to control and mitigate prudential risks?

Framing your response

Risk management in Solvency II is defined as the identification, measurement, monitoring, management and reporting of risks.

Knowledge

How are risks managed in your firm?

Understanding

How do you assess the quality of risk management in your firm?

Experience

What experiences of risk management have you had? How transferable are they to your current firm? What lessons have you learned that you are keen to share at your firm?

Action

What is the plan for developing your firm's risk management procedures? What changes do you expect to see?

For Other Information

For a useful summary of key issues, see PRA's explanation of '[the prudential regulation of insurers under Solvency 2](#)'.

A3.4 What incentives to risk-taking are addressed by prudential regulation?

Framing your response

The PRA defines certain types of perverse incentive that it seeks to prevent in its regulation. Most of these are about balancing shareholder and policyholder interests, and are therefore not as relevant to the Board of a mutual or not-for-profit.

However, there are parallel conflicts of interest that should be explored, especially when incentive schemes are involved, or when a strategy involves a significant investment of capital.

Knowledge

What are the frameworks in place to prevent perverse incentives at your firm?

Understanding

How effective do you judge the frameworks to be? How would you know if they were failing (what would the danger signals be)?

Experience

Have you experience with managing these sorts of perverse incentives? From which perspective? What worked and didn't work?

Action

How will you use this knowledge to discharge your duty as a Non-Executive Director?

For Other Information

See Box 3 on page 25/ 26 of the PRA [approach document](#)

A3.5 How much risk will your firm entertain? Do you know? Who decides?

Framing your response

This is not a great question, because the answers are defined in regulation. The Board sets (so decides) the risk tolerances (or risk appetite). You are obliged to know. You are obliged to decide.

Knowledge

The Board-approved risk tolerance statements describe the risks that your firm is prepared to take. You might want to understand which are the biggest in terms of their effect and which are the most sensitive (that is, a small change in the level of risk has a big impact on the security of possible benefits).

Understanding

Which risks worry you the most? Why? What are you doing/will you do about them?

Experience

What risks have you had experience managing? What lessons have you learned that might be useful at your firm? How will you avoid focusing on the areas where you have experience to the exclusion of all else?

Action

How do you expect the risk management approaches to play out?

For Other Information

There are many industry publications on risk appetite, including from the PRA; see their [board responsibilities](#) supervisory statement.

A3.6 What do you understand by three lines of defence?

Framing your response

This question is focused on a concept that is not obligatory, but is commonly adopted.

The first line is the people doing the work, the second line the people checking that the procedures and control environment in which the work is done are sound (compliance, actuarial and risk management) and the third line is internal audit.

The three lines of defence model enforces independence between those doing the work, those ensuring good governance over the work and those providing assurance to the Board. It is harder in smaller, less complex, organisations to justify the expense of enforcing independence: in smaller organisations, there is a sense that it is easier to know what is going on and less can be hidden by layers of people.

Knowledge

If your firm uses the three lines of defence model, you should know how it is implemented. If not, you should know why not, and how what is implemented instead provides a robust internal control system.

Understanding

What are the strengths and weaknesses of the internal control assurance model that your firm uses?

Experience

What internal control models have you experience of? What did you learn from their use? Have you any concerns about the model in place at your firm?

Action

Have you shared your view of your firm's internal assurance model with the Chair, the Chief Executive or others? How will the model perform in the coming year?

For Other Information

There is a great deal of useful, publicly-available material, such as this from the [Chartered Institute of Internal Auditors](#).

In 2014, RBS was fined £14M by PRA for a failing in this area: see paragraph 1.5-6 and 3.1 of [the enforcement notice](#).

For an [FCA](#), view see: “While I support a strong three lines of defence model, it seems to me that the conduct question is more a business model and cultural challenge and therefore should be firmly rooted in the first line. The fundamental reason for this is that fair treatment of customers and proper behaviour in markets are inextricably linked with how businesses are run or, in terminology I have used before, it is about doing the right thing for the customer.”

A3.7 How will key items of management information help you check that the scale of the main risks facing your firm fall within the declared risk appetite?

Framing your response

Solvency II defines risk management as the identification, measurement, monitoring, managing and reporting of risks. It describes the components of a risk management system that support you in understanding the risks facing your firm.

An effective Director will seek to test outcomes over process.

Knowledge

Your induction should cover the risk management system, including the risk tolerances/appetite statement and how the tolerances/appetite are monitored and reported. The sensitivity of risks should be described in the risk material, especially the ORSA.

This explanation should cover monitoring risks, including management information.

Understanding

What management information on risk do you need to confirm that the risks are within the agreed appetite?

What conclusions have you drawn about how rapidly a major risk could move outside the appetite and how quickly afterwards it would be noticed? Are these reaction times appropriate?

What did you learn from the ORSA?

Experience

Have you seen risk management systems in operation before? What did you learn from their operation? Do you have any lessons for your firm that might be worth sharing?

Action

A risk management system is not static. How do you expect your risk management system to change, and what management information will illustrate the impact of the changing risks being faced?

For Other Information

Your firm's ORSA is key to this. See the PRA's assessment of good practice on the ORSA.

A FCA enforcement case concerning incentives that illustrates how process is not the same thing as outcomes is here.

A3.8 Why does recovery and resolution planning matter? What responsibility does the Board have? Are you familiar with the key elements of your firm's arrangements?

Framing your response

Recovery and resolution is the currently popular terminology for being prepared for a failure. There should be a plan in place to ensure that the Board understands how an extreme failure might occur and what mitigating action should be taken.

Knowledge

What is your firm's approach to major incidents, small to large, self-caused or caused externally?

How well practiced are the plans?

Understanding

From the material you have seen, how able is your firm to withstand minor and major disasters? What else needs to happen? Is there a plan? Are you comfortable that the position is properly reported and that the plan is sensible?

Experience

What experience have you had in managing through disasters? How can you use this experience to improve your firm's recovery abilities?

Action

Have you shared your views with the Chair and the Chief Executive?

For Other Information

See Table A (page 63) in the PRA [approach document](#).

A3.9 What are the key retail conduct risks your firm faces?

Framing your response

Managing conduct, to ensure appropriate customer outcomes, a healthy culture and to evidence compliance with regulations is no small matter. Poor conduct can arise from many sources including poor product governance, mis-selling of products, unfair contract terms, competition law breaches, unfair post-sale barriers to customers, deficient complaint handling and poor treatment of customers in financial difficulty.

Poor culture and/or deficient systems and controls tend to be at the root of most retail conduct failings. Mitigants can include:

- senior management focus on retail conduct risk;
- the effective engagement of compliance, risk, and legal in planning and operation;
- a clear retail conduct risk appetite statement; and
- retail conduct risk metrics.

Knowledge

Your induction should include details of your firm's conduct policy. Conduct is a wide ranging subject which can include compliance with conduct rules, ensuring safe customer outcomes and culture.

The policy should reflect the risks that are experienced as well as the risks that the firm may be subject to.

Understanding

Does the policy cover the required ground? Are there conduct risks that you feel are not appropriately covered or which are missing? Does the planned work look like it covers the issues that have been identified? Is conduct being treated properly?

Experience

Have you seen conduct problems being handled? Have you seen conduct management in practice? What did you learn from these experiences?

Action

Have you shared your views on the conduct management position with the Chair and the Chief Executive?

For Other Information

See FCA Business Plan, including risk outlook [here](#).

It is worth scanning some of the worst retail conduct cases in the FCA's [fines table](#).

A3.10 What systems, policies, procedures or other tools serve to control and mitigate retail conduct risks?

Framing your response

Your firm's conduct management approach needs to reflect the firm itself. Too many rules that don't have a sensible grounding may look good, but hide conduct failings. The effectiveness of controls is more important than the weight of the procedure manual.

Knowledge

The systems, policies, procedures and tools used to manage conduct may not, except at a high level, be covered in your induction. You may have to raise individual points of interest with officers in your firm.

Understanding

Are you satisfied that the policies, procedures and tools are fit for purpose? How do you know? How will you monitor their effectiveness over time? Is there a plan to develop conduct management?

Experience

What experience have you had implementing or receiving reports from mechanisms to manage conduct? What did you learn from this experience?

Action

Have you shared your views on the practical aspects of conduct management with the Chair and the Chief Executive?

For Other Information

How can you test the engagement of people with the conduct policy? Indicators like complaint volumes tend to be crude: most firms will have relatively few complaints. A well-structured process of product and process review operating over a 2-3 year timescale might indicate appropriate consideration.

A3.11 What are the expectations of Non-Executive Directors regarding conduct risk?

Framing your response

This question seeks to understand how you intend to apply the requirements relating to conduct risk to your firm.

Relevant areas include:

- a focus on alignment of the firm's business plans with its retail conduct risk appetite;
- a consistent explanation of how the firm's culture delivers good behaviours and outcomes;
- ensuring the right level of management information;
- an active programme of identification of risks to customers;
- monitoring and mitigation of identified risks; and
- evidence of proper escalation and lessons being learned.

Knowledge

Given the conduct management policy, the procedures and monitoring in place, how does the Board manage its conduct responsibilities? What do the Board papers (or possibly Audit or Risk papers) on conduct look like? Are they complete? Are they appropriately detailed? Is there a plan of further development?

Understanding

How do you think conduct management reporting to the Board should change in the next twelve months? Or what has led you to conclude that is appropriate?

Experience

What experience have you had of conduct management reporting at Boards, either preparing reporting or receiving it? What have you learned that might help?

Action

Have you shared your views on the Board's role in conduct management with the Chair and the Chief Executive?

For Other Information

FCA guidance for Non-Executive Directors on fair treatment for consumers of financial services from 2011, which was updated in 2018.

A3.12 What are the key operational risks your firm faces? What systems, policies, procedures or other tools serve to control and mitigate operational risks?

Framing your response

Operational risk is, by one definition, the risk of failed people, systems or processes. It may include strategic risk, reputational risk and legal risk. Risks may be external or internal. This definition demonstrates how wide the category is and how different two operational risks might be from one another.

Solvency II requires firms to consider all risks to which they are or may be subject.

Knowledge

How does your firm define operational risk? What operational risks has it identified and how does it manage those risks? Does it rank operational risks? How does it manage them? Do the outcome and the intention tie up?

Understanding

What do you think of your firm's operational risk assessment? Is the firm appropriately focused on the risks it might face? Does it manage operational risks well?

Experience

What operational risks have you had experience managing? What worked well and what didn't? Will you have the opportunity to share your experience with your firm?

Action

Have you shared your view of your firm's handling of operational risk with the Chair and Chief Executive? How do you expect the management of operational risk to develop over the next three years?

For Other Information

Alongside the Solvency II definition of risk management (identify, measure, monitor, manage, report) the mantra for operational risk is identify, deter, detect, respond and recover.

The UK financial authorities' information on financial sector continuity [here](#), especially the resilience information and benchmarking, may be useful.

**A3.13 What is Business Continuity Management ('BCM') and why is it important?
How good is your firm's BCM?**

Framing your response

BCM means restoring normality to operations and the services that a firm provides after interruption by an unexpected event.

Knowledge

How well prepared is your firm for a disaster (e.g. losing computer power for a week, losing access to the office for a week)? Are there plans in place? Are they practiced? How much data might be lost if the power went off NOW? How would your firm's customers be affected?

Understanding

Are the plans appropriate? Are they robust? Are there plans to improve the plans, or are there inhibitors in the way?

Experience

How wide is your experience of managing through an incident? Are there ways in which your experience could help the Board understand the need and extent of business continuity plans?

Action

Have you shared your view of the firm's BCP arrangements with the Chair and Chief Executive? Have you asked for a plan for the development of business continuity facilities and plans?

For Other Information

The UK financial authorities' information on financial sector continuity [here](#), especially the resilience information and benchmarking, may be useful.

A3.14 What risks are posed by the wrong business culture?

Framing your response

Culture is such a difficult thing to define (as is 'risk') that this question is difficult to answer forensically. It is, however, easy to answer from the heart. A poor culture leads to all manner of sub-optimal behaviours and outcomes. Being able to describe your experiences, positive and negative, and how things changed over time, could be insightful and lead to interesting conclusions.

Knowledge & Experience

What poor cultures have you experienced? How did you react? What were the indicators of a poor culture? Have you come across situations that seemed fine, but in retrospect were symptomatic of a poor culture?

Understanding

How will you test the nature of the culture at your new firm? What will you do with the results?

Action

How will you raise cultural matters and with whom? How do you expect to influence culture?

For Other Information

The regulators publish speeches, papers etc on culture on a regular basis. Examples include: PRA [statement](#), and FCA paper on [transforming culture in financial services](#).

There is no shortage of culture-related material from all manner of sources.

Part B1 Questions for the Experienced Non-Executive Director YOU AND YOUR FIRM

This part of the toolkit is comprised of questions around an individual's experience of a firm. For each question, an immediate response and a deeper response are considered, with a described context, and sources of additional information. The template is set out below.

Template Example	
Question	
<i>Framing your response</i>	
The context of the question	
Surface Considerations	Detailed Considerations
How you might respond off the top of your head	Some pointers for a more reflective and insightful response - if there are any pointers to share
<i>For Other Information</i>	
Sources of other relevant information.	

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B3. - Your Firm & Risk

B1. You & Your Firm - Question List

Your Firm's Business & Organisation

- B1.1 What is your firm's high-level business strategy?
- B1.2 How is the strategy set?
- B1.3 Where have things gone wrong for the firm, what steps did the Board take, or is the Board taking, to rectify the problems?
- B1.4 What is your firm going to do that its competitors aren't doing? Why will it work?
- B1.5 What are the key challenges for your firm?
- B1.6 How have you been involved in the most recent business planning cycle?
- B1.7 What is your firm's culture?
- B1.8 Are you clear about your firm's expectations of you?
- B1.9 How does your firm practice its values?

Your Skills & Views of Governance at your Firm

- B1.10 Describe your induction programme and/or ongoing training? Are these programmes adequate and suited to your needs?
- B1.11 Give an example of something you have recently done right and something you have recently done wrong.
- B1.12 Have you been coached for this interview?
- B1.13 How are your skills tested?
- B1.14 Are you appropriately informed about important developments within your firm?
- B1.15 What are your skills?
- B1.16 Give an example of where you challenged Executive management.
- B1.17 If you are not an expert in a particular area, how do you know if the information produced for you is sufficient/fit for purpose?
- B1.18 What mechanisms are there in place for Non-Executive Directors to challenge the Chief Executive in your firm?
- B1.19 What role can a Non-Executive Director play that an Executive cannot?
- B1.20 Where do you consider oversight to end and operational management to start?
- B1.21 As a Non-Executive Director, do you have a genuine opportunity to challenge?
- B1.22 How do you manage your own time commitments?
- B1.23 What levers of influence can a Non-Executive Director use?
- B1.24 Are you familiar with the PRA's Fundamental Rules?
- B1.25 What are the key elements for a sound corporate governance framework?
- B1.26 Which key corporate documents have you familiarised yourself with?
- B1.27 In what way, if at all, does the UK Corporate Governance Code affect mutual and not-for-profit insurers?
- B1.28 What are the key current themes in relation to corporate governance?
- B1.29 What do you consider to be the key skills required of a Non-Executive Director?
- B1.30 What are the legal and regulatory sources of duties for the Non-Executive Director of a mutual insurer or friendly society?
- B1.31 How would you describe your responsibility for your firm's strategy, its various lines of risk control, its financial soundness including capital and liquidity, and its compliance with other regulatory requirements?

- B1.32 Does management provide a clear framework and offer guidance and training to assist in good decision- making, for example, fair treatment of customers?
- B1.33 How does management incentivise good, and deter poor, behaviour?

B1.1 What is your firm's high-level business strategy?

Framing your response

All Directors should be able to talk knowledgeably about their firm's strategy.

Surface Considerations	Detailed Considerations
<p>Knowledge of strategy might be tested by describing strategies that were considered and ruled out, and so explaining why your firm's strategy is right for it.</p> <p>For example, what capabilities does the firm have that justify following this strategy? How would you know if the strategy was working or being implemented successfully?</p>	<p>What are the customer/financial/people consequences of the strategy? What are the issues with the chosen strategy? What are the risks to the strategy? Are there ways to mitigate the risks?</p> <p>Are you confident that the strategy will succeed? How do the principles of good governance drive strategy oversight in your firm?</p> <p>How easy would it be to change strategy? When would the Board consider a change?</p>

For Other Information

The regulations don't really distinguish between a strategy and a business model.

Under Solvency II, the strategy/business model should be reviewed as part of the ORSA: the ORSA should be informing the Board about the capital implications of the strategy, given the identified risks.

B1.2 How is the strategy set?

Framing your response

Experienced Directors will have been through the process, perhaps more than once.

