



NED TOOLKIT

Association of
Financial Mutuals



Welcome to the AFM Non-Executive Director's Toolkit

Foreword

In early 2016 AFM created an AFM Training and Development Committee, reflecting the desire from AFM members to offer extra support to members on the human resources front. Over the years the Committee has been very active exploring the range of training and development needs across AFM membership; this includes the opportunity to give greater support on corporate governance in general, and to NEDs in particular.

This is an area where AFM has been prominent for a long time, particularly through the AFM Corporate Governance Code. But we have also seen greater intensity from regulators on the issue, with the Senior Manager & Certification Regime, rules covering board responsibilities, and greater attention to the responsibilities and accountabilities of individual board members.

With the creation of revised Senior Management Functions came greater likelihood that regulators would wish to interview directors who either fulfil or aspire to senior roles. NEDs need to exhibit a good understanding of the business and its prospects, as well as its operating environment. This NED toolkit is designed both for induction and ongoing training, as well as to help prepare NEDs for upcoming regulatory interviews.

Feedback from members on the previous two versions of the Toolkit has been very positive, though we were very conscious that its length was unwieldy and the format would benefit from a refresh. The Committee believes the new Toolkit will be valuable, in helping to demonstrate the professionalism and commitment of individuals, organisations and the sector as a whole.

We welcome your feedback on the Toolkit, or on any other element of how AFM supports your training and development needs.



Peter Green

Chair, AFM Training and Development Committee



Introduction

Non-Executive Directors of insurance companies are held to very high standards, by regulation and by legislation, and by the rules of their company.

For this reason, AFM has developed this Toolkit to highlight some of the key areas NEDs should be aware of, during their initial training, and on an ongoing basis. This is the third edition of the NED Toolkit, and replaces the 2019 second edition, the content of which is now redundant. The second edition was over 180 pages long; this version is far shorter, to make it easier for NEDs and Company Secretaries to use the Toolkit regularly and effectively.

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 offers a series of questions that a NED or prospective NED might want to explore. The Toolkit explores how a Non-Executive Director might draw on their skills and experience to provide meaningful answers to these questions.

The regulatory environment is constantly evolving. Since the second edition of the Toolkit, the regulators have heightened NED responsibilities, both in general and

via targeted initiatives. These include revisions to the Senior Managers' & Certification Regime (SMCR), NED attestations, managing the risks of climate change, addressing diversity and inclusion at the board and across the business, and via the Consumer Duty. Legislation changes have amplified some of these developments, and at the time of writing, more are expecting, including on the role of the audit committee, diversity and inclusion, and for friendly societies at least, a change in their root legislation. It is important that Boards are vigilant and aware of changes to the environment, and assess the implications to their business.

AFM provides a range of other resources specifically for NEDs. These include the NED Conference, the Board Director development programme and the Chairs' Network. In addition, NEDs are regular users of the AFM online training portal, and we have many NEDs who attend the AFM Conference, and a range of other online and in-person events. There are also regular NED contributors to AFM Committees and the Mutual Diversity Alliance. In 2024, alongside its annual report on board composition, diversity and remuneration, AFM published guidance for Boards in applying the AFM Corporate Governance Code.

Feel free to contact a member of the AFM team for more information on any of these.

Introduction

continued

Why be a Non-Executive Director?

This is the question at the heart of your decision to serve on a Board. It is key to a 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 appointment: What have you discovered? How have you helped? What are your plans now you know more about your firm?

Within the Toolkit there are separate question sets for new NEDs (including those pre-appointment), and for experienced Directors. They are designed for general development work and self-assessment, though they are also the types of questions that might be posed by a regulator. In circumstances where an NED is to be interviewed, reviewing the questions and exploring the issues more deeply should be useful preparation.

Content

The third version of the Toolkit provides:

1. An overview of the regulatory environment and of regulatory interviews
2. Sets of questions for new and experienced Non-Executive Directors, as well as suggested questions for group discussion.
3. A short collection of one-page summaries to support Non-Executive Directors.

Suggestions for new questions and other content/ 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.

1. The regulatory environment and regulatory interviews

Regulatory interviews

Being interviewed by a regulator is a valuable opportunity to demonstrate and share your knowledge, learning and experience, in order that the interviewer gains a sense of how you perform, or would to, in a governance role. The Toolkit helps 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 such roles. Typically the roles that require 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.

