

Supervising DEI in insurance – Executive Summary

In 2021, the International Association of Insurance Supervisors (IAIS) published a [statement](#) that explained the importance of diversity, equity and inclusion (DEI) considerations in insurance supervision. Its [Application Paper on supervising diversity, equity and inclusion: the governance, risk management and culture perspective](#) elaborates on the significance of DEI in the supervision of risk management and corporate culture of insurers, in accordance with the IAIS [Insurance Core Principles \(ICPs\)](#).

- **ICP 7 – Corporate governance** refers to the need for insurers to have a corporate governance framework that provides for sound and prudent business management and oversight and protects policyholder interests.
- **ICP 8 – Risk management and internal controls** refers to the need for insurers' corporate governance frameworks to include effective systems of risk management and internal controls.

What is DEI?



Diversity reflects the differences between people, including different knowledge, skills, experience, ways of thinking and demographic characteristics. The idea that such differences can lead people to think differently and have varying perspectives is sometimes called "diversity of thought".



Equity involves seeking fairness for all by allocating resources and opportunities in a way that recognises the different circumstances and needs of different groups of people.



Inclusion refers to a sense of belonging felt by all people within an organisation, regardless of their differences, and an absence of barriers, so that they can participate fully in and contribute to the organisation and are unafraid to raise difficult issues or convey difficult messages to their seniors.

Why is DEI relevant to governance and risk management?

The corporate governance standards set out in ICP 7 are supported by elements such as diverse board composition, the exercise of independent judgment by board members, and objective and independent decision-making within boards. Embedding DEI within an insurer can support these outcomes and strengthen its governance by bringing broader perspectives within the organisation and reducing "groupthink" (ie a tendency to prioritise consensus over critical evaluation).

Effective systems of risk management, as expected by ICP 8, must be able to take account of all reasonably foreseeable and material risks to which the insurer is exposed. Control functions need to have the necessary authority and independence to be effective. By leading to a more diverse staff working together and able to raise concerns, DEI can enable more complete identification and understanding of risks and ensure appropriate escalation of risk reporting.

The lack of sound DEI practices in an insurer may give rise to increased risks in the following areas:

- **governance** – weak internal challenge, poor decision-making, lack of innovation and increased risk of employee misconduct
- **reputation** – damage to public trust and investor confidence

- **staffing** – difficulty attracting and retaining high-quality and diverse staff in competitive labour markets
- **legal** – exposure to discrimination claims and regulatory sanctions
- **competitiveness** – missed opportunities for innovation and market relevance due to a lack of diverse perspectives

Warning signs for supervisors

There are two sets of warning signs for supervisors that can indicate the need for increased engagement with an insurer on the topic of DEI. The first set relates to governance, risk management and corporate culture that could arise when there is a lack of DEI. These warning signs include:

- a lack of challenge in board discussions and key decision-making processes, which could mean that diverse perspectives are not being considered
- a corporate culture that is resistant to change, which could indicate groupthink
- a lack of open communication between levels, which could lead to problems not being escalated appropriately and addressed
- persistent breaches or insufficient consideration of the views of control functions
- high staff turnover and difficulties in retaining or recruiting staff from particular groups

The second set of warning signs indicates possible shortcomings in the way that an insurer has embedded DEI. These include:

- a dismissive attitude to DEI from management, a lack of a clear strategy to drive change, or unclear accountability for embedding and promoting DEI at all levels of the organisation
- the lack of an informed DEI strategy with sufficient data, a box-ticking approach to implementation, or limited or stagnant metrics for monitoring progress
- the lack of an institution-wide DEI strategy with dedicated resources or a focus limited to diversity in senior leadership
- poor internal communication on DEI or limited employee feedback channels

Supervisory actions to address DEI-related problems

There are industry-wide actions and insurer-specific engagement that supervisors may pursue to address DEI-related issues they have identified. Those potential actions must be considered in the supervisor's jurisdictional context, having regard to its own mandate, powers and priorities, and proportionality.

Industry-wide actions include: the use of soft powers, such as speeches, guidance, roundtables and public transparency, to open a dialogue on the role of DEI in supporting good governance, risk management and corporate culture in insurers; the integration of DEI themes into supervisory approaches to those elements; and the development of requirements in the form of supervisory expectations, standards or rules, depending on the supervisor's powers and approach.

Insurer-specific engagement may be pursued in tandem with industry-wide actions to communicate with insurers in a more targeted way. Possible actions include discussions with boards to understand an insurer's DEI strategies, practices and outcomes and targeted reviews of an insurer's approach through desk-based assessments and on-site visits, examining aspects such as its DEI-related policies, senior level engagement, accountability arrangements and internal messaging.

This Executive Summary and related tutorials are also available in [FSI Connect](#), the online learning tool of the Bank for International Settlements.