Surface Considerations	Detailed Considerations
<p>To what extent are NEDs involved in setting, and then reviewing, the strategy?</p> <p>Do you use recognised strategy setting methodologies? What are the boundary conditions for your strategy?</p> <p>Are you satisfied that the resulting strategy is right for your firm? What gives you this confidence? What challenges were made? How were they handled by management? Did the strategy change?</p>	<p>How does your firm's strategy setting process compare with others that you have seen? Do you expect to be suggesting some changes to the process in future?</p> <p>How have the results of the ORSA been used in the strategy setting process?</p> <p>Is the resulting strategy documented in appropriate detail? Has it considered the needs of all stakeholders, including employees, customers, members and the regulators?</p>

For Other Information

Strategy setting is at the heart of the Board's activities. Directors will be expected to play a full role. You are entitled to disagree with a decision provided you have had your say. You should be prepared to either have bought the arguments of others or to have agreed indicators that would suggest your concerns are being recognised. The strength of a Board lies in its diversity, willingness to accept alternative viewpoints, and maturity to accept an approach, understanding its risks and benefits. The purpose of a challenge response should be that the proposals evolve in response, not that proposals are defended against all-comers.

B1.3 Where have things gone wrong for the firm, what steps did the Board take, or is the Board taking, to rectify the problems?

Framing your response

This is a valid and important question for a firm to ask itself, for example, in the circumstances of a notifiable breach to a regulator, or to the Information Commissioner's Office. Equally, for less significant problems or failings elsewhere, the lessons learned may well be valuable to the Board.

Surface Considerations	Detailed Considerations
<p>The Board probably doesn't have a worry list or a report that lists all the problems. That said, on induction, you might reasonably expect details of historic problems (over say the previous 10 years), if for no other reason than it will help understand the current shape of the Board and its dynamics.</p> <p>It's worth reflecting and drawing up your own list. Even better, to share it with the Chief Executive and Chair, so that they can respond. Regulators don't expect identical responses to an issue, but they will expect a degree of consistency.</p>	<p>What's your view of the things that have gone wrong? What drove the problem? Was it primarily down to something external or something internal? Was it an accident waiting to happen or a rare combination of circumstances?</p> <p>Was it handled well? Have lessons been learned? Are steps in place to identify a possible recurrence and prevent it or handle it better? Are you convinced that it will never recur? If not, why not 100% sure?</p> <p>Was the Board's role in the resolution appropriate? Has it learned from the experience?</p>

For Other Information

Based on your answers above, it is worth pondering how the issues identified would be handled by the current risk management system. In particular, how can you be reassured that there are not similar issues, buried deep in the firm?

B1.4 What is your firm going to do that its competitors aren't doing? Why will it work?

Framing your response

Who says being different is a recipe for success anyway? But that's not really the spirit of this question, which is really about why will your firm succeed. Your answer will differ depending on whether you have significant market share or a specialist provider.

Why should a different approach work for you? Perhaps it has to date? Or maybe your firm has better intelligence or more embedded structures?

These are all great questions. Presumably you will have asked them before you joined the Board, but things may have moved on since, and you will have been part of the process to implement them.

Surface Considerations	Detailed Considerations
<p>Your firm will probably be clear about what it does that is distinctive. It may be hard to know whether you are seeing better or different results.</p> <p>But regulators and journalists have longer memories than firms sometimes. One year on, you might be asked 'last year you said [x]...Why did your prediction not work?'.</p> <p>It's good practice always to reflect on results: were they what was expected, if not, why not? Could the causes have been known or better understood when the original predictions were made?</p>	<p>As a Non-Executive Director, what are your thoughts about the differences between your firm and the competition? Are you convinced by what you are told? Are you sceptical? Have you shared with the Chair and the Chief Executive where your views differ?</p> <p>You are allowed to be sceptical about plans, provided you share your views and find constructive indicators that illustrate when you are wrong. Your caution can be usefully harnessed to generate better solutions and improved warning signals.</p>

For Other Information

This question is right at the heart of the Board's strategic work. NEDS are usually actively involved in setting and reviewing the firm's strategy.

B1.5 What are the key challenges for your firm?

Framing your response

Every Board should have such a list. It's a useful Board exercise, to ask each Director in turn to list their top 3 or 5 challenges/issues/problems/worries. It's useful to see the overlap, and to see the differences.

Surface Considerations	Detailed Considerations
<p>Some challenges will be industry or even business-specific. For example, many firms, of all types, will have concerns to acquire and retain talented people.</p> <p>There may be industry problems: your firm's response will be specific to it, but it will usefully demonstrate your firm's circumstances and capabilities.</p> <p>Firm-specific problems are always interesting, both in how they are described and the processes to address them.</p>	<p>Do you agree with the challenges that have been discussed? Is your ranking the same as management's and the rest of the Board, or do you have a different view? Have you shared this?</p> <p>How are you monitoring the challenges? Are there primary, secondary and tertiary indicators that provide warning or comfort? How much of what you are being told is factual/objective/independent? How much is possibly subject to bias?</p>

For Other Information

Challenges are the other side to the strategy question: the strategy sets out how value is to be generated, yet the Board has to oversee the practicalities, using a whole different set of skills.

B1.6 How have you been involved in the most recent business planning cycle?

Framing your response

This type of question is difficult! Does it include an implicit criticism that the individual Director should be more involved?

Probably not. A Board is a collective, groupthink is bad and there is no proven ideal template for Non-Executive Director involvement or Board composition.

Surface Considerations	Detailed Considerations
<p>Your answer should be factual and you should be unashamed (unless you have something to hide).</p> <p>The noisiest most involved Non-Executive Directors may not be the most effective at holding the Executive to account or ensuring good governance.</p> <p><i>"I reviewed the resulting plan, which I observed was consistent with everything I knew about the firm, the risks were in line with my views and I have a good view of the capability, capacity and learning required of the executive and management teams. I worked with Non-Executive Directors with diverse mindsets to ensure that challenge was thorough and multi-dimensional."</i></p> <p>Is this an acceptable answer?</p>	<p>As a Non-Executive Director, are you prepared to say 'that is not my skill set? I rely on others to address that aspect in detail?'. These responses are not invalid. They do not indicate weakness. Arguably, they could demonstrate diversity, robustness and respect.</p> <p>It's worth thinking about whether the Board engagement was appropriate, what would be done differently next time and what could be improved in the next cycle.</p> <p>Worth too being able to say how the latest cycle of planning differed from/built on the previous cycle and its results.</p>

For Other Information

There are many approaches to business planning. For insurers, it is important that risks and their impact on future solvency are thoroughly considered, if not through the ORSA, through an appropriate mechanism.

B1.7 What is your firm's culture?

Framing your response

As a Board, you have a responsibility for culture. Work on culture may be hard, but it is also rewarding. There are lots of fine sounding words out there, but very little about actual things that can be done to effectively understand, let alone manage culture.

Surface Considerations	Detailed Considerations
At the very least, your Board should be considering your firm's culture: What culture do you want? How will you influence culture? How will you know if you have been successful?	There is no single way to address culture. As a director, it is worth reflecting on the different cues and clues to culture that you see, how these indicators have changed while you have been on the Board, and where you think culture is heading.

For Other Information

Despite the column inches devoted to culture by regulators and the media, it remains really difficult to understand, let alone manage, culture. There is no shortage of consultancies prepared to offer courses and schemes designed to improve or support the right culture. Perhaps there is no alternative to a) recruiting the right Chief Executive and b) constantly pressing for examples of an appropriate culture.

Make sure you are up to date with the FCA's and PRA's current views on culture, through their business plans, speeches, papers and so on.

AFM commissioned an independent overview of culture in 2017, using interviews with CEOs. You can read the results [here](#), and followed that with a wider survey of directors in 2018: view [here](#).

B1.8 Are you clear about your firm's expectations of you?

Framing your response

Your contract will outline your main responsibilities as a Director. Beyond that, you should also have a clear outline of day-to-day activities and any prescribed responsibilities due to your role.

Surface Considerations	Detailed Considerations
Your contract of employment will set out your core role and responsibilities, to be reviewed at appraisal time. How does this fit with the Management Responsibilities Map?	Beyond the written job description, this is a question also about behaviour and culture. What is your contribution to the effectiveness of the Board? How are you expected to behave and to demonstrate how you contribute to the effectiveness of the Board and the business?

For Other Information

When you first become a Director it was probably clear what the firm expected of you. Over time, that vision may have blurred, or evolved, and it is worth considering whether and how your behaviour and contribution today fits the expectations of the firm now.

B1.9 How does your firm practice its values?

Framing your Response

Values are part of culture setting. By describing values, firms hope to influence the culture that emerges. Describing how your firm lives its values shows how culture is being influenced.

Surface Considerations	Detailed Considerations
<p>Your firm may, as part of its values-setting-and-sharing process, describe how it lives its values. It might track some metrics. It might link incentives to these measures.</p> <p>Alternatively, it might draw attention to situations where values are shown to work and create value to the business.</p>	<p>Is this information indicative of anything real? Culture work is really hard to do, and even harder to measure.</p> <p>It is probably safest to be positive yet sceptical: you are not in the office every day; you rely on what you are told.</p> <p>All of which underlines the fact that there is no single score for the values across a firm. Some people will score highly all the time and some people will let you down.</p> <p>As a Non-Executive Director, good culture and conduct will be front and centre. Values reporting will be an important, but difficult to measure, contributor.</p>

For Other Information

The regulators frequently produce material on culture (see B1.7 above). A range of other organisations produce material on this broadest of subjects: see for example AFM's '[The Loyal Company](#)'.

B1.10 Describe your induction programme and/or ongoing training? Are these programmes adequate and suited to your needs?

Framing your Response

A well-constructed induction programme might stretch over 12-18 months. After the initial flurry of information, the new Non-Executive will have the opportunity to deep dive into areas of particular interest, or query matters that were not clear at outset.

Surface Considerations	Detailed Considerations
A factual answer is called for.	<p>How did/is the induction programme tailored for your particular skill set? Are there are areas of the firm that you feel your understanding is weaker?</p> <p>Where are the strengths of the firm? Where are its weaknesses? Have you discussed your views with the Chair?</p>

For Other Information

There are a number of useful guides describing the contents of an induction/ refresher programme for a Non-Executive Director, of which this is part. The Company Secretary will be able to tailor the programme to meet the needs of the individual Director.

Make sure you have a record of training for CPD purposes, particularly if your role requires it (under the Insurance Distribution Directive). This is covered in the AFM online training portal, or equivalent.

B1.11 Give an example of something you have recently done right and something you have recently done wrong.

Framing your Response

Self-reflection is important, as is a degree of humility.

The question talks about ‘you’, but it could mean ‘you the Board’, not necessarily ‘you the individual Director’.

Surface Considerations	Detailed Considerations
<p>No organisation is perfect all the time. Being aware of mistakes or activities which will be done better next time is important.</p> <p>The list of possibilities ranges from minor to major issues. The failings might be trivial, a matter of lacking skills, groupthink or blindness.</p> <p>The information content of the response is in how the Board or Director recognised the issue and what steps it/she/he took to address it.</p> <p>What was done right is easier. It is worth considering why the right thing happened: was it down to an individual Director or because the Board as a whole works to ensure quality in certain ways.</p>	<p>More important than the incidents are what you have changed as a result, individually and as part of the Board. Have you discussed the incidents with the Chair and Chief Executive?</p> <p>Are you satisfied that a similar issue would now be picked up sooner or handled more effectively?</p> <p>How sensitive is the Board to the quality of its activities? Does it actively seek to improve its performance?</p> <p>What the Board or Director does well is almost as interesting. Are the achievements deliberate or a result of an embedded Board process? How will the Board get even better?</p>

For Other Information

Directors and Boards tend not to focus too much on issues that don’t go right, except when things go significantly wrong. The governance world has changed, and there are high expectations that Board will balance introspection with their commercial and prudential roles.

B1.12 Have you been coached for this interview?

Framing your Response

This is a question that reflects the increased importance of regulator interviews. A lot can depend on the responses provided and no conscientious director wants to get them wrong.

Surface Considerations	Detailed Considerations
<p>Yes indicates that you are taking the interview seriously. You should not have been trained how to answer, but there is no shame in receiving some help in making sure that you have thought seriously about the sorts of questions that might be asked and how you might present your firm in an appropriate light.</p> <p>No probably needs some explanation too. You have been interviewed before, you have a good understanding of the areas that will be covered.</p>	<p>Did the coaching help you put your role and actions in a different frame? Was it useful as a reflection mechanism?</p> <p>If you did not have coaching, what other preparation did you do?</p>

For Other Information

This AFM toolkit is designed to help you prepare for interviews. There are a number of firms that offer coaching for regulatory interviews on a one-to-one basis.

B1.13 How are your skills tested?

Framing your Response

Quite a perceptive question and a little intrusive. You can answer it by illustrating when you have had to use your skills for Board business, or the type of situation where your skills would be useful. Perhaps the most important aspect of a Board skill is to have it when you need it, not to be displaying your armoury at all times.

Your response will depend on how long you have been on the Board and the issues that you have had to deal with - and perhaps how aware the regulator is of those issues.

Surface Considerations	Detailed Considerations
<p>There are general skills and skills that you bring by virtue of your profession or experience. There are interpersonal skills, that affect how you interact with your fellow Board members and members of the executive.</p> <p>Is the question designed to identify problems or to find out about you?</p>	<p>What have you found difficult about being on the Board? Are there occasions where the Board is glad that you were around?</p>

For Other Information

There are numerous lists of important skills and experience needed for Directors. How these skills and experiences are tested will depend on the issues facing the firm and the current disposition of its Board.

B1.14 Are you appropriately informed about important developments within your firm?

Framing your response

A wide-ranging question, covering many issues. The sort of question that could be repeated after a significant issue has arisen that you were not aware of.

Surface Considerations	Detailed Considerations
<p>Is the information you receive timely? Does it allow you to respond as a Board? Are ad-hoc meetings or conference calls easy to arrange?</p> <p>What examples can you recall when you were not informed of something that you would have preferred to know beforehand? What has happened since to prevent a recurrence?</p>	<p>Does the firm communicate too much or too little? Does it cover the right things? Has the Executive got the balance right between informing on the right things and informing on everything? Does it have the balance right between informing and asking for permission/advice/a decision?</p> <p>If there was a difference of view between individual Executives, would you know about it? Should you know about it?</p>

For Other Information

How do you test how much you should know? As a Board, you are accountable for everything, but that does not mean that you should know everything, all the time. You need to know what might affect the plan and what might affect the trading environment. The exact requirements will depend on the type of Board you are part of, the nature of the business plan and the current trading environment.

This question is perhaps worth a Board discussion, to take the temperature of all of those involved.

B1.15 What are your skills?

Framing your response

It would be unusual if your list of skills contained anything unique. This is really a scene-setting question to ask how your skills are used in the Boardroom.

Surface Considerations	Detailed Considerations
<p>There are different personality types found in teams. There are different roles: the job of the Chair is different from the role of the Committee chairs or from a member of the Board or Committees.</p> <p>How does your skill set overlap and complement those of your Board colleagues?</p>	<p>Matching your skills to the problems of your firm will serve to join the dots.</p> <p>Most firms will have more than one theme that is preoccupying them. The advantage of a diverse Board is that a whole range of matters can be viewed from different perspectives.</p>

For Other Information

Assessing Board skills tends to be an item on the agenda of the Nominations Committee, and will also be covered in board evaluations, either within the board, or externally facilitated. Interpreting the standard categories in the context of your firm can yield some useful insights into the problems of the firm and the plans to resolve them.

B1.16 Give an example of where you challenged Executive management.

Framing your response

A central part of the work of a Non-Executive Director is both to support the Executive as well as to offer a healthy challenge, drawing on the NED's experience.

The tension at the heart of a Non-Executive Director's job is between ensuring proposals are fit for purpose and supporting management in their implementation of them.

Challenge should be robust but constructive. The best challenges will bring a new perspective that allows management to implement the agreed plan more assuredly.

Surface Considerations	Detailed Considerations
<p>Questions that offer a combination of challenge and support might include:</p> <ul style="list-style-type: none"> • What gives you confidence in this plan? • What alternatives have you considered? • What indicators will you that we are on track or going off track? • How certain is the outcome? • If you had an extra 10% budget, how would you spend it? • What does success look like? • What is plan B? • What are the trip wires? 	<p>Perhaps more usefully than the actual challenges posed are questions like:</p> <ul style="list-style-type: none"> • Did your challenge have an effect? • How do you stop yourself becoming a noisy Non-Executive Director? • How do you keep your challenges relevant? • How do the Executive respond? Did a change follow?

For Other Information

One useful exercise is to consider completed projects. What went right and what went wrong? What challenges do you wish the Board had made in advance, that would have driven a better outcome? Have those lessons been learned?