Accountability and Responsibility

The SMCR (Senior Managers & Certification Regime) is unequivocally about accountability and responsibility. Your firm's Management Responsibilities Map will show who has responsibility under the Regime for which areas of your firm's business. If you have Prescribed Responsibilities, be ready in a regulatory interview 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

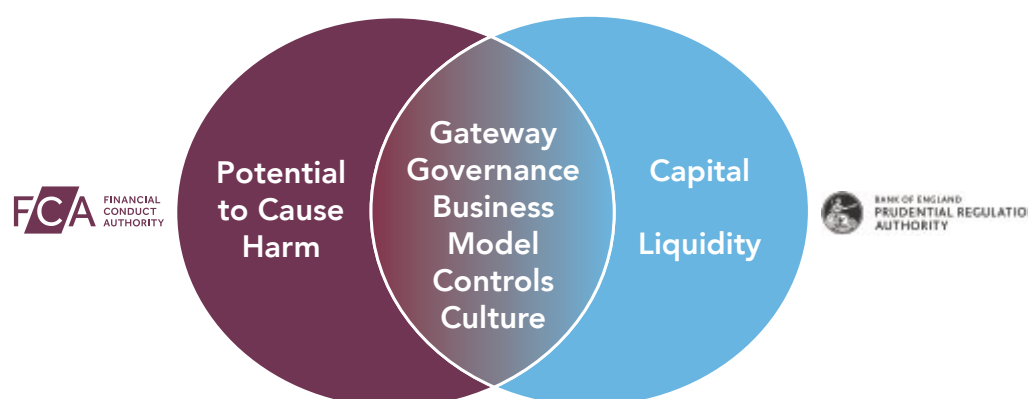
You may be asked questions about detail. You might want to rehearse how you will reply when the detail is not to hand. It is perfectly reasonable to take documents with you to an interview and to refer to them for the detail.

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 the Toolkit, we explore the role of NEDs in managing risk. The approach mirrors the Solvency UK 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. These are all good Board behaviours.

Top Questions for Non-Executive Directors

A. Questions for new NEDs and for Pre-Appointment

Many of the following questions will be covered in a new NED's induction programme. In framing your response, consider:



Knowledge:

what do you know that will help you and the firm?



Understanding:

what conclusions have you drawn from the knowledge you acquired during your induction and since?



Experience:

how can you make your experience valuable to your firm?



Action:

as a Non-Executive, what action can you take to address issues?

About your firm

- A.1.** What is the core business of your firm?
- A.2.** What is your firm's business model?
- A.3.** Describe the competitive environment in which your firm operates.
- A.4.** Why does culture matter?
- A.5.** What are the key prudential risks your firm faces?

About your skills and competence

- A.6.** What skillset do you offer the Board? How have you acquired those skills?
- A.7.** 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?
- A.8.** Is there anything from your past roles that, with hindsight, you might do differently?
- A.9.** Are the responsibilities of your role clearly and fully documented?
- A.10.** What have you done in your first few months in the role, or are likely to do if awaiting appointment?

About your views on governance

- A.11.** What are the key attributes of a successful Board?
- A.12.** What are the benefits of a diverse Board?
- A.13.** What does effective challenge look like?
- A.14.** What sources of assurance will help confirm that your responsibilities have been satisfactorily discharged?

You and the new firm

- A.15.** What motivated you to apply for your role?
- A.16.** Are the responsibilities of your role clearly and fully documented?
- A.17.** Find out how much time you will need to commit to your new role and think about how will you find the time to carry it out?
- A.18.** How does your role fit with other parts of your firm's overall governance?

About regulators and regulation

- A.19.** Are you familiar with what the regulators expect of your proposed role? What you are, and are not, responsible for?
- A.20.** What are the principal regulatory policy developments (recent, current or impending) affecting the area that your role covers
- A.21.** How is the PRA strengthening accountability in financial services?
- A.22.** How is the FCA strengthening accountability in financial services?
- A.23.** What are the regulatory conduct rules for Non-Executive Directors?
- A.24.** If you receive an attestation request from a regulator, what are your obligations?