B1.17 If you are not an expert in a particular area, how do you know if the information produced for you is sufficient/ fit for purpose?

Framing your Response

These sorts of questions demonstrate the strength of a diverse, multi-skilled Board. If you are not an expert, you have to rely on others on the Board who are, or on hiring the right expertise. Whatever your skills, you are part of a Board that will decide matters as a unit.

Is this question a prompt for you to disclose which areas you are not expert in?

Surface Considerations	Detailed Considerations
<p>You will be relying on the experts or professionals that sit on the Board or who attend. As a Non-Executive, you are entitled to assume that advice provided to the Board is correct and relevant, though a degree of common sense will tell you if it is thorough and appropriate.</p> <p>It is worth stating that the naïve question has its place, particularly when asked over a period of time.</p>	<p>Are your experts up to the job? How would you know? If you have concerns, have you discussed them with the Chair?</p>

For Other Information

There is some material on the reliance on others on a Board. The Board has to work as a whole, and diversity of experience and thought is useful. It helps make better decisions.

B1.18 What mechanisms are there in place for Non-Executive Directors to challenge the Chief Executive in your firm?

Framing your Response

The most common approach for challenge is around the Board or Committee table as part of the discussion of papers. There may be pre-meeting discussions that allow the Chief Executive to learn and understand the disposition of the Board, and a degree of pre-meeting lobbying: but challenge itself should be a roundtable-type event, shouldn't it?

If other types of forum are needed, planning should take account of the risk of groupthink or the dominance of the Chief Executive. The Board is collectively responsible and dealings among the Directors should be relatively accessible and open to all.

Surface Considerations	Detailed Considerations
<p>This is an opportunity to discuss situations where the Chief Executive has been challenged. Challenge- like the supportive role of a Non-Executive- should be productive and positive. While the challenge may not result in a change, it might result in different management information or different options being piloted or a nuance or two added to the proposal.</p> <p>There are relatively few decisions made by Boards. They tend to make the high-level decisions. Given their importance, challenge should result in more confidence in the outcomes.</p>	<p>Does your firm have a documented decision-making process? Does your firm check after the decision and its outcomes whether a better decision could have been made? Questions like 'what extra piece of information would, if you had had it at the time, have allowed you to make a better decision?', 'what challenge could you have made that would have improved the outcome/would have avoided problem X?'.</p>

For Other Information

The documentation of challenges is a useful way to show how the Board affects decision making. Challenges don't only come from the Board. By maintaining a note of the challenges to a given decision, a firm can develop a rich seam of case history to guide and inform the decision-making process. The notes taken for the minutes need to clear, but should avoid inhibiting NEDs from speaking up.

B1.19 What role can a Non-Executive Director play that an Executive cannot?

Framing your Response

This is more of an essay question. It would be very useful to be able to give examples of a Non-Executive could act where an Executive could not.

Surface Considerations	Detailed Considerations
An effective Board will have a proper separation of activity between the Executive and the Board. This might be enshrined in a written Matters Reserved for the Board document.	<p>Is the separation properly observed in your firm? If not, have you discussed your views on this with the Chair/Chief Executive?</p> <p>Perhaps the firm is so small that the Board needs to have a more active involvement. If this is the case, how is effective oversight achieved? What steps compensate for the reduction in independence of the Board?</p>

For Other Information

While much is written about the different role of the Executive and Non-Executive members of a Board, the practical implications are less well-documented, especially for small firms. Intimacy can be a good substitute for independence, especially in a culture that values mutuality.

B1.20 Where do you consider oversight to end and operational management to start?

Framing your response

The Matters Reserved for the Board and the Terms of Reference for the Board Committees should be a good theoretical start. In practice, how your Board behaves may be down to the Chair, her or his relationship with the Chief Executive and perhaps the influence of the Senior Independent Director.

Maintaining the line is a crucial part of governance. There can be a temptation to help out: that might be welcome, but it robs the Director of the ability to oversee effectively, and NEDs should not become shadow Executives.

Surface Considerations	Detailed Considerations
<p>Does the Board get involved in day-to-day activity? Does the Chief Executive have the support of the Board to say 'you are crossing into management territory'? Has she or he ever said this - and what happened?</p> <p>Do you, or the Board, or the Chief Executive, have trouble with this part of governance?</p>	<p>If the Board is too involved in operational management, what are the causes? And what needs to change to ensure effective oversight?</p> <p>If the Board is too distant, what needs to change? Is the Chief Executive overly dominant? Are the dynamics between the Board and the Executive effective? If not, what are you doing about it?</p>

For Other Information

The dynamics between the Board and the Executive are critical to the success and the governance of a firm over the medium term. The Board has to be intimate with the firm's affairs and supportive of its Executive. It has to monitor the performance of the Executive objectively and fairly, and to avoid marking its own homework, the Board needs an appropriate distance.

One approach a Board can take is to hire a Chief Executive, charge her or him with the job of creating a business plan for Board approval, and then with the responsibility to achieve the plan, reporting continually. Even if this is not the process used at your firm, it can be used as a model to understand what falls within and outside appropriate lines.

B1.21 As a Non-Executive Director, do you have a genuine opportunity to challenge?

Framing your response

If the answer to this question is 'no', you should resign now or be able to describe the discussions with Chair and other Board members about how to address this very important aspect of governance.

Surface Considerations	Detailed Considerations
<p>This is an opportunity to demonstrate the occasions that you have to challenge, how those challenges are recorded and what happens as a result.</p> <p>Describing how your challenges have changed management's plans is a useful way of communicating what you are adding to the Board.</p>	<p>Are your challenges useful, or do they just fill airtime? How do you know?</p> <p>Should more challenge be going on? Is every issue or decision thoroughly challenged, or do some slip through because of lack of interest, ability, skill or simply time? Can you, hand on heart, say that your Board challenges the right things to the right extent all the time?</p>

For Other Information

Challenge is at the very heart of the operation of the Board. The skill of the Board lies in the depth and breadth of challenge, while supporting the appointed Executive team.

B1.22 How do you manage your own time commitments?

Framing your Response

Undertaking the role of Non-Executive to the best of your ability takes time; the days of the super director, with tens of directorships, are at an end in financial services. This is entirely sensible given the responsibilities that directors take on.

Surface Considerations	Detailed Considerations
Your response can be factual, covering planning (for example when the papers come through for a Committee or a Board), pre-meeting discussions if necessary, the meeting itself, follow up (including minute checking), and thinking time.	Are you under time pressure as far as your commitment to your firm is concerned? How would you know? Who would you tell? Do/would you discuss time problems with your Chair? Has your commitment ever been questioned? Do you often have to miss meetings?

For Other Information

This is not a question that you can bluster your way through. Time is the raw material of the Non-Executive. If you don't have enough, there is very little you can do to generate capacity without giving up a different commitment to make room.

B1.23 What levers of influence can a Non-Executive Director use?

Framing your Response

There may be a standard approach to this question, but it could equally be answered from the point of view of the individual Director and their personal characteristics.

What are levers of influence? Are they a description of the various ways in which a Non-Executive can affect a decision? That sounds a little sinister. Perhaps the question is more about how a Non-Executive Director can contribute to exercising oversight as part of a well-constructed Board.

Can you talk about your personal approach to influencing decisions?

Surface Considerations	Detailed Considerations
<p>How have you influenced discussions and decisions? How have others in your firm influenced decisions or directed a discussion? Is there any overdue influence being exerted by any participant?</p> <p>Is there appropriate documentation of actions following challenge discussions?</p> <p>Are discussions sufficiently well informed? Is there a wide range of opinion?</p>	<p>How do you know that you are involved in discussions and decision making at the right time?</p> <p>Do you have pre-mortems for decisions? Do you have post-mortems? What did they tell you?</p> <p>How does the Chair manage the emerging discussion?</p>

For Other Information

There is some material available about how Directors can influence Board decisions, but most material focuses on skills. Skills can be applied to influence, so can perhaps be used to generate ideas.

Curiosity is an important characteristic for a Director. Being unafraid to ask questions that are seemingly obvious can reveal important characteristics relating to the decision.

B1.24 Are you familiar with the PRA's Fundamental Rules?

Framing your response

The Fundamental Rules are pretty much all common sense.

Surface Considerations	Detailed Considerations
It's worth examining the Fundamental Rules and be able to talk about how your firm meets them.	How would you know if your firm was going to break one of the Fundamental Rules? What would you do?

For Other Information

The Rules are so straightforward, so think also about situations where a Rule was close to being broken and the processes that highlighted the matter, or a Rule being broken, and the steps being taken to avoid a repetition.

Fundamental Rule 1: A firm must conduct its business with integrity.

Fundamental Rule 2: A firm must conduct its business with due skill, care and diligence.

Fundamental Rule 3: A firm must act in a prudent manner.

Fundamental Rule 4: A firm must at all times maintain adequate financial resources.

Fundamental Rule 5: A firm must have effective risk strategies and risk management systems.

Fundamental Rule 6: A firm must organise and control its affairs responsibly and effectively.

Fundamental Rule 7: A firm must deal with its regulators in an open and cooperative way and must disclose to the PRA appropriately anything relating to the firm of which the PRA would reasonably expect notice.

Fundamental Rule 8: A firm must prepare for resolution so, if the need arises, it can be resolved in an orderly manner with a minimum disruption of critical services.

B1.25 What are the key elements for a sound corporate governance framework?

Framing your Response

This question starts to explore more fully the arrangements for corporate governance in your firm and whether it is sound. You should not be afraid to have a development plan in mind, the things that need to be improved.

Surface Considerations	Detailed Considerations
<p>What are the components of the system of governance at your firm? How do you know that each element is effective? Is the reporting on these elements dynamic or static?</p> <p>Are there reports on failures in the system of governance? When do these reports get escalated to the Board? What then happens?</p>	<p>What are the plans for your system of governance?</p> <p>Where is the system of governance weakest? What plans do you have to strengthen it? Where is it strongest? How do you know?</p> <p>What gives you confidence in the system of governance? Have you assessed the causes of that confidence?</p>

For Other Information

The 'System of Governance' and 'risk management system' are terms in Solvency II. There are some prescribed requirements for them. The term 'internal control system' is referenced in guidance by the Financial Reporting Council.

Boards are required to assert the effectiveness of the risk management system and internal control system in the annual report. The evidence used for that assertion is part of the answer to this question.

B1.26 Which key corporate documents have you familiarised yourself with?

Framing your Response

A good induction plan will direct you to the most important corporate documents. See the callout article in the Introduction to the Toolkit for a starter.

Surface Considerations	Detailed Considerations
<p>For each document, you should know the purpose of the document, what controls are in place to maintain the contents and the standards of the document, and the process by which the document is populated.</p> <p>You should have a view about the completeness and appropriateness of the document.</p>	<p>How well does each document convey meaning to its intended audience? Is there a plan to develop the document? Are there any documents that are not as well developed as you would like?</p> <p>It is worth cross-referencing, to ensure that the messages are consistent.</p>

For Other Information

There is a finite list of corporate documents. Each will follow prescribed rules and practices: do they convey a consistent overall message?

B1.27 In what way, if at all, does the UK Corporate Governance Code affect mutual and not-for-profit insurers?

Framing your Response

This feels a little like a reading test? Have you read the UK Corporate Governance Code? Have you read the AFM Corporate Governance Code? What are the differences? Bear in mind that the AFM introduced a new Code for 2019.

Your firm's induction material may well cover this. The Financial Statements should describe areas of non-compliance and provide an explanation where the variance is material. The AFM Code now adopts an 'apply and explain' and your Executive should explain the implications for your firm.

Surface Considerations	Detailed Considerations
What's your view on the governance codes (whether the listed companies code or the AFM one)? Does the Code help governance at your firm? Does your firm embrace the principles, or does it find the Code hard to meet? Is the Board keen to embrace modern governance thinking, or are there sensitive areas that are never probed? Or areas where 'we do things differently around here'?	Are the Principles within the AFM Code addressed naturally by your firm's design or processes? Or are specific actions required? Is there a plan to ensure Principles are applied more effectively?
<p>For Other Information</p> <p>The Principles in the Codes are clear and reflect good practice, and it is the Board's responsibility to be satisfied about how they have applied them.</p>	

B1.28 What are the key current themes in relation to corporate governance?

Framing your Response

In the corporate world? In the industry? In your firm? There are always themes being developed. The industry press will give a good idea of what is currently being chewed over. This question can be used to show how these themes are being considered in your firm, or why they are not relevant.

Surface Considerations	Detailed Considerations
What themes are current that affect your firm? How well do these map with the themes in the industry and wider corporate world?	What is the governance plan for your firm? Is the plan wholly reactive (to incidents in the firm, to regulation, to industry comment etc.) or is your firm seeking to lead in particular areas?

For Other Information

The industry press is the best source of industry themes (for example, Financial Adviser, Cover Magazine and Money Marketing). Not all themes will affect your firm, and it is important to know how each might apply, what mitigants can be put in place etc.

B1.29 What do you consider to be the key skills required of a Non-Executive Director?

Framing your Response

Apart from charm and good looks? There are readily researchable responses to this question. Doubtless you will have developed your own view.

Surface Considerations	Detailed Considerations
What are the most important skills that you bring to your Board? How do they coalesce with the skills of others on the Board? How skilled is the Board overall? How often are the skills reviewed?	Does the Board avoid groupthink? How challenging can the Board really be? Does your last appraisal reflect your skills? Where does the Board, and you, need to develop?

For Other Information

There are many lists of Non-Executive Director skills and a number of publications (for example, the [IoD](#) or [ICSA](#) websites).

B1.30 What are the legal and regulatory sources of duties for the Non-Executive Director of a mutual insurer or friendly society?

Framing your Response

The broad answer is much the same as for an Executive Director:

- general law: ie (a) fiduciary duties (trust) and (b) reasonable care and skill
- relevant statute (Friendly Societies Act 1992 or Companies Act 2006 as amended)
- certain individual and collective duties
- regulatory rules (as published from time to time)

Surface Considerations	Detailed Considerations
<p>As a Director, you will be used to acting in accordance with the law and regulations.</p> <p>It can be worth reading the law and regs from time to time, and re-assuring yourself that everything required is covered (or asking about areas that aren't obviously addressed).</p>	<p>With a good sketch of the landscape, you may wish to suggest to your firm that certain obligations be more roundly addressed.</p>

For Other Information

There are numerous articles covering aspects of the law and the regulations. With a good grounding in the core documents, the commentary may be even more useful.

AFM has produced a summary of the Duties of a Director of Mutual and Not-for-Profit Insurers. This details the key requirements. Further help may be sourced from a range of AFM Associates, for the current list, see [here](#).

B1.31 How would you describe your responsibility for your firm’s strategy, its various lines of risk control, its financial soundness including capital and liquidity, and its compliance with other regulatory requirements?

Framing your Response

The quick answer is that you are absolutely responsible for the reporting of all of these things, meaning that you have to understand them.

Surface Considerations	Detailed Considerations
<p>Your firm’s strategy should be documented and reviewed from time to time. Business plans should be drawn up that match the strategy. The actual results should be checked with those expected.</p> <p>Risk control should be demonstrated through the Risk Management System reporting.</p> <p>Financial soundness should be demonstrated through the financial and business plan reporting and through the ORSA.</p> <p>Compliance should be tested through the compliance plan.</p>	<p>How well integrated is the reporting on these different aspects of the business?</p> <p>What improvements in the processes and the reporting are planned?</p>

For Other Information

Modern regulation makes the Board responsible for the activities of the firm. There can be no reliance on experts or professionals in or outside of the firm.

B1.32 Does management provide a clear framework and offer guidance and training to assist in good decision-making, for example, in the fair treatment of customers?

Framing your Response

It is a requirement of Solvency II to have a decision-making procedure. It is a requirement to have an efficient process for transmitting information throughout the firm. It is tempting to gloss over these requirements, because ‘it just happens’. Maybe it is worth thinking about them?

Surface Considerations	Detailed Considerations
<p>If the first answer to this question is ‘no’, is that a problem? Maybe a fairer question is ‘what framework, guidance and training in good decision-making does your firm provide?’.</p> <p>If ‘yes’, is the framework, guidance and training effective? How do you score your decisions?</p>	<p>Whether the answer is ‘yes’ or ‘no’, the supplementary question is ‘how can you be assured that you are making good decisions?’.</p> <p>Making good decisions is central to Board activity. One purpose of risk management is to enable better decisions to be made. This area is worth pondering.</p>

For Other Information

There is material, from business schools for example, on making good decisions. The book ‘Decisive’ by Chip and Dan Heath provides a number of different approaches.

You may be asked to talk through a recent major Board decision and discuss how you gained assurance that it was a good one. The ORSA impact, the degree of challenge, the management information asked for and the evolution of the decision might feature in your response.

B1.33 How does management incentivise good, and deter poor, behaviour?

Framing your Response

Is this an under-the-counter culture question? Possibly, since behaviour ⇔ culture.

Surface Considerations	Detailed Considerations
<p>Rewards and punishments are the obvious first place, but they are not very convincing. Large rewards accrue to few, and severe punishments are meted out infrequently.</p> <p>High quality leadership can permeate effectively, from strong central leadership through layers of management. Equally, persistent corrosive behaviour can operate at a low level.</p> <p>So, this does turn into a question about ensuring the right cultural package, implemented well and followed up carefully.</p>	<p>Is good behaviour defined? Is poor behaviour? Starting from those definitions, a firm might be able to identify what can be managed and monitored.</p> <p>Are there pockets of poor behaviour that are tolerated? As a Non-Executive Director, you will probably only get glimpses, but it is worth following them up.</p> <p>The honest answer to the question is 'It tries in the following ways...'. It would be useful to have a robust list and some evidence of the outcomes.</p>

For Other Information

See questions on culture (for example, B1.7 above).

Make sure you are up to date with the FCA's and PRA's current views on culture, through their business plans, speeches, papers and so on.

Part B2 Questions for the Experienced Non-Executive Director

YOUR PERFORMANCE ON THE BOARD

This part of the toolkit is comprised of questions around an individual's experience of a firm. For each question, an immediate response and a deeper response are considered, with a described context, and sources of additional information. The template is set out below.

Template Example	
Question	
<i>Framing your response</i>	
The context of the question	
Surface Considerations	Detailed Considerations
How you might respond off the top of your head	Some pointers for a more reflective and insightful response - if there are any pointers to share
<i>For Other Information</i>	
Sources of other relevant information.	

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B. Questions for the Experienced Non-Executive Director

B1. You & Your Firm

- Your Firm's Business & Organisation
- Your Skills & Views of Governance at your Firm

B2. Your Performance on the Board

- Your Board
- Board & Committee Meetings
- Board Composition, Evaluation, Succession Etc
- Regulatory Matters

B3. - Your Firm & Risk

B2. Your Performance on the Board- Question List

About Your Board

- B2.1 How have you been involved in the activities of the Board?
- B2.2 Describe how the Board works collectively. Give an example of where opinions differed and how a conflict was resolved.
- B2.3 How balanced and effective is your Board? What does your firm do to ensure there is the right balance of independence, skills, knowledge and diversity? What is the approach to refreshing and succession planning?
- B2.4 How does your Board assess emerging risks? What emerging risks are on your firm's radar at the moment, and how are you addressing them?
- B2.5 How is your firm's Board held accountable to its Members/ customers?
- B2.6 How has the Board contributed to the development and execution of the strategy?
- B2.7 How does the turnout at the AGM, and other Member engagement activities, ensure the Board has a democratic mandate to pursue its chosen strategy?
- B2.8 How many (non-staff) members turn up for the AGM and what does this say about your approach to engagement?
- B2.9 What is the process in your firm for re-electing Board members and for ensuring that there are sufficient independent directors?
- B2.10 What are the attributes of a successful Board?
- B2.11 Do you believe that there are any skills gaps on the Board?

About Board & Committee Meetings

- B2.12 What are the principal functions/roles of Board Committees and how would you use them (if required)?
- B2.13 What are the key roles of a Board?
- B2.14 What is the process for determining topics/papers to be included on agendas?
- B2.15 What MI do you receive before Board or committee meetings?
- B2.16 How does the Board, its committees and management interact?
- B2.17 Do the Board and Committees have enough time to discuss important matters?
- B2.18 How well do Board papers set out the issues facing your firm? How do they encourage Non-Executive Directors to understand the issues?
- B2.19 Do the minutes properly evidence the detail of Board/Committee discussions?
- B2.20 What one thing you would improve about the Board?
- B2.21 To what extent does your firm apply the principles within the AFM Corporate Governance Code?
- B2.22 How are Board decisions communicated to relevant people in the firm?

About Board Composition, Evaluation, Succession Etc

- B2.23 Are you satisfied with arrangements in respect of the Board regarding Board evaluations, remuneration and diversity?
- B2.24 When did the Board last discuss succession planning?
- B2.25 How is Executive remuneration determined? Is the process sufficiently challenging?
- B2.26 Describe the process for electing the Board and for re-election of Directors.
- B2.27 Does the Board have a succession plan for Executive and Non-Executive Directors?
- B2.28. How well developed are the succession plans for key positions in your firm?
- B2.29 What procedures does your firm have for identifying and addressing potential conflicts of interest on the Board?
- B2.30 What interaction do you have with Executives outside of Board/Committee meetings?
- B2.31 How has performance of the Non-Executive Directors, the Chair and the Board been reviewed recently?

About Regulatory Matters

- B2.32 Mutual, not-for-profit insurers and friendly societies are mainly dual-regulated by the PRA and the FCA. What does this mean in practice?
- B2.33 Are you broadly familiar with the provenance of, and the framework for, the strengthening accountability regime?
- B2.34 What role can a Non-Executive Director play in view of the fact that a Board has collective responsibility?
- B2.35 The Chair is the 'critical friend' of the CEO: how well do they work together?
- B2.36 How do you manage conflicts of interest that emerge in the Board or the business?
- B2.37 What is your firm's culture? How does the Board ensure the culture works firm-wide?

About Specified Roles

- B2.38 Do you have sufficient oversight for your role and responsibilities?
- B2.39 How do you keep up-to-date with matters relevant to your role within your firm and in the wider market, regarding the regulatory environment?
- B2.40 Describe your approved role. What problems have you had to cope with in practice?
- B2.41 Do you have enough time to carry out your role effectively?
- B2.42 Do the Board and its Committees meet frequently enough?
- B2.43 How does your role relate to that of the Chief Executive?
- B2.44 Do you believe that you have a good working relationship with Committee Chairs, spend enough time with them, and receive an appropriate level of information on the Committee activities?
- B2.45 How would you describe the regulatory responsibilities of your current or a future role?

A regulator might ask similar questions to these about any of the four Solvency II governance functions (compliance, internal audit, actuarial and risk management). They might also ask them too of other control/overhead functions e.g. audit, legal etc. Below are some specific questions for audit and compliance. It is easy to see how the questions might be extended.

Your Firm & Audit

- B2.46 How can you determine whether your firm's internal audit function is effective?
- B2.47 Do you and the other Non-Executive Directors provide input into the audit plan?
- B2.48 Does internal audit have sufficient resource? How do you know?
- B2.49 What happens when internal audit raises an issue? Are there any outstanding issues?
If so, how long have they been outstanding and how have they not been dealt with?
- B2.50 When was your firm's external audit contract last reviewed?

Your Firm & Compliance

- B2.51 How does the firm ensure compliance with legal and regulatory requirements?
- B2.52 What procedures are in place should a systematic compliance breach come to light?

B2.1 How have you been involved in the activities of the Board?

Framing your response

A nice open question to start. What might be included in a complete answer?

Surface Considerations	Detailed Considerations
<p>Boards are expected to ensure that policyholder benefits are safe and that policyholders are treated properly within an overarching governance framework.</p> <p>In broad terms, this means that the firm is adequately capitalised in all situations, that there is a proper approach to conduct management and that all appropriate corporate organisational requirements are in place (including audit committee, risk committee, policies, well-documented board meetings...and so on).</p>	<p>Subsidiary questions include: how have you challenged management? What proposals made to the Board have been turned down? How do proposals really get agreed? Is there much lobbying of the Board and is that a proper way to conduct business? Have you ever been in the minority in a Board discussion and were you satisfied with the Board's conclusion?</p> <p>These are all questions to draw out an individual's contribution to the Board.</p>

For Other Information

Serving as a Non-Executive Director is a difficult job. Scrutiny of the role is increasing. Thus there is a growing need not just to do the job, but to explain how you do the job. It is worth taking time to draw up a personal checklist of how you add value and in what particular spheres, and developing your list of examples where you were able to contribute to good effect.

B2.2 Describe how the Board works collectively. Give an example of where opinions differed and how a conflict was resolved.

Framing your response

Whether you are approaching this exercise as part of your internal CPD, or as part of the firm's board evaluation, or indeed ahead of a regulatory interview, it's worth asking yourself this.

Others in your firm may cite the same examples but with different views. That is exactly right, it is good Board activity in action.

Surface Considerations	Detailed Considerations
Modern boards are actively managed. It would be odd for a brand new proposal to be tabled without prior discussion, thought, lobbying, or smoothing the corners. In many ways, the Board meeting activity is a rubber stamp, a place where final challenges are summarised and noted. Does that indicate a lackadaisical Board: not at all! It shows a Board that is engaged, responsible and thorough.	<p>Does your Board vote on key issues? That may be seen to be a little old-fashioned, and in general a consensus view, rather than a majority view is better. This does not preclude the occasional noted dissenting view, and perhaps some additional review points might be added to reflect the challenges made.</p> <p>Was the resolution effective: that is, did the issue at its heart not materialise because of action taken? What would you do differently if it happened again?</p>

For Other Information

This is a further development of the theme touched on in earlier sections.

B2.3 How balanced and effective is your Board? What does your firm do to ensure there is the right balance of independence, skills, knowledge and diversity? What is the approach to refreshing and succession planning?

Framing your Response

There are well-established processes for reviewing Board skills, balance and effectiveness, leading to processes for ensuring appropriate succession. Your firm may have a Nominations Committee, which is responsible for developing policy in these areas, or the Board as a whole may agree the approach.

Surface Considerations	Detailed Considerations
How well embedded are your firm's nominations processes? How effective are they? How modern are they? What plans are there to develop them? Is there a timely programme of refreshing of the Board? To what extent is the Board in line with Corporate Governance Code advice?	How diverse in thought is the Board? How do you test diversity in your Board?

For Other Information

There is a fair amount of material on Board renewal, diversity etc. (see for example the website of [ICAEW](#)). Increasingly, firms have to consider how they avoid groupthink now and in the future, and a clear diversity plan will help support this.

B2.4 How does your Board assess emerging risks? What emerging risks are on your firm's radar at the moment, and how are you addressing them?

Framing your Response

The term 'emerging risk' can be defined as a risk that has been identified, but which can't be robustly measured, monitored, managed and hence reported. Thus, there are a host of unknowns involved in emerging risk. Mitigants can be put in place, but they might be uncertain or incomplete or just address part of the risk.

Surface Considerations	Detailed Considerations
<p>Your firm will have a list (it may be short) of emerging risks that might affect it. All risks, including emerging risks, have to be considered in the ORSA.</p> <p>The ORSA will address risks by holding capital and/or through the system of governance. It may include management actions, to be taken if a risk crystallises.</p>	<p>If your firm is exposed to one or more emerging risk to a greater extent than others, you will be expected to have a greater understanding. Otherwise, it may be difficult to say much that is more definitive.</p>

For Other Information

Emerging risks can be typically random and unexpected, aka Black Swans: in ways you cannot imagine, such a risk might ruin a firm, regardless of size or financial strength.

There are a number of forums that publish information on emerging risks. The website of the CRO Forum has an Emerging Risk Initiative. Some reinsurers publish emerging risk information, as well as some actuarial bodies.

B2.5 How is your firm's Board held accountable to its Members/ Customers?

Framing your Response

Being accountable to Members is important for a Mutual, but can be difficult in practice. The same can be said for not-for-profits and their customers.

If you have an active Member body, the response to this question would draw on experiences of that body, as they should also feed into the Board processes. In other cases, or where the Member body is inactive, the relative absence of Members contributing directly means a greater burden for the Non-Executive Directors.

It is often perceived that governance of mutuals is weak because they lack the kind of accountability that professional investors or independent analysts offer. That puts a greater onus on the Board to consider and demonstrate how it is accountable to its Members/ customers, as well as to its other key stakeholders.

Surface Considerations	Detailed Considerations
<p>How do you ensure that you are accountable to Members? How do you judge the effectiveness of what you do?</p> <p>Do you have a plan to develop your accountability to your Members?</p>	<p>What is the cost per vote of your Member initiatives? What is the cost per Member, for those that use the services you provide? Does this represent a good use of Members' money?</p>

For Other Information

Some Mutuals have well-established effective Member support schemes. Do they translate into extra votes - voting being the main mechanism by which Members hold Boards accountable? Do softer support schemes translate into more votes? The question of Member engagement is an active one for many mutual nowadays.

B2.6 How has the Board contributed to the development and execution of the strategy?

Framing your Response

Developing strategy is an important Board responsibility, yet in a multi-skilled Board, the roles of an individual Director will be different. The Executive Directors will be expected to do most of the development, and will be guided to a greater or lesser extent by the boundary conditions set by the Board.

There may be a number of iterations: there may be briefings and discussions outside Board and Committee meetings. The Board may have a particular approach that it expects to be followed, or may have directed the Chief Executive to develop her or his own approach, congruent with the firm's capabilities.

Whilst the Board as a whole sets strategy, Non-Executives should be challenging (formally) and supporting, perhaps informally.

Execution is different. Boards should be seeking performance indicators and assessing results, challenging proposals and helping to optimise them

Surface Considerations	Detailed Considerations
<p>How did the Board contribute? What worked well? What was a surprise? What challenges were new for the Board?</p> <p>How many different approaches to strategy were reviewed? Were any standard models used? Did the Board take external advice? How did the Board assess the firm's capabilities? How good are the financial models that underpin the results?</p>	<p>What could the Board have done better? Is the Board learning from the process by checking back to ascertain what extra information would have allowed it to make a better decision?</p> <p>Has the Board set robust review points? How closely is it tracking metrics that indicate future success?</p>

For Other Information

There are literally thousands of books about strategy. You will not be short of sources to support your firm's capabilities and ambitions.

B2.7 How does the turnout at the AGM, and other Member engagement activities, ensure the Board has a democratic mandate to pursue its chosen strategy?

Framing your Response

The link between Member engagement activities and voting is not always direct. Some firms have an active membership; for others, the link is much less direct.

But if your membership is disinterested, how else does the Board satisfy itself that it is properly accountable for its actions?

Surface Considerations	Detailed Considerations
<p>Can you justify the current AGM turnout or voting levels?</p> <p>What are you planning to do to increase the turnout?</p>	<p>Will the cost of developing more additional services or reasons to vote outweigh the benefits of higher voting? Should you recognise the silent majority (if there is one) and learn from their lack of engagement that a different arrangement is required?</p>

For Other Information

From time to time, at the AFM conference, firms discuss their engagement strategies. Some mutuals achieve more than 10% turnout, with a determined focus on engaging members.

The best defence for low Member engagement might be high quality governance and clear evidence of the accountability of Directors through some alternative route. How else can you demonstrate that you are working in your Members' interests?

B2.8 How many (non-staff) Members turn up for your firm's AGM and what does this say about your approach to engagement?

Framing your Response

Either many members will attend or not very many. Does this reflect an approach to engagement? It depends on what efforts your firm has made to increase the number of Members voting.

Surface Considerations	Detailed Considerations
The statistics on turnout (probably viewable on your website) are the basis of your response to this question. You might like to consider the trend, and describe how your firm has been considering the issue of Member engagement.	Is engagement truly reflected in voting? Have you tried to test this hypothesis? Do your Members consider themselves as engaged? Are they interested in additional services or support?

For Other Information

If members don't perceive the value of voting at the AGM, is that a symptom that mutuality is weak, or that the members are content with the ways that things are being run on their behalf? How do you know?

Whilst management might argue that doing a good job means achieving good business results, or paying claims on time, or achieving good business returns, the Board has a responsibility to care for the interests of its members, and to consider the long-term sustainability of the business. Long-term sustainability might hinge on the degree to which members or customers recognise that the company is doing something distinctive and value-adding, and they will only recognise that if the firm goes out of its way to engage them or to incentivise them to take part.

B2.9 What is the process in your firm for re-electing Board members and for ensuring that there are sufficient independent directors?

Framing your Response

The process should be documented, and overseen by the Nomination Committee, if your firm has one, or otherwise, the Board.

Surface Considerations	Detailed Considerations
The procedures for elections and for testing independence should be clearly developed and documents within a firm. Where standards are not being met, the rationale should be set out and a plan for resolving any shortfall established, if necessary.	Does your firm have the right Board? Is it sufficiently independent in thought and character? How does the balance of its skills drive the discussions and strategy of the firm? How is the Board future-proofed?

For Other Information

There are a number of useful publications describing Board recruitment, balance and development. The [AFM Corporate Governance Code](#) captures some of this.

The challenge is implementing modern governance requirements, which can often be seen as intrusive and bureaucratic, especially for competent, stable Boards. Fresh eyes and new thinking are valuable qualities in any Board. The challenge for every Board is to retain and develop experience and understanding, without losing the drive to develop and renew.

B2.10 What are the attributes of a successful Board?

Framing your response

A well-trod area, but considered in the right spirit, might provide some useful insight into your firm and its governance.