The firm and risk

- A.25.** What are the main areas of risk that insurers face? How might they be mitigated?
- A.26.** What systems, policies, procedures or other tools serve to control and mitigate prudential risks?
- A.27.** What do you understand by 'three lines of defence'?
- A.28.** Why does recovery and resolution planning matter? What responsibility does the Board have? Are you familiar with the key elements of the firm's arrangements?
- A.29.** What are the key retail conduct risks the firm faces? How does the firm control and mitigate these?
- A.30.** What are the key operational risks the firm faces? How does the firm control and mitigate these?
- A.31.** What is Business Continuity Management ('BCM') and why is it important? How good is your firm's BCM?
- A.32.** What risks are posed by the wrong business culture?

B. Questions for Experienced NEDs

As an experienced NED, in framing a response to the following questions, you might consider:

Surface considerations:

applying your knowledge of the firm's strategy and policies to addressing the question.

Detailed considerations:

these might include people and financial consequences of the firm's strategy and policies, and the nature of the risks the firms is exposed to.

The Firm's Business and Organisation

- B.1.** What is your firm's high-level business strategy?
- B.2.** How is the strategy set?
- B.3.** What are the key challenges for your firm?
- B.4.** What is your firm's culture?
- B.5.** Are you clear about your firm's expectations of you?
- B.6.** How does your firm practice its values?

Your skills and views of governance at the Firm

- B.7.** Describe your induction programme and/or ongoing training? Are these programmes adequate and suited to your needs?
- B.8.** Are you appropriately informed about important developments within your firm? How is this delivered?

About your Board

- B.9.** Describe how the Board works collectively. Give an example of where opinions differed and how a conflict was resolved.
- B.10.** What is the process in your firm for re-electing Board members and for ensuring that there are sufficient independent directors to meet both regulatory requirements and also to ensure there is a range of skills and experiences?
- B.11.** What are the attributes of a successful Board?
- B.12.** Do you believe that there are any skills gaps on the Board?
- B.13.** What procedures does your firm have for identifying and addressing potential conflicts of interest on the Board?

About your role

- B.14.** Do you have sufficient oversight of your role and responsibilities?
- B.15.** Do you have enough time to carry out your role effectively?
- B.16.** What one thing you would improve about the Board?

About meetings

- B.17.** What are the principal functions/roles of Board Committees and how would you use them (if required)?
- B.18.** What are the key roles of a Board?
- B.19.** What is the process for determining topics/papers to be included on agendas?
- B.20.** What MI do you receive before Board or committee meetings? How might this be improved?
- B.21.** How does the turnout at the AGM, and other Member engagement activities, ensure the Board has a democratic mandate to pursue its chosen strategy?
- B.22.** How many (non-staff) members turn up for the AGM and what does this say about your approach to engagement?
- B.23.** To what extent does your firm apply the principles within the AFM Corporate Governance Code?

About Board Composition, Evaluation and Succession

- B.24.** Are you satisfied with arrangements in respect of the Board regarding Board evaluations, remuneration and diversity?
- B.25.** Describe the process for electing the Board and for re-election of Directors.
- B.26.** When did the Board last discuss succession planning? How well developed are the succession plans for key positions in your firm?
- B.27.** What resources do you have within your business to measure your commitment to diversity and inclusion, and how does this compare to other firms in your industry?

About Regulatory matters

- B.28.** How does the Board review new regulatory expectations, such as the Consumer Duty or the Solvent Exit Assessment?
- B.29.** The Chair is the 'critical friend' of the CEO: how well do they work together?
- B.30.** What is your firm's culture? How does the Board ensure the culture works firm-wide?
- B.31.** How does the firm ensure compliance with legal and regulatory requirements?
- B.32.** What procedures are in place should a systematic compliance breach come to light?

Your firm and audit

- B.33.** Do you and the other Non-Executive Directors provide input into the audit plan?
- B.34.** Describe how the Audit Committee (where there is one) advises the rest of the Board on audit issues.
- B.35.** 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?
- B.36.** When was your firm's external audit contract last reviewed?
- B.37.** Is the three lines of defence working in practice?

The Firm and risk

- B.38.** How is risk management embedded into the firm's business?
- B.39.** How does your Board assess emerging risks? What emerging risks are on the firm's radar at the moment, and how are you addressing them?
- B.40.** How often and how effectively does the Board discuss your strategy for managing the financial risks of climate change and the impact on your business?
- B.41.** Is the firm operating outside risk appetite in any respects? If not, where it has done in the past, what action was taken?
- B.42.** What management information is provided to the Board on systems and controls?
- B.43.** What is your understanding of the following aspects of Solvency UK:
 - the levels and quality of capital
 - reverse stress tests
 - the SCR and MCR
 - the firm's liquidity position
 - own solvency needs
 - the stress tests and results
- B.44.** 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?