Surface Considerations	Detailed Considerations
<p>What makes your Board successful? How would you judge? How long would it take to know?</p> <p>The success of a Board depends on the prevailing commercial environment. The characteristics needed for success in a recession are different from those needed in boom times. How would you describe the current trading environment? How well prepared is your Board for success?</p>	<p>What would make your Board more successful? What would be indications of a failing Board? Would your Board take the required action if it was evidently weak in a recognised factor needed for success?</p> <p>Should the Board have different characteristics depending on the environment in which it operates and its stage in the business cycle?</p>

For Other Information

There are many reports published on what makes a successful Board. Not all of them will be relevant, and some are more academic than real-world useful. There are a set of common characteristics though, and a conscientious Board member will have their own internal checklist of behaviours and attitudes that drive success.

External evaluation, as covered in the [AFM Corporate Governance Code](#), is a practical way of assessing whether the Board meets its own assessment of what a good Board looks like (see in particular Principle 2).

B2.11 Do you believe that there are any skills gaps on the Board?

Framing your response

Politically, this may seem on the surface like a difficult first question. The Nominations Committee (if you have one - if not, the Board) should already perform a regular skills assessment and should have decided how it will address any perceived weakness.

The question could be a prompt for describing the appraisal processes in place for the Board and the approaches taken to Director CPD. It could prompt consideration of the Non-Executives, Executives and management succession plan, another important part of governance. The Board is charged with its own renewal and should be formally considering its future as part of the firm's governance.

Surface Considerations	Detailed Considerations
<p>What are you doing about the weaker or less well-represented areas on your Board?</p> <p>What is the succession plan?</p> <p>Is the assessment thorough enough? Are you planning an external assessment at some stage?</p>	<p>Are the steps in place to address the skills gap appropriate and meaningful? Is the solution chosen optimal in your opinion?</p> <p>Are you comfortable with the succession plan? If yes, why? If not, what are you doing about it?</p>

For Other Information

Ideally, your Board will regularly consider the range of skills it possesses (usually via a self-assessment). Directors may be asked to rank their own skillset.

The succession plan should be documented and regularly reviewed, perhaps by a Nominations Committee. The AFM Code suggests, and the firm's rules may have suggested terms for directorships.

If there is no succession plan, things could be awkward. Good governance includes planning, and if Boards are important, they should be planning their renewal.

If your succession plan for Directors does not follow the AFM Code, you might need to be prepared to explain why.

B2.12 What are the principal functions/ roles of Board Committees and how would you use them (if required)?

Framing your Response

The functions and roles should be set out in the Terms of References. There are some good models available if your firms are not current.

Surface Considerations	Detailed Considerations
This question might allow you to describe the Committees and how well they work to serve the Board. For smaller firms, you might want to think about the absence of some Committees (because the Board does this work) and whether this is effective. How you might use a Committee depends if you are on that Committee or not, and if you are chairing a different Committee that might need input.	Do the Committees work to strengthen the governance of your firm? How? If they do not, have you raised the matter with the Chair and/or Chief Executive?

For Other Information

There are some materials around that describe the workings of specific committees. Often, the material includes checklists that can help score a committee's terms or reference or activities.

B2.13 What are the key roles of a Board?

Framing your Response

This question is readily researched, though it is worth considering your own response in the context of your mutual.

Surface Considerations	Detailed Considerations
<p>What roles does your Board fulfil which maybe differ from the standard? What roles does the Board not fulfil, or not fulfil well enough?</p> <p>Will you be discussing Board Committees as part of the Board, or do you see committees as separate?</p>	<p>How do you expect the Board's role to change in the next 3-5 years? How will the coverage of its roles by individual directors' change?</p>
<h3><i>For Other Information</i></h3> <p>There is a wide range of publications covering the roles of a Board: see for example Institute of Directors website. You may wish to review the AFM Corporate Governance Code (particularly the section on Directors duties, as per s172 of the Companies Act, and Principle 3).</p>	

B2.14 What is the process for determining topics/ papers to be included on agendas?

Framing your response

Oddly prosaic question, this. The requirements are such that pretty much everything will be covered between strategy and governance, with a healthy dose of financial reporting in the middle.

Maybe the way to think about this is ‘is there anything you would like to discuss that you have not been able to put on the agenda’?

Surface Considerations	Detailed Considerations
<p>Is there a good plan for what should be on the agenda over an annual cycle of meetings?</p> <p>Is the agenda sufficiently flexible to cope with the challenges that your firm faces?</p>	<p>Over a cycle, are you satisfied that everything is addressed appropriately?</p> <p>Have you encountered resistance to any reporting, management information or discussion topic suggestion that you have made? Were you satisfied that this matter was resolved?</p>

For Other Information

There are many examples of Matters Reserved for the Board and Committee Terms of Reference. While the content should be tailored for an individual firm’s circumstances, product range etc., it should not be too difficult to create a robust pack.

B2.15 What management information do you receive before Board or Committee meetings?

Framing your response

A factual question, which hides a number of subsidiary questions. The information division between Non-Executive and Executive is asymmetric. Practically the only input a Non-Executive has is contained in Board packs. Management information is an important part of that information stream.

Surface Considerations	Detailed Considerations
How does the management information differ between Boards and Committees?	How do you know the management information is good enough?
How often is management information reviewed?	How do you know that it is accurate?
Is the Management Information accurate?	How is the management information tied into the accounts and the Risk Management System?
Is it complete?	How does management information help the understanding of conduct?
Are there incidents that have resulted in new management information being provided?	Are you satisfied with the management information you receive? If yes, based on what? If no, what are you doing about it - or are there restrictions that mean further development is difficult?
What issues did management information help to address?	

For Other Information

There are well established indicators of the performance of all aspects of an insurance firm. Whether you can collect the best indicators given your systems is a different matter - in which cases you might try to develop proxy management information.

The FCA has a management information [webpage](#).

In 2015, the [PRA stated](#): “Non-Executives should be put in a position to possess a general understanding of the model and meet these expectations without detailed technical knowledge. That’s the job of the Executive, to explain complexity, provide good Management Information (to serve up the needle, to continue the saying) and enable challenge and thus accountability. If Non-Executives do not feel that they can meet these expectations, they should demand the time and support to enable them to do so, rather than head off for the haystack.”

B2.16 How do the Board, its Committees and management interact?

Framing your response

A question that can be answered based on experience. Part of the response may depend on the quality of the Matters Reserved for the Board and the Terms of Reference of the various committees.

Surface Considerations	Detailed Considerations
<p>Are the Board ⇄ Committee interactions effective? Does the Board repeat work that the Committees have already done? Does the Board take on work that the Committees should be doing?</p> <p>How does the Executive support the Committees? Are papers of the right quality? Are they produced in an orderly manner? Do the papers reflect the changing needs of the Committees?</p> <p>Are matters arising sensible, business-like and attended to in a reasonable time frame?</p>	<p>How can the Board use its Committees better?</p> <p>Does the Executive refer matters of the right seriousness to the Committees and the Board? Does it refer too much or too little?</p> <p>Do the Committees exercise effective oversight? What improvements are possible?</p> <p>Have you discussed your views with the Chair?</p>

For Other Information

Running and participating in an effective Board is an art. It requires constant review and examination of situations, but with a lightness of touch that does not halt day-to-day operations or induce paranoia in the Executive. Governance structures should support and strengthen, not sap energy or create indecision.

B2.17 Do the Board and Committees have enough time to discuss important matters?

Framing your Response

Again, one of those hanged if you do, hanged if you don't questions. If you don't have enough time, what are you doing about it? If you do, how do you explain....? and so on.

Does this question mean, if yes, you have enough time, that the Board will never make a mistake? Of course not.

Surface Considerations

Is this a question about the quality of Board and Committee planning, paperwork and operations? A well-organised governance structure will have reliable scheduled meetings, with the business known in advance, papers to do the business and sufficient interaction before, during and after the meeting to conclude the business required.

Are there enough meetings? Are they at the right time? Are papers circulated sufficiently ahead of time? Are the papers of the right quality? Is the Chair properly briefed? Does the discussion proceed to the satisfaction of all?

Detailed Considerations

A high-performing Board will have enough time for its committee and Board business. But other things have to be in place: diverse thinking, the right balance of Board skills, the right things being brought to the table at the right time.

With these thoughts in mind, what is the one thing that this Board or Committee could do to make itself more effective?

For Other Information

The Board needs to be sufficiently dynamic to address the matters that face the firm, recognising that in times of crisis or development of a new strategy, more time will be required. Every Director should consider whether they are appropriately involved in the firm's affairs, given the challenges to be faced.

B2.18 How well do Board papers set out the issues facing your firm? How do they encourage Non-Executive Directors to understand the issues?

Framing your Response

Boards that receive high-quality materials on a timely basis tend to be in a position to do their best work. Does your firm enable you to do your best work?

Surface Considerations	Detailed Considerations
<p>What do you think?</p> <p>Looking back, are there areas where a better, a more timely, a less-weight-more-insight set of papers might have resulted in a better decision being made?</p> <p>Do your papers, alongside the processes to help the Board, help you understand the issues? Is help available with technical, market or other understanding?</p> <p>Do your papers score highly on factors such as ease of understanding, depth, clarity of options considered, evidence for the decision proposed? Do they allow robust challenge?</p>	<p>Have you shared your view with the Chair and Chief Executive (and possibly Company Secretary)? How did they respond? Have you seen change? What is the plan for future development?</p>

For Other Information

There is less written about Board paper quality than there probably ought to be. The papers have to work for the specific Board, so there is something unique about each Board. That said, thick, tick-box, 'isn't it obvious', technical papers are of little use to a diverse Board with some members who are not technical. The real question: do your papers work for your firm's Board?

B2.19 Do the minutes properly evidence the detail of Board/ Committee discussions?

Framing your response

Important this. Minutes need to record the challenges of substance, so that there is a proper audit trail and, more importantly perhaps, that management can be held to account. Challenges might come at all stages of a proposal, so it is important to carry the record of them through the process.

Surface Considerations	Detailed Considerations
Is this a binary question? Yes or No? There are probably degrees of quality. The categories you might like to consider include: the documenting of challenges, the recording of the responses and follow up of any resulting actions. You might consider whether and how challenges outside the meeting are shared with the Board or Committee, and how quickly minutes are produced.	Are you content with the level of minuting? Are your challenges always appropriately recorded? Are the responses properly documented and followed up? Could you withstand an audit? Is the Chair aware of your views on this subject?

For Other Information

There is a thought that attributable minutes are a sign of a dysfunctional Board or committee - although they do provide comfort to the Board, and certainly to regulators. That is worth some consideration. Minutes that describe every contribution in detail are difficult to read and understand.

How does your firm make decisions? Some Boards like to vote, but increasingly that is seen as sub-optimal. There should be consensus, with dissenting voices documented. The smart Board will note the dissent and highlight the steps being taken to identify whether the cause of the dissent is emerging - if that is possible.

Given that the Board is collectively responsible, does who voted for what make any difference?

B2.20 What one thing you would improve about the Board?

Framing your Response

Great question, since no-one is perfect. It is not a criticism to have identified areas of relative strength and weakness.

Surface Considerations	Detailed Considerations
A good Board will probably always be on a journey of self-renewal, adjusting its activities to match the prevailing trading conditions, the emerging strategy and the capabilities of management.	Having answered the question, what are you doing about it? This is an easy follow up question, and is worth considering in advance.
<h3><i>For Other Information</i></h3> <p>There are many publications that list the ideal qualities for a Board, and Boards are obliged to consider their skills balance. Slightly harder is what to do about the gaps or the perceived areas of development.</p>	

B2.21 To what extent does your firm apply the Principles within the AFM Corporate Governance Code?

Framing your response

Firms will document how they apply the principles in the Code within the Annual Reports, so this one should be answered there. More importantly is perhaps why the Board considers elements not applied, or partially applied are appropriate.

Surface Considerations	Detailed Considerations
What aspects are not fully applied? Are they important to your firm? If the omissions/differences are important, why is that OK? If they are not, why are they not important?	What do you think about the omissions or differences? Are you content with the status quo or are you pressing for change? What was the flavour of the discussion on these matters by the Board?

For Other Information

It would be unfortunate if the rationale for tolerating poor or patchy application of the Principles were not common across all Directors, even if the individual's views differed. Boards may want to consider minuting this discussion in the expectation of regulatory challenge.

The AFM Corporate Governance Code replaced the Annotated UK Corporate Governance Code on 1 January 2019. For more, view [here](#).

B2.22 How are Board decisions communicated to relevant people in the firm?

Framing your Response

An interesting question, especially given that Solvency II expects the Boards of insurers to know how information is cascaded.

Surface Considerations	Detailed Considerations
<p>This is a practical question at one level. Surely Non-Executive Directors should not care: communication is an executive function.</p> <p>But how do you know that the decision you made at the Board is the one that is being communicated? But that is again, an executive responsibility. If the executive gets it wrong, well then, they will be held to account in due course.</p>	<p>Has the question at least been asked of the Chief Executive or the Chair?</p> <p>How would you be certain? Does trying to get certainty cross over the boundary between executive management and Board oversight?</p> <p>Things like bank mandates are easy to track. Other decisions may be harder. How can you be certain? It is worth considering how Board decisions match up with management information.</p>

For Other Information

Solvency II requires a Board to set out its decision-making process. It expects firms to have a well-developed information cascade.

B2.23 Are you satisfied with arrangements in respect of the Board regarding Board evaluations, remuneration and diversity?

Framing your Response

Three very different questions. Evaluations can be odd for Directors who have held prominent positions recently; remuneration is a difficult matter; diversity - is there any alternative to valuing diversity and seeking more of it?

Surface Considerations	Detailed Considerations
<p>How do you know the Board is good enough? Are remuneration structures appropriate? Is the Board doing the right thing about diversity?</p> <p>First, you need to know what the arrangements are. Then you need to have a view on them.</p>	<p>Are you satisfied? If not, why not and what have you done as a result? In either case, yes or no, be prepared to explain the factors that have led you to your conclusion.</p>

For Other Information

Evaluations are common nowadays. There is plenty of material available to discuss the process and its dimensions.

Remuneration of NEDs is probably best considered with a view to the market and to the work involved in the Directorship.

Diversity within the Board is a hot topic, which continues to develop. Diversity of thought is an important factor, alongside characteristics such as gender and race, and for a mutual, where the interests of customers are uppermost, a diverse Board will help ensure decision-making is effective and reflects the interests of customers.

B2.24 When did the Board last discuss succession planning?

Framing your Response

Succession planning is an important part of Board business. It applies at Board level, Executive level and senior management level.

It's hard in a small firm. Board renewal is perhaps most important, as without it, independent thinking might lessen over time.

Executives and senior managers may stay in office, performing well, for years. Modern governance expects oversight to be self-renewing, ensuring that the activities of the Executive and senior management remain high performing.

Surface Considerations	Detailed Considerations
Ideally, there will be a nominations committee that reports regularly to the Board. If not, you should be able to describe the approach that has been taken instead.	Are you satisfied with the approach taken towards Board renewal? Executive renewal? Senior management renewal?

For Other Information

There are plenty of sources of information on Board and Executive succession. Senior management succession is perhaps more tricky, particularly when there is a well-established complement of competent people.

The problem may more be about the changes in business model needed to survive in future, and the extent to which existing personnel can do the necessary.

An AFM article on CEO succession planning can be read [here](#), along with one on director retirements [here](#).

B2.25 How is Executive remuneration determined? Is the process sufficiently challenging?

Framing your Response

Challenging? Or challenged? Or does the question mean ‘are the targets for the Executive sufficiently challenging?’.

Surface Considerations	Detailed Considerations
<p>The process to set executive pay should be transparent, follow the firm’s rules and enable the Board’s agreed plan to be achieved with reasonable certainty. There should be regard for the market, location and experience.</p> <p>Do you feel that the Executive team is appropriately paid for its work, given the firm, its position and its ambitions?</p>	<p>Are there options for the Executive leadership of the firm? Do you get what you pay for? A lower remuneration package may suit a stable business with a guaranteed future. You may have to pay more for a riskier proposition. Crucially, you will want to be satisfied that the regulatory requirements of your firm can be solidly met.</p>

For Other Information

There are remuneration consultants who will offer to benchmark executive remuneration. It is important to understand where your firm fits within the market, alongside your view of the future for your firm.

B2.26 Describe the process for electing the Board and for re-election of Directors.

Framing your Response

Your firm's Rules will set the parameters for Director elections. The AFM Code provides guidance on the process when new directors are appointed, and to be documented in the Annual Report.

Surface Considerations	Detailed Considerations
<p>The factual response will be that in the Rules and the Annual Report.</p> <p>You may be asked how you ensure a sufficiently diverse and independent pool of candidates is available.</p> <p>The Nomination Committee (or Board if there is no Committee) is responsible for the Board's renewal and the appointment process.</p>	<p>Does the process work, from your perspective? Is the rate of Director renewal appropriate? Is there proper regard for the Board skills assessment?</p>

For Other Information

There are a number of specialist headhunting firms that can offer advice on Non-Executive Board renewal.

In most companies today, annual elections of all Directors takes place, though if this isn't the case in yours, is it clear how and when Directors are re-elected?

B2.27 Does the Board have a succession plan for Executive and Non-Executive Directors?

Framing your Response

Succession planning is an important part of Board business. It applies at Board level, Executive level and senior management level.

Board renewal is perhaps most important. Executives may stay in office, performing well, for years. Modern governance expects oversight to be self-renewing, ensuring that the activities of the Executive remain high performing.

Surface Considerations	Detailed Considerations
The answer should be yes. You will probably need to describe what the process is, and whether you think it is satisfactory.	Does the plan fit the needs of the firm? Will it result in the right thing happening?

For Other Information

There are plenty of sources of information on Board and Executive succession.

An AFM article on CEO succession planning can be read [here](#), along with one on director retirements [here](#).

B2.28. How well developed are the succession plans for key positions in your firm?

Framing your Response

Firms are obliged to have a succession plan, but often it is treated as a tick-box exercise rather than something to help drive future success.

Surface Considerations	Detailed Considerations
What will you do in the event of an unplanned or planned absence of a member of your senior team?	Succession planning is not simply to cover short-term absence: it should be part of the people strategy for your firm.
What choices do you have to develop those in middle management?	Assessing the potential of your middle management can provide useful information. Fed back appropriately, it can support individual's development.
What choices do you have to fit the future gaps that you can see?	The regulatory aspects of management should not be ignored. The more familiar your managers are with the regulatory environment, the better, for all involved.
How well is the plan to address these questions established, discussed, funded (there will be a cost) and reported on?	

For Other Information

There are a number of publications covering succession planning, including from headhunters and consultancies. Good succession has a cost, but it is perhaps better thought of as an investment in your firm's future.

The Senior Managers & Certification Regime reinforces the need for the right people to be in the right role, and for the correct processes and culture within the organisation.

B2.29 What procedures does your firm have for identifying and addressing potential conflicts of interest on the Board?

Framing your Response

It has become common practice to declare any new conflicts of interest at the start of Board and Committee meetings. The declarations rely, as they always have, on the honesty and self-assessment of the Directors. Sometimes conflicts may not be obvious, or may be so obvious that they get missed.

It is good practice to maintain a register of conflicts and publicise it from time to time.

Surface Considerations	Detailed Considerations
This is a factual question on the surface. Underlying questions are about whether there are any conflicts, might a conflict be missed and, once declared, how are conflicts handled?	Are you convinced that conflicts are dealt with properly?

For Other Information

Conflicts are particularly dangerous when there is a tender due or underway for an outsourced service. It is notable that the appearance of a conflict is as important as the actual existence of a conflict.

B2.30 What interaction do you have with Executives outside of Board/ Committee meetings?

Framing your Response

This is an interesting question. What's the right answer? Too little contact, and you could be thought to be not taking your responsibilities seriously. Too much might indicate problems at the firm, or becoming too involved that oversight becomes impossible (and do you really have that time).

Surface Considerations	Detailed Considerations
A factual answer is needed, but be prepared to say why you think your involvement is about right.	Have you discussed extra-Meeting contact with management with your Chair and with the Chief Executive? Do they feel your involvement is appropriate? When might more interaction be needed?

For Other Information

There is no right or wrong answer to this question from a regulatory perspective. There may be a right or wrong answer from the perspective of your firm: an over-interested Director can cause problems, perhaps more so day-to-day than a less involved Director.

B2.31 How has performance of the Non-Executive Directors, the Chair and the Board been reviewed recently?

Framing your Response

Robust performance review is now an expected and integral part of Board activity.

Surface Considerations	Detailed Considerations
<p>This question needs a factual answer.</p> <p>A review process might result in individual Director objectives. It might use the Board skills assessment or Board review results as a guide to how individuals might develop.</p>	<p>Does the review process help improve the performance of Directors? How would you judge?</p> <p>Does the review process develop individual Directors? How would you judge?</p> <p>How do you expect the performance review process to develop over time?</p>

For Other Information

There is a reasonable amount of material about Board performance review around. There are a number of firms that provide Board appraisals, and often these firms can assist with individual reviews.

Some firms adopt a three-year cycle, whereby a Director would have her or his performance reviewed by the chair alone in the first year; then the next year, the chair and Senior Independent Director; and in the third year, the chair and the external appraiser.

B2.32 Mutual, not-for-profit insurers and friendly societies are mainly dual-regulated by the PRA and the FCA. What does this mean in practice?

Framing your Response

Perhaps covered in your induction. The PRA is primarily concerned with capital and the system of governance, the FCA with behaviour (including ensuring appropriate customer outcomes), culture and accountability.

There are some areas where the PRA and FCA overlap and work together, primarily in the Senior Managers & Certification Regime.

Surface Considerations	Detailed Considerations
<p>Solvency II (SCR, Technical Provisions, System of Governance, ORSA) for the PRA. Non-directive insurers have their own rules.</p> <p>For the FCA, a number of source books will be relevant: your compliance lead should be able to identify which ones and outline its theme and high-level requirements.</p> <p>There are other rule sets that will apply (GDPR, IDD, etc).</p>	<p>The PRA regulations are intended to be implemented proportionately. How has proportionality been implemented in your firm?</p> <p>Reviewing compliance with the FCA rules should be part of the compliance universe. How confident are you that your firm is compliant with its FCA requirement?</p>

For Other Information

The regulators consult widely on their policies. Engaging with these is a good way of understanding emerging regulations.

There are many publications describing aspects of the Solvency II (for PRA's focus, view [here](#)) and [FCA](#) requirements.

B2.33 Are you broadly familiar with the provenance of, and the framework for, the strengthening accountability regime?

Framing your Response

The Senior Managers & Certification Regime is the joint initiative by the FCA and PRA to strengthen accountability in insurance firms. The regime came into force on 10 December 2018.

Every firm must maintain a Management Responsibilities Map, showing which Senior Managers have the Prescribed Responsibilities (prescribed by the FCA and PRA) at every point in time. Non-Executive Directors are expected to meet [five] specified principles.

Surface Considerations	Detailed Considerations
<p>Have you seen the Management Responsibilities Map? Are you clear about what it tells you?</p> <p>Does your firm have any certified personnel? Are you satisfied with the processes to certify these personnel?</p> <p>Are you satisfied with the training regime for all employees subject to the rules?</p>	<p>The regime is designed to ensure that there is clear documented accountability for every aspect of the firm. The regime is recent: the regulators will be conducting reviews to check how the regime has been implemented. It may be too early for you to have a view on the regime, but it is worth you considering whether you think it has worked.</p>

For Other Information

There is plenty of information about the SMCR regime available: for example, FCA's [webpage](#).

B2.34 What role can a Non-Executive Director play in view of the fact that a Board has collective responsibility?

Framing your Response

Collective responsibility does not mean that everyone has to have the same views. It means that having taken the different views into account, an approach emerges that all can agree and support.

Voting used to be common, such that a majority view could prevail. Nowadays, it is increasingly common to seek a consensus, an approach that all can commit to, even if there is not an exact match with everyone's view. Dissenting views can be documented, if there is no acceptable consensus.

In this light, this question is a little odd. Maybe the idea is to describe how the Board discusses and agrees actions?

Surface Considerations	Detailed Considerations
<p>Examples of work done by Non-Executives could usefully illustrate how the Board works.</p> <p>Is the Board making the most of contributions from its Non-Executives? Are there areas where Non-Executives could contribute more?</p>	<p>How does the Board handle contentious issues? Does the Board challenge sufficiently? Are the Executive responses appropriate?</p> <p>Are there plans to develop the Board, to improve its decision making and the Board's oversight?</p>

For Other Information

Collective responsibility is not a get-out-of-jail-free card. In the best organisations, differing viewpoints are taken into account and appropriate controls built into projects to track the possibility of the alternative scenarios arising. Thus, the differences are used to improve the decision making, rather than being ignored.

B2.35 The Chair is the ‘critical friend’ of the CEO: how well do they work together?

Framing your Response

Hmmmh: is this a little ‘telling tales out of school’? It’s good practice in these sorts of situations not to say anything that you have not already said to the Chair and the CEO. That way, you will not only be sharing a perceived problem, but the two or three of you can work together to develop solutions.

Of course, the question works both ways: the Chair may be too critical or too friendly. Both can cause problems for the Board.

Surface Considerations	Detailed Considerations
<p>Is the Chair too friendly or too critical? Does she or he realise that this is the case? What did they say when you raised it? Is the issue recognised or are the participants blind to what you are seeing.</p> <p>You might seek permission to discuss the issue with other Board Directors, particularly the Senior Independent Director.</p>	<p>What is the plan for the Board that addresses the issues that you see? The plan needs to be developed collaboratively. No plotting!</p> <p>It is always worth asking the CEO and Chair how they get on - the SID should be doing this anyway. Perhaps their relationship is not how it seems in the Board room.</p>

For Other Information

It is very difficult to raise this matter without it seeming that a coup is in progress. Yet the situation need not be so dramatic.

Other directors may rally around a CEO when the Chair is too critical. In private they should be able to suggest a different perspective, perhaps allow others with a different view to have slightly more air time.

When the CEO is too friendly, others may be allowed to pose some firmer challenges, posed constructively and positively.

B2.36 How do you manage conflicts of interest that emerge in the Board or the business?

Framing your Response

The old-fashioned view used to be that declaring a conflict was enough. That approach is now deemed wanting.

The starting point is the conflicts log, perhaps supplemented with regular recording of any new conflicts at the start of Board and Committee meetings.

Managing a known conflict requires careful consideration. Recusing oneself from a decision is one approach, but it is more form than substance? It can be useful to state the conflict explicitly, usually framed around the accusation that could be made: “I used to work for firm X: if we appoint them, it might be perceived that we wouldn’t choose the best firm or the best price, because I favoured my old firm.” With this in mind, safeguards can be developed that protect the firm, its Members and ultimately the reputation of its Board and individual Directors.

Surface Considerations	Detailed Considerations
<p>Is there a conflicts policy? Is there a conflicts log? Is it up to date (and how do you know)?</p> <p>Have there been any actual conflicts? How were they handled?</p> <p>How far through your firm does your conflict management approach go? If an employee was married to one of your suppliers, would you know?</p>	<p>How objective were the controls put in place to avoid detriment arising from a conflict? Looking back, are there other things that could have been done to protect your firm against the allegation of a conflict? Does your firm have a procedure to handle an alleged conflict?</p>

For Other Information

There are many sources of information about managing conflicts. Allegations are unlikely to surface publicly, but if they do, the fall out can be significant. Individual Directors are well advised to draw out any relationships that might be perceived as generating a possible conflict, just to be sure.

B2.37 What is your firm's culture? How does the Board ensure the culture works firm wide?

Framing your Response

Culture is a hot topic, frequently talked about with little about how to change a culture, assess it and manage it.

The Board is responsible for the firm's culture. So, despite the lack of available help, the Board has to ask questions about culture.

Surface Considerations	Detailed Considerations
<p>What is your firm's culture? How have you arrived at this description? How do you know that this description is accurate? Is the culture the same throughout the business?</p> <p>Is it the right culture? How would you change it? What would be the process of changing it?</p>	<p>Where are the cultural hotspots, where culture might go wrong? How do you manage that risk? What management information do you get?</p>

For Other Information

As mentioned, there is much lofty prose about culture and very little about how to assess or manage a culture. But you have to be doing something - so having it on the Board agenda is a start. The considerations above are a start.

See recent AFM surveys on culture, such as [this one](#).

B2.38 Do you have sufficient oversight for your role and responsibilities?

Framing your Response

This question is at the heart of the regulatory interest in Directors. Can you reasonably perform the role that you are being asked to fulfil?

Surface Considerations	Detailed Considerations
The agendas, papers and minutes are central, supported by the Terms of Reference and by the activities, for Committees, of the Board.	Is your Committee or Board achieving its purpose? Does it have a forward-looking agenda? Is it playing its part in developing the firm and its business?

For Other Information

There is a fair amount of material produced about how Boards and various Committees can be effective. Often these papers include ideas about additional information that might improve effectiveness.

B2.39 How do you keep up-to-date with matters relevant to your role within your firm and in the wider market, regarding the regulatory environment?

Framing your Response

Non-Executives are expected to keep themselves abreast of developments. This is particularly important given the speed of regulatory change, and the complexities of Solvency II. Boards are unequivocally held to account by regulators, and the ORSA process requires Boards to understand their firm's financial health under all manner of different risks.

Surface Considerations	Detailed Considerations
The answer will vary by individual, but you do need to have an answer. How do you keep abreast? Does your firm have a good CPD policy? Does it hold its own training events?	How good is your external and internal CPD? Are you encouraged to attend external training events? How do you know that your firm is keeping you up to date?

For Other Information

The Insurance Distribution Directive means that customer facing staff, and often Directors, need to fulfill a specific amount of CPD each year. Your Company Secretary can confirm minimum expectations.

The AFM runs a series of seminars designed to support the knowledge and understanding of industry participants: see [here](#).

B2.40. Describe your approved role. What problems have you had to cope with in practice?

Framing your Response

This is another of those more probing questions. Is the real question ‘How do you help to resolve problems in the Boardroom?’.

Problems could be small or large, about the firm or about Board mechanics. Are the papers to the right standard? Is there sufficient challenge at the Board? Is the firm succeeding? Are the Executive team up to the job? Is the strategy appropriate?

Surface Considerations	Detailed Considerations
<p>You will have your own view on the role of a Director. Hopefully it will chime with some of the published material about the role of the Non-Executive Director.</p> <p>On problems, does this mean problems at your firm? Of problems understanding your role or how your particular skills gel with the Board dynamics? Either could be interesting, particularly if the Board is too involved in operational matters.</p>	<p>Is the firm, given its circumstances and Board dynamics, organised to benefit from its Board, especially its Non-Executives?</p> <p>What improvements would you like to see? Is it just you that wants to see them? Have you discussed your views with the Chair?</p>

For Other Information

There is plenty of material on the role of the Non-Executive Director. There is material on how to handle problems of a range of types. Ideally, you will not be short of ideas to handle the problems that your firm is facing, although your Chair and others may disagree on the approaches to be taken. That is another dimension that you might like to consider when responding to this question.

B2.41 Do you have enough time to carry out your role effectively?

Framing your Response

Be prepared to talk through your other commitments and explain how they can be flexed if your firm demanded more of your time.

Surface Considerations	Detailed Considerations
<p>Yes. Here's how I manage..."</p> <p>You can illustrate with details of the organisation of the Board's business: timeliness and quality of papers, timetabling of meetings, communication flow, and so on.</p>	<p>How would you know if it was getting too much? How would you raise the matter with the Chair/Chief Executive? Do you regularly discuss time commitment with the Chair?</p>

For Other Information

In some jurisdictions, there are rules on the number of directorships and committee chair roles one individual can hold. Financial services directorships carry weighty responsibilities and personal liabilities. It is important that the Board as a whole can give its full attention to the matters before it.

B2.42 Do the Board and its Committees meet frequently enough?

Framing your Response

The Committees need to be effective, as does the Board. Both need to meet sufficiently often to ensure that business can be concluded in an orderly and thorough manner.

Surface Considerations	Detailed Considerations
<p>You either are satisfied with the frequency of meetings or you are not. If you are, why? If not, have you raised the matter?</p> <p>You might consider the quality of the agendas (is business known about well in advance?), the papers (their quality and their timely advance distribution), the degree of preparedness of the executive and others called to be challenged, and the quality of the resulting minutes.</p> <p>Sometimes problems arise simply from timetabling. Better planning might allow more considered discussed.</p>	<p>Are Board and Committee meetings effective? How would you demonstrate their effectiveness? What improvements do you expect to see in the next three years? Have you agreed a series of changes with the Executive, the Company Secretary and the Chair?</p>

For Other Information

Sometimes short meetings can be effective, when the preparation and the resulting papers are well prepared and of good quality. Well-run and considered Committee meetings can shorten the business required from the Board. Committees can do the heavy lifting.

Making this happen is not easy. A commitment is needed from the whole of the Board and the Executive workload may be different and/or greater, to enable the Board to operate effectively.

B2.43 How does your role relate to that of the Chief Executive?

This question is primarily for the Chair of the Board. Committee Chairs might also consider their relationship with the Executive or the Board Chair.

Framing your Response

Nowadays, the roles of Chair and Chief Executive are distinct, driven by different pressures and with different responsibilities to the various stakeholders involved. The regulators in particular expect the differences to be honoured in practice.