C. Questions for Discussion by Groups of Directors

These questions might be used by groups of Directors to consider, and might also provide interesting CPD exercises.

- C.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?
- C.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?
- C.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?
- C.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?
- C.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?
- C.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?
- C.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?
- C.8.** Following from the above scenario, you raise a number of concerns. There is very little discussion and you believe your concerns have been swept aside. What should you do?
- C.9.** The firm has a focus on diversity and inclusion within the Board, but you are not satisfied this includes diversity of thought. The Head of HR shares your concern but is unclear how to broach the subject with the Chair. What advice can you give about taking the issue forward?
- C.10.** The Chair has recently talked about relaxing the firm's climate change goals and in particular the commitment to achieving net zero by 2040. What are the pros and benefits of this, and how should the Board discuss the subject?

2. One page summary lists for NEDs

List i. What documents about your firm should you be familiar with?

Public documents

1. Financial statements
2. Solvency & Financial Condition Review (where applicable)
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 reports of supervisory interactions with the regulators
5. Actuarial valuation report
6. Approved risk tolerance/risk appetite statement
7. Compliance plan
8. External/Independent auditor reports
9. Business continuity plans
10. Solvent exit assessment document

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. Operational and cyber resilience policy
7. Consumer Duty policy
8. Equality & diversity policy
9. Environmental, Social and Governance (ESG) policy
10. Risk policies
11. Seeking external advice for the Board policy
12. Compliance policy
13. 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.

List ii. A Skills and Experience Template for an Insurance Director

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

Operational Skills

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

Corporate Finance Skills

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

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

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

Skills might also be acquired in a range of different specialism:

By product	By distribution	By provider type
<ul style="list-style-type: none"> • Life Insurance/term/endowments • Critical Illness • Income protection • Whole of Life/Guaranteed Over 50s • Health cash plans • Medical insurance • Pensions 	<ul style="list-style-type: none"> • Independent financial advisors • Direct sales force • Tied agents • Direct • Affinity groups 	<ul style="list-style-type: none"> • Life insurer • Investment or Savings Provider • Composite insurer • General insurer <p><i>Plus:</i> Ownership (mutual/ proprietary) Type (manufacturer/ distributor/ reinsurer) Scale (regional/ national/ international) Size (small/ medium/ large/ very large) Status (start-up/ established/ aggressive)</p>

List iii. What regulatory documents should you be familiar with?

PRA Documents

- The PRA's [approach to insurance supervision](#) (latest version: July 2023) which references the PRA's [8 Fundamental Rules](#)
- The [PRA Rulebook](#), which is clearly laid out and regularly updated, with separate sections for [Solvency UK insurers](#) and [Non-Directive insurers](#),
- [Corporate Governance: Board responsibilities](#) (latest version: July 2018)
- The latest [PRA Business Plan](#): the latest version, 2025-26 refers to how PRA will respond to the [HM Treasury letter on Mutuals reporting](#)
- PRA's [strengthening accountability](#) webpage, including details of the Senior Managers Regime
- A full and regularly updated [Index of policy areas relating to insurance firms](#)
- SS3/19 on [Managing the financial risks of climate change](#) (updated April 2025)

FCA Documents

- The [FCA Handbooks](#) are online, and include a helpful timeline feature
- The FCA's 12 [Principles for Business](#) (see also [full version of the Principles](#))
- The FCA's webpage for [Our approach to supervision](#)
- The FCA's latest [Business Plan](#)¹⁶, which includes its main commitments, and its assessment of the current challenges it has to tackle
- COCON – Annex 1: [Guidance on the role and responsibilities of Non-Executive Directors](#)
- FCA's [Senior Managers and Certification Regime](#) webpage
- The FCA webpage on [The Consumer Duty](#), including an [overview of Board reports](#) (December 2024)
- The FCA webpage on [Culture and Governance](#) is regularly updated

AFM Documents

- [The AFM Corporate Governance Code](#) (version January 2019)
- [Guidance for Boards on applying the AFM Code](#) (October 2024)
- [The Duties of Directors of Mutual and Not-for-profit Insurers](#) (October 2019)
- The webpage for the [Mutual Diversity Alliance](#)
- The [Governance Reports](#) page on the AFM website includes valuable data on board composition, diversity and remuneration