Mutuals are treated no differently. This is an area that is definitely worth considering, and drawing up a plan if changes will take some time to implement.

Surface Considerations	Detailed Considerations
<p>There are standard answers to this question, but you will need to draw the parallels between the theory and the practice in your firm.</p> <p>The regulator will expect to hear how the Chair and Chief Executive roles work in your firm, between fellow Non-Executive Directors and Executives.</p>	<p>Is the Chair role effective at your firm? How do you know?</p> <p>How would you, as Chair, know or find out if it was worsening? What would you do then?</p>

For Other Information

There is plenty of material available on the roles of Chair and Chief Executive, the differences, the possible conflicts and how issues can be reconciled.

For example, guidance on drawing up a schedule of matters reserved for the board is available from the [Institute of Chartered Secretaries and Administrators](#) (ICSA) and from the Institute of Directors' book, [The Effective Board](#).

B2.44 Do you believe that you have a good working relationship with Committee Chairs, spend enough time with them, and receive an appropriate level of information on the Committees' activities?

Framing your Response

The Committee structure allows a useful subdivision of activity and oversight within a firm, with a Board providing ultimate oversight. Committees can specialise in the analysis and synthesis of specific problems. The effectiveness of an individual Committee will often depend on the Chairs. It is good practice for Committees to have a different Chair to the Board: this spreads the work, encourages development and perhaps generates different perspectives.

Surface Considerations	Detailed Considerations
<p>How does the Board's liaison with its Committees work?</p> <p>It is unlikely that your Committees are perfect. Where are the areas for development and/or improvement?</p> <p>What would you do to improve the performance of Board committees?</p>	<p>How have you broached the need for improvements? How do you make sure that the changing environment is understood and monitored, and that the Committees can respond appropriately?</p> <p>What are the plans for the renewal of the Committees?</p>

For Other Information

There is an increasing amount of material about Committee Terms of Reference and expectations, driven in no small part by regulatory expectations. Making Committees work is an important Board competence and, while the Board will always be held to account, the activities of Committees are likely to receive increasing scrutiny.

Committee reporting varies: is an oral report enough or should Committee-to-Board reporting be more formal?

B2.45 How would you describe the regulatory responsibilities of your current or a future role?

Framing your Response

There are definitions of the roles that require regulatory approval.

Surface Considerations	Detailed Considerations
You will be expected to have read the regulatory material. You should have a view on how the role/committee you are being considered for has worked to date and possibly some ideas of changes that you expect to implement.	What are the areas in which your firm wishes to improve its oversight? How do you plan to support this improvement?

For Other Information

There is some material on each of the roles requiring regulatory approval that should assist in background (see FCA's [webpage](#) for example). Using this general information and applying it to your firm could yield some useful insights and help to develop plans.

B2.46 How can you determine whether your firm's internal audit function is effective?

Framing your Response

There are standard answers to this: it might be worth asking your internal auditor! Typically, internal audit provides assurance to the Board about the firm's control environment.

Assurance tends to be one way ('...the following things need to be improved...'), rather than 'you can have absolute confidence in this function', but that is a feature of the profession's approach.

Surface Considerations	Detailed Considerations
<p>What steps do you take to confirm effectiveness? Does this include the assessment of risk by topic?</p> <p>How insightful are the findings of internal audit? Has internal audit prevented problems from occurring, or does it tend to follow hot on heels of an incident?</p> <p>Have internal audit been commissioned to do any special investigations? How good was the resulting report?</p>	<p>What would a less effective internal audit function look like? How would you handle a situation where you had concerns over internal audit? What reliance does the Board put on internal audit's reports?</p> <p>Does internal audit have an appropriate span? Is there a robust internal audit plan? Does it reflect the Board's view of risk in the business?</p> <p>How does your internal audit function cope with specialist audits (e.g. with IT)?</p>

For Other Information

The internal audit profession has well-developed professional standards. While there is not much specialist material, the big four consultancies have filled in the gaps with some cogent and well informed publications that are freely available.

B2.47 Do you and the other Non-Executive Directors provide input into the audit plan?

Framing your Response

A factual question. The answer should be yes. If it isn't, the derivation of the internal audit plan could do with a review. Examples may be expected.

Surface Considerations	Detailed Considerations
<p>Are the Non-Executive Directors formally asked? Do they all receive the details of the universe of internal audit risks, whether they are on the Audit Committee or not?</p> <p>A well-established plan may not need adjusting often, but it should be considered at least annually by the whole Board.</p> <p>Internal audit provides assurance to the Board. The Board may well receive the internal audit that it deserves.</p>	<p>How can internal audit's effectiveness be increased? Are there risks that are not being considered?</p> <p>How does the compliance risk universe, the risk function risk universe and the audit risk universe compare? How do they match the external audit risk universe?</p> <p>How is each risk covered in the ORSA?</p>

For Other Information

The current requirement is for internal audit to be risk based. The Board sets out the risks that concern it, and internal audit builds its plans around those risks.

What are the right risks? Only the Board can decide that. The internal audit plan has to belong to the Board and add value to their deliberations. It should underpin the Board's view of its internal control environment.

B2.48 Does internal audit have sufficient resource? How do you know?

Framing your Response

This is a really tricky question. If internal audit has too little resource, the risk areas won't be covered in a timely fashion and the depth of coverage may be wanting. Too much resource is inefficient and may result in audit actions being generated simply because an area is being frequently reviewed. Fast-changing firms may be changing faster than internal audit can document, leading to out-of-date reports.

Closely managed or smaller firms might have less need for internal audit than firms with a culture of letting management get on with things or where scale might reduce control.

Surface Considerations	Detailed Considerations
Does the internal audit resource feel about right? Is there pressure on the operational team without there being stress?	If there was an extra 25% internal audit capacity, where would you direct it? Is internal audit pointing out omissions or errors? Is its work generating valuable, usable feedback, or is it creating a well-documented bankruptcy?

For Other Information

The resourcing of internal audit is hard to judge. Internal audit is a required governance function under Solvency II. It is an important part of the System of Governance.

B2.49 What happens when internal audit raises an issue? Are there any outstanding issues? If so, how long have they been outstanding and how have they not been dealt with?

Framing your Response

The Audit Committee should have a policy/ process that fully addresses this. One of the consequences of internal audit findings is that action has to be taken and monitored until all changes are marked as done.

Surface Considerations	Detailed Considerations
Ideally, you will be able to report that internal audit actions are tracked and are generally done within agreed timescales, on a basis that reflects their riskiness, subject to usual prioritisation.	How useful are the reports from internal audit? The internal audit process can be as important as the reports and actions. For example, if between the findings and the recommendations, action is taken to refresh controls and ensure their fitness, internal audit may be having a more useful impact beyond its reports.

For Other Information

Recommendations that are pushed back repeatedly may be poor recommendations. Or they may be misunderstood, or there may simply not be enough resource. It is worth getting to the answer, because it will inform the Board's view of the control environment.

B2.50 When was your firm's external audit contract last reviewed?

Framing your Response

A question inviting a factual response, tinged by the requirements or regulation.

Surface Considerations	Detailed Considerations
<p>This feels like a starter question about your financial reporting. By and large, external audit is rigourously monitored with deep professional guidance driving activity. What are the practical problems in your audit? Are the auditors sufficiently challenging? Do they understand your firm's business? How are you satisfied that they are independent?</p>	<p>Changing external auditor is a significant process. Undergoing the process can allow the financial controls to be refreshed and the routine financial controls to be reviewed from a different perspective. This needs to be balanced with the disturbance and re-learning that has to happen with a new auditor.</p> <p>How have you balanced these considerations?</p>
<h3><i>For Other Information</i></h3> <p>There are rules about the rotation of audit firms and audit partners. Your external audit firm will be monitoring these, even if you are not sure about the rules.</p> <p>There are some useful guides published by accounting firms on how to change external auditor.</p>	

B2.51 How does the firm ensure compliance with legal and regulatory requirements?

Framing your Response

A really difficult question. The answer should be factual, but the law is not an instruction manual and (some) regulation is described in such vague terms that compliance might only be about how you have chosen to comply, rather than an absolute tick in a box.

Surface Considerations	Detailed Considerations
How does your firm keep you up-to-date with new compliance or legal/regulatory requirements? Do you ever raise a question about a legal/regulatory matter only to be met with blank stares? What steps are planned to ensure that legal/regulatory matters are properly addressed? Where does the firm get its sources of information?	How recently has there been a health check of permissions applicable law/regulations, FCA entries etc?

For Other Information

Make sure you are on the mailing list for the regular updates from the AFM Regulation and Governance Committee.

B2.52 What procedures are in place should a systematic compliance breach come to light?

Framing your Response

One requirement of Solvency II is an efficient mechanism for transferring information. This applies particularly to this issue.

The approach needs to distinguish between over-reaction at a suspicion, and proper reporting of an issue being handled. Your Board should have a view on whether it discharges its duties through a 'no-surprises' culture or a 'balance-of-probabilities' culture [as in, when should the Board be told about a possible issue? When the idea of a breach is first mooted, or when there is reasonable certainty that a breach has happened? The first leads to more hares running than the second: the Executive and the Board need to be prepared to hold their nerve with the first more than the second: not all Boards/Executive teams are able to cope with the increased knowledge and uncertainty].

Surface Considerations	Detailed Considerations
<p>When is a suspicion a worry? When does it become reportable? These are quite deep questions.</p> <p>If there is to be a process, writing it down will be tricky because it has to be vague enough to cope with a whole range of situations.</p> <p>The process should cover a) the full investigation, perhaps invoking internal audit; b) the redress for those affected; c) assurance that there is not more of the same or similar in the firm as well.</p> <p>Choosing if to disclose to the regulator should be covered.</p>	<p>Do you know about all possible breaches at your firm at the moment? You don't need to, depending on your approach, but you should be able to explain what you do know and that you have thought about it.</p> <p>Is your firm's approach the right one? How do you test the judgement of the Executive in terms of whether their antennae are appropriately attuned to the Board's need to know?</p>

For Other Information

The FCA talks a lot about 'harm'. When or whether harm is caused might be part of the criteria used to assess a potential breach and the resulting action.

Part B3 Questions for the Experienced Non-Executive Director YOUR FIRM AND RISK

This part of the toolkit is comprised of questions around an individual's experience of a firm. For each question, an immediate response and a deeper response are considered, with a described context, and sources of additional information. The template is set out below.

Template Example	
Question	
<i>Framing your response</i>	
The context of the question	
Surface Considerations	Detailed Considerations
How you might respond off the top of your head	Some pointers for a more reflective and insightful response - if there are any pointers to share
<i>For Other Information</i>	
Sources of other relevant information.	

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B3. - Your Firm & Risk

B3. Your Firm & Risk - Question List

- B3.1 What is the process (or processes) for setting the Board's risk appetite?
- B3.2 Do you and other Non-Executive Directors contribute to the setting of risk appetite? If so, what role do you play? Give some examples.
- B3.3 Is the three lines of defence working in practice?
- B3.4 What do you see as your firm's key operational risks?
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- B3.7 Is your firm operating outside risk appetite in any respects?
- B3.8 If not, has it done so in the past? If so, what action was taken?
- B3.9 When did the Board last consider a report in respect of risk (e.g. from the Risk or Audit Committee) and what changes, if any, were made as a result?
- B3.10 Were the incidents foreseen by the firm's risk log? Were they accurately assessed and recorded?
- B3.11 Are you aware of any recent regulatory enforcement cases?
- B3.12 Directors might be questioned on various aspects of Solvency 2, such as:
- the firm's capital, levels and quality
 - the SCR and MCR
 - own solvency needs
 - reverse stress tests
 - the firm's liquidity position
 - the stress tests and results
- B3.13 Are the following processes robust:
- product governance
 - promotions sign-off
 - financial crime prevention
 - treating customers fairly
 - sales processes
 - information security
 - distribution relationships
 - competition law compliance
 - data protection
 - consumer contract drafting
 - complaint handling
 - third-party relationships
 - outsourcer relationships
 - operational error and cause analysis?
- B3.14 What management information is provided to the Board on systems and controls?
- B3.15 How is risk management embedded into your firm's business?
- B3.16 What access do the risk and compliance teams have to the Board?
- B1.17 Does the recent weakening of GB Sterling compared to the Euro have any effect on your solvency position?
- B1.18 How is the ORSA co-ordinated into other management activity, such as the Board MI pack, the public disclosure report etc?

B3.1 What is the process for setting your firm's risk appetite?

Framing your Response

Solvency II talks about Board-approved Risk Tolerances, a phrase that has been shortened to Risk Appetite. The problem is, how to define a risk appetite in any practical detail.

Surface Considerations	Detailed Considerations
<p>This is a readily researched question. There should be plenty of evidence to support your description, in Board or Risk Committee papers.</p> <p>Is the process to set the risk appetite appropriate? Does it work, is it frequent enough?</p>	<p>Is the risk appetite useful? Is it dynamic? Does it reflect changes in risk on a timely basis?</p> <p>If yes to these questions, how will you ensure that it continues to satisfy these requirements? If no, what are the plans to improve process and outcome?</p>

For Other Information

Notwithstanding the fact that Solvency II has been implemented for some time, the outputs of risk-related activity remain, in some cases, too distant from the activities of firms. The risk appetite should be a useful summary of how the firm expects to manage its solvency over time, in the face of multiple risks. Often there is work still to be done to achieve this level of usefulness. For more, see PRA's [Solvency 2 webpage](#).

Non-directive firms also need to assess their risk appetite, though the [regulatory framework](#) is simplified.

B3.2 Do you and other Non-Executive Directors contribute to the setting of risk appetite? If so, what role do you play? Give some examples.

Framing your Response

Again, a factual question, which might cause some reflection.

The risk appetite has to be set by the Board, so it would be very unusual for Non-Executive Directors not to be involved.

Surface Considerations	Detailed Considerations
<p>Is your risk appetite statement complete enough for you? Does it cover all relevant risks?</p> <p>How does the Risk Committee, if you have one, develop the risk appetite?</p>	<p>How is actual performance against risk appetite monitored? Is the reporting frequent enough? Is it forward- or backward-looking?</p> <p>How does risk appetite tie in with the ORSA?</p>

For Other Information

Arguably, risk appetite should emerge from the ORSA process, so this could be a question about the Board's involvement in the ORSA. The ORSA tests solvency against various risks, this showing the impact of any breaches in risk appetite.

B3.3 Is three lines of defence working in practice?

Framing your Response

If your firm uses the three lines of defence! It is not obligatory, and may simply not work in smaller firms. Even at bigger firms, its effectiveness will depend on its implementation.

The three lines of defence are operational control; operational assurance and control (including compliance, actuarial and risk management); and internal audit. Firms may organise their own control and governance functions to achieve an effective internal control system.

Firms must consider the effectiveness of their internal control frameworks in their annual reporting. There should be minutes of the work done to support the opinion reached on internal control (and risk management).

Evidence will probably be expected to support your answers.

Surface Considerations	Detailed Considerations
Are there weaknesses in the three lines of defence model (or your chosen governance model), as implemented? How are these being addressed? What reporting and management information does your firm rely on?	If there was to be a failure in internal control, where would it be most likely to occur in your opinion? Have you raised your assessment with the Audit or Risk Committee Chair or the Chief Executive?

For Other Information

The three lines of defence model is common: for example, see: [Chartered Institute of Internal Auditors](#). No other model is as well described, but that shouldn't mean that firms feel obliged to implement three lines of defence.

Your internal control system should ensure that your activities and reporting are accurate, within acceptable tolerances. Errors should be prevented, based on good high-level material (policies and procedures). Where errors have happened, there should be proactive systems to find them and to correct them safely. The internal control system should operate at all levels: individual transactions, functions, ecosystem (e.g. IT systems, customer care etc) and at overall firm level.

B3.4 What do you see as your firm's key operational risks?

A blunter way of asking the question might be 'what could kill your firm?' or 'what are the three biggest risks to the firm?'. The question might be targeted at a particular Committee, and thus be limited to Audit, Risk etc.

Framing your Response

The ORSA should provide the answers to these questions. Certainly, it would be odd if the ORSA conclusions were very different to your answer (it would suggest that the ORSA is not doing its job). ORSAs now should include reverse stress tests (i.e. deliberately breaking the model). Risks are not just about solvency however.

Surface Considerations	Detailed Considerations
<p>The simple response to this question is a list of risks.</p> <p>How familiar are you with the impact of the risks on your list? With their possible frequency? With the mitigations in place to minimise their incidence or impact? With the controls to direct the impact or understand the impact better.</p>	<p>Are the steps in place to mitigate these risks right? Are the right risks being monitored? Are the risks being measured and monitored appropriately? Is the Board reporting right? Are there sufficient processes in place to identify new risks?</p>

For Other Information

Whilst the question asks about operational risks, this is a difficult category to pin down. One definition of operational risk (people, processes, machinery, strategy, reputation) is so wide that almost anything could be included.

B3.5 Do you consider your firm's business continuity management plans fit for purpose? If so, what evidence do you have?

Framing your Response

Business continuity, or under its new name 'operational resilience', is increasingly important. The regulators have been consulting on this subject in 2018; see [here](#), and new rules may emerge.

Surface Considerations	Detailed Considerations
<p>Is business continuity regularly on the Board's or a suitable Board committee's agenda? Is it subject to internal audit? How often are the plans tested?</p> <p>Is there a plan to develop the business continuity facilities over time?</p>	<p>Business continuity can absorb resources way beyond its impact. How do you know that your firm's approach is proportionate?</p> <p>Are there vulnerabilities that cannot be addressed?</p>

For Other Information

Business continuity is a firm-specific issue: no other firm will have the same infrastructure, connections and working method that your firm has. Business continuity approaches have to be tailored for your firm. There is no shortage of consultancy assistance available, but there is also no alternative to an intimate understanding of the issues to be reckoned with, so your own IT and administration people will be central to designing and implementing the appropriate solution.

See PRA's '[financial sector continuity](#)' webpage.

B3.6 Is your risk function adequately resourced?

Framing your Response

How would you know? The requirements of the risk function are set out in Solvency II, but need to be applied proportionality. Perhaps more important is how your risk function works within your firm to add value and insight.

Surface Considerations	Detailed Considerations
How many people are in the risk function? How do they spend their time? What structures support the risk function? Is the risk function a silo, or is it embedded? Are the risk policies fit for purpose?	How is the risk function designed to support the business of the firm? What changes can be made to ensure that risk is considered with every decision (or does this happen already)?

For Other Information

There is material around that describes the risk function and how it should work within the business. Yet much of risk management is good management - including common sense. Ring fencing it as a specific function may be necessary in very large firms: in smaller firms, risk has to be a consideration for several areas, with some central co-ordination to ensure the regulatory issues are addressed.

B3.7 Is your firm operating outside risk appetite in any respects?

Framing your Response

This is a little tricky. Risk appetite changes with prevailing conditions. A breach may lead to a redrawing of the risk appetite, and this option should not be ignored.

Surface Considerations	Detailed Considerations
<p>This should be a factual response, based on regular reporting, or possibly an intra-meeting alert. What happens as a result of operating outside appetite? A good chance to describe some real incidents and how they were managed.</p> <p>Might the appetite be re-drawn? Maybe it was based on an estimate and now it should be adjusted because there is better information.</p>	<p>Acting outside risk appetite may occur because a risk has materialised to an unexpected degree. It could also arise because the definition of the appetite needs improvement.</p> <p>How good is the firm at describing its risk appetite? Does the firm get caught out, as it struggles to express the risks better? Is the risk appetite sufficiently attuned to the firm and its operating environment?</p>

For Other Information

The risk appetite is relatively new. A Board could agree its risk appetite only to find that the chosen parameters don't match the sensitivity of the risk. This can work both ways: a tolerance that is never triggered or a tolerance that is triggered too often. It will take time to settle on the right appetite.

The ORSA should help, allowing the sensitivity of the firm's solvency to be tailored to its risk appetite.

B3.8 If not, has it done so in the past? If so, what action was taken?

Framing your Response

This question has sort of been answered above, but...

Surface Considerations	Detailed Considerations
A risk appetite is a broad set of tolerances. Some breaches will be more important than others, or will have irreversible or more damaging consequences. Other breaches may indicate a changing market, suggesting that tactical or strategic plans need to be reviewed.	Does the risk appetite serve a useful purpose in business planning? Or is it a tick box exercise? What plans are there to improve the use of risk appetite, or is it useful already?

For Other Information

As discussed, the risk appetite is a relatively new and untried concept. Boards should continue to step back and take an overview of their risk management system and its impact on the business. By challenging the impact, continual improvements should be possible.

B3.9 When did the Board last consider a report in respect of risk (e.g. from the Risk or Audit Committee) and what changes, if any, were made as a result?

Framing your Response

A bit odd this. Modern governance expects the Committee Chairs to report at each Board meeting, so the answer should be ‘every time it meets, as scheduled’. While the setting of risk tolerances (or risk appetite) will probably be a matter reserved for the Board, the Risk Committee might be expected to get on with the rest of it.

This may well not be the case in a smaller company with no separate Risk Committee. In that case, risk should be regularly discussed. If the risk function is not to be a silo, it should be part of all business discussions.

Surface Considerations	Detailed Considerations
A factual question.	Does the Board consider risk matters appropriately? Is the Risk Committee doing a good job? How would you know?

For Other Information

The risk function is developing and no-one has a complete and correct answer. Continual testing and challenge should allow improvements to be made continually.

B3.10 Were the incidents foreseen by the firm's risk log? Were they accurately assessed and recorded?

Framing your Response

A slightly odd question. Certainly all risks should be considered by the ORSA, but there are infinite descriptions of risk. At some point, the focus has to switch to the impact of the risk, rather than the innumerable possible causes.

Should a risk log anticipate all types of incidents? Maybe this refers to a risk register? Some risk registers consider the impacts only (at least for some risks), not the causes...in which case, the question can be considered as 'was the impact foreseen and appropriate steps taken to mitigate'? A different approach might be to consider the category of risk and its potential to cause harm, considering only harm-causing risks.

Surface Considerations	Detailed Considerations
This is an opportunity to talk about risk management in action. First, does the Risk Management System anticipate all forms of risk incident? Second, does the risk reporting provide proper details, root-cause analysis, preventative and corrective actions and a record of accepted vulnerabilities?	Is the Risk Management System fit for purpose in practice? If not, have you raised the matter and what is the plan?

For Other Information

Much risk material is about what should happen, not how a Risk Management System can be implemented in practice. It is quite important that you can describe how your firm's Risk Management System works in practice and is suitable for your firm.

B3.11 Are you aware of any recent regulatory enforcement cases?

Framing your Response

Rather a broad question, which is presumably designed to test a Director's awareness of the governance and industry environment. It may be worth tying this up with the business plans of both regulators. These plans tend to identify the areas of particular regulatory interest.

Surface Considerations	Detailed Considerations
<p>Worth knowing what cases are progressing or have been concluded which have an impact on your firm's line of business. Cases might be fought in the courts or announced by the regulator. The more important cases will attract industry comment, which might also be useful.</p> <p>Your Company Secretary may be able to assist with the required details.</p>	<p>What steps are you taking to ensure that your firm is not vulnerable to the sort of issues that have led to enforcement action?</p> <p>What steps have you taken in the light of the PRA and FCA business plans?</p>

For Other Information

Exploring what lessons can be learnt from problems elsewhere in the industry is valuable to a firm.

Demonstrating evidence of thought around the issues coming to light should show the regulator that emerging governance issues are being taken seriously.

B3.12 The Board, or individual members, might be questioned on its/their knowledge of the Solvency 2 position, such as:

- the firm's capital, levels and quality
- reverse stress tests
- the SCR and MCR
- the firm's liquidity position
- own solvency needs
- the stress tests and results

Framing your Response

This is essentially a question about the results of the ORSA. It would be quite unfair to be expected to cite numbers, other than perhaps a solvency ratio. You should know the headlines though. Your firm's ORSA report should address the questions listed directly in its executive summary.

Surface Considerations	Detailed Considerations
You should know whether your firm is likely, on its current business plan, to run into capital problems: if it looks like it might, you should know the remedies available and the plan if the trend worsens. The liquidity of available capital is an important measure. The ORSA is about stress testing all possible parameters, including trying to deliberately break the firm (reverse stress testing).	Does your firm's ORSA process provide useful insight for the development of the business plan? If not, why not? If it does, what changes have been made as a result of the ORSA results?

For Other Information

While much has been written about the ORSA, there is not that much around about what the results might mean for individual firms. In part, this reflects the uniqueness of each firm's ORSA. Your CRO or Chief Actuary should be able to explain the implication of all of the ORSA results on your firm and its future plans.

B3.13 Are the following processes robust:

- product governance
- competition law compliance
- promotions sign-off
- data protection
- financial crime prevention
- consumer contract drafting
- treating customers fairly
- complaint handling
- sales processes
- third-party relationships
- information security
- outsourcer relationships
- distribution relationships
- operational error and cause analysis?

Framing your Response

If the Board is doing the right job all of these processes will be robust. This is a great list of hygiene factor processes. They should be on the agenda of the Audit Committee if not the Board at least once in a year-long cycle. All of them are important parts of the effective Internal Control System. You will probably only be asked about one, but you should be prepared!

Surface Considerations	Detailed Considerations
Hopefully the answer is always yes, but you will need to explain how you have drawn your conclusion. How do you know? What evidence have you seen? Has internal audit been involved? What incidents have there been? What changes have there been?	How effective is the internal control environment? Where are the planned improvements? On balance, where are the strengths and weaknesses?

For Other Information

This laundry list is a useful aide-memoire. Firms may well keep their own (IDD, bribery act, policy review...and so on could usefully be added). The list might too form part of the universe drawn up for the risk, audit and compliance functions.

B3.14 What management information is provided to the Board on systems and controls?

Framing your Response

On the surface, this is a factual question about the effectiveness of the internal control environment and how it is reported to the Board. As a Director, the bulk of your information comes in management information (MI) and Board papers. Are you asking for the right information to allow you to oversee your firm effectively?

Surface Considerations	Detailed Considerations
Is the management information (sometimes abbreviated to 'MI') sufficient to allow you to assess how effective the internal control environment is? Is it appropriately sensitive, broad, and working for the business? Contrarily, is it sufficiently probing in the right areas to allow you to understand the unfolding situation?	How do you expect the internal control environment to develop over the next three years? How will the management information develop? Will your confidence in the reporting increase, decrease or stay the same?

For Other Information

Management information tends to be close-to-unique to each firm, driven not only by the business, but what can be drawn out from the IT systems and the firm's history. But is a well-established set of management information really fit for purpose in a dynamic environment? Are there variables that should be being tracked, to provide additional insight that may be increasingly relevant? Conduct risk management information is a good example. A decade ago, the fuzzy metrics often used would be rare in the Boardroom, whereas now they are mandated.

Try asking yourself, for each piece of management information, what does this tell me? What would too high- or too low-level MI look like? What decisions would be prompted by a too high or too low value?

What are the things that would be terrible for your firm? How would you know if there was a trend to see them happening in practice?

B3.15 How is risk management embedded into your firm's business?

Framing your Response

Risk management is a part of insurer governance under Solvency II. It is a required component. You need to be well-versed in your firm's risk management approach.

Embedded risk management is a sign of governance maturity. Risk management should be part of 'how we work around here'. If it is not, if risk management happens in a silo, if it is a secondary consideration, if it is tick-box, you may have some way to go.

If risk management is embedded, it can be difficult to explain where it happens, because it is part of the everyday!

Surface Considerations	Detailed Considerations
How often are team and function managers asked about their view on risk? What happens to those views?	Is risk management central to the Board and Committee discussions? Is your firm focused on its solvency and how risks affect its solvency?
What risk information does the Board use in its decision-making? How have decisions changed because of risk information?	Does your Board distinguish between internal control and risk management?
Are your firm's risk policies useful throughout the business?	How does your firm consider operational risk incidents?
How often do employees talk about risk?	

For Other Information

Much has been written about risk management. Most material tends to be about how things should happen. There is not much around about the practical aspects of embedding risk management or making risk management useful.

Firms therefore have to decide for themselves how to strike the right balance - hence this is an interesting question for the experienced NED.

B3.16 What access do the risk and compliance teams have to the Board?

Framing your Response

It is generally expected that heads of compliance teams have direct and explicit access to the Board, sometimes via the Audit Committee. Risk functions should have similar access. There may be some practical difficulties where these functions are vested in one person who may also sit on the Board, but the principle is worth striving to preserve: these functions exist to help Boards overcome the natural information asymmetry that exists between Non-Executive and Executive Directors.

Some firms formalise the access, by routinely having private conversations between the Non-Executives, or a sub-set of them, and the heads of compliance and risk after every scheduled meeting. By making access routine, it becomes embedded and is perhaps easier for matters of concern to be raised.

Surface Considerations	Detailed Considerations
<p>What happens in your firm? Is it enough? Are matters drawn out? Are sensitive matters raised in a way that illuminates without threatening?</p> <p>The Board could usefully ask the risk and compliance teams about the extent of the internal challenge that is in place and how it is received. The Board may be able to request additional materials and thus underline and ease the importance of the compliance and risk areas (“the Board would like to see the issues log of matters raised and how they were handled”).</p>	<p>The underlying question that private contact seeks to address is ‘how did your boss and/or the Chief Executive respond when you said this to them?’.</p> <p>The response is interesting culturally as well as structurally.</p> <p>Ideally, compliance and risk areas will be valued business partners, not business prevention departments.</p>

For Other Information

Explicit direct access may be enshrined in the Terms of Reference for the Audit Committee or Board. There may too be requirements to ensure the independence and resourcing of these functions. Testing for these factors is a useful obvious question.

B3.17 Does the recent weakening of Sterling compared to the Euro have any effect on your solvency position?

Framing your Response

The answer to this question depends on whether you have non-Sterling policies and/or non-GBP assets on your balance sheet. The effect should be obvious from the sensitivities in your ORSA. You may decide to take management action to mitigate the financial impact. You need to be prepared to talk about impacts and mitigants.

Surface Considerations	Detailed Considerations
If this is a significant risk for your firm, you should be aware of its scale and the possible mitigating actions.	Should your firm have exposure to non-GBP assets or liabilities? If yes, how do you optimise your exposure? If no, what are you plans to limit the exposure?

For Other Information

This question could be asked about any of the major risks tested in your ORSA (so things like new business, lapses, interest rates, mortality, morbidity, investment returns and so on). You should have a broad understanding of the major risks and mitigants (your ORSA report should set these out). You might like to have this to hand.

B3.18 How is the ORSA co-ordinated into other management activity, such as the Board MI pack, the public disclosure report etc?

Framing your Response

It is a requirement of Solvency II that the ORSA results be shared with senior management. For a smaller firm, this might simply be the Board. For a larger firm, the consequences should be shared more widely. The technical aspects need not be shared.

The Board MI pack may include risk and solvency measures. The format of the public disclosure report (the Solvency & Financial Condition Report) is fairly tightly prescribed and includes some risk and solvency information. Your actuary will be able to point out the relevant areas and to describe why the level of detail included is appropriate.

Surface Considerations	Detailed Considerations
Ideally, the ORSA process and report should be useful for the Board and the firm. How is it made useful in your firm? Do the directors value it? Does the business plan depend on the ORSA results?	Is the ORSA useful in your firm? If not, what do you propose to do about it?

For Other Information

There is not much research into how to make your ORSA useful, but there are schools of opinion around. Most material is from the actuarial profession. Perhaps the most useful lead is to press your Chief Actuary: Why does this help? What does this mean? What does this suggest the firm should do differently?

Part C. Questions for Discussion by Groups of Directors

This a new section of the Toolkit and might be used by groups of Directors to consider. These questions also provide interesting CPD exercises.

1	It has come to your knowledge that the Chief Executive has formed an intimate relationship with a senior manager. This could compromise some segregation of duties, and threatens independence and challenge in the senior team. What should you do?
2	The Chair's own business is in difficulties. A loan, properly granted and declared, is no longer certain to be repaid, and the whole situation is a bit of an embarrassment. What should you do?
3	The Head of Internal Audit told you that she and one of her staff were put under a lot of pressure to change adverse findings in an internal audit report on the implementation of a major transformation project, a project that you suspect is running into trouble. What should you do?
4	You have asked the Chief Executive for certain financial information regarding a matter discussed at a Board meeting. Despite reminders, the information has not been forthcoming. What should you do?
5	The Ombudsman has upheld an unusually large number of customer complaints against your firm in relation to a particular business activity. The Chief Executive and the Risk Committee Non-Executive Chair say that they are relaxed about it because numerous other firms are experiencing similar complaint levels regarding the activity, and they therefore propose no action. You are concerned that they are burying their head in the sand. What should you do?
6	The Chief Executive tells you that the Nominations Committee meets too often, and its members need to spend more time on the main Board "considering proper business". The Chief Executive demands that it meets less often, and indicates plans to reduce the resources available to the Committee. What should you do?
7	The Board has received a written proposal from the marketing department that your firm should become the first in its sector to sell a specific third-party investment product designed for new or unsophisticated investors. There seems to be a good business case, but the documented proposal is very light on how conduct risk matters will be addressed. What should you do?
8	Following from the above scenario, you raise a number of concerns. There is very little discussion and you believe that your concerns have been swept aside. What should you do?