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"As a board member, you have to think about culture," said one director.[1] Conversations with dozens of leading insurers confirm not only that board members view organizational culture as an important topic but also that they are increasingly focused on it in the boardroom. This is a significant development given that the responsibility to manage and shape culture has historically resided with the CEO and C-suite. However, as several participants noted, culture is at the heart of many directors' top priorities, including fostering innovation, managing risk and compliance, selecting CEOs, governing merger and acquisition considerations, and attracting talent.

"You can't work for a financial institution without worrying about culture and compliance."
– Director

If culture is becoming more of a board matter, the question for boards becomes, in the words of one director, *"What is the role of the board in addressing culture?"* Most directors agree that examining culture is a key part of their responsibility because culture underpins strategy and performance. One director said, *"The board is accountable for organizational performance. If that is going well, or not well, you need to assess why. A good board member has a real sensitivity to the importance of culture on performance."* However, board members are still determining how best to fulfill this responsibility.

On March 3 and March 15, IGLN non-executive directors, executives, supervisors, and select guests convened in New York and London to discuss how global insurance companies are addressing organizational culture as a means both to ensure compliance with regulation and to position their companies for the future. For a list of discussion participants, see Appendix 1, on page 14.

This *ViewPoints* provides context based on conversations with network participants and is guided by the following questions:

- What factors are driving the topic of culture up the board agenda?
- What is the board's role in shaping organizational culture?
- How can boards best understand culture within their organizations?

For a list of questions for board members on culture, see Appendix 2, on page 16.

Defining culture

Organizational culture is a complicated topic; despite its importance, it remains difficult to define, let alone to measure and shape. For the purposes of this work, it was defined as "an organization's values and behaviors, which, taken together, support strategy and define how things get done."

At a more granular level, participants identified two important dimensions of culture:

- **Implicit versus explicit norms.** Participants agreed that culture and associated behaviors are guided by both explicit norms (e.g., rules, policies, and processes) and implicit ones (i.e., unstated norms and expectations that guide behavior). Indeed, some of the most interesting organizational challenges arise when implicit norms conflict with explicit ones.
- **Group and individual behavior.** Furthermore, culture helps define both what a company's employees do around others, and, as the former chief executive of Barclays, Bob Diamond, noted, how they behave "when no one is watching."[2]

What factors are driving the topic of culture up the board agenda?

One expert observed, *"Interest in culture comes and goes, but right now we are in the midst of a period where lots of stakeholders – regulators, shareholders, employees, even the public – are taking a closer look at culture as a source of corporate strength and as a risk."* For insurers, the following factors are driving board interest in culture.

Regulation: there is greater and more intensive supervision of culture in financial institutions

A larger number of supervisory authorities are reviewing the culture of financial institutions, though the type and tenor of supervision differs by geography and lines of business. International authorities including the Basel Committee, the European Systemic Risk Board, and the Financial Stability Board are undertaking significant activity around culture, and national supervisors such as the US Federal Reserve, the UK Financial Conduct Authority, and the Dutch National Bank are pursuing a variety of initiatives locally.[3]

Furthermore, a number of these groups have recognized the importance of board involvement on culture. On this topic, William Dudley, CEO of the New York Fed, noted, "Turning around a firm's culture is a marathon not a sprint. Senior leaders must take responsibility for the solution and communicate frequently, credibly and consistently about the importance of culture. Boards of directors have a critical role to play in setting the tone and holding senior leaders accountable for delivering sustainable change."[4]

> *"[Did] you create an environment in which poor decisions were able to be made? Then the board is responsible. Are they reasonable decisions, given the culture?"*
> – Regulator

Culture and supervision in the UK

- **Financial Conduct Authority (FCA).** The FCA was established in 2012 to separate prudential and conduct regulation in the United Kingdom. The FCA received much attention for its decision to drop a sector-wide review into the culture of banking, but it noted that it continues to prioritize the culture of financial firms and will engage individually with firms to encourage delivery of cultural change.[5]

- **Senior Insurance Manager's Regime (SIMR).** In 2015, the UK Prudential Regulation Authority presented the SIMR, a new regulatory framework to promote increased individual responsibility on the part of executives and non-executive directors by holding them accountable for their decisions. The regime identifies key senior insurance management functions and assigns responsibility for culture and its transmission to one or more key individuals.[6]

  Under the SIMR, committee chairs are not held individually or specially responsible for the decisions made by those committees, but they are tasked with ensuring that committees run well, allow time for consideration of important issues, contain the right mix of individuals, and encourage dissent.

  One supervisor summarized, *"We are looking for you to say whether [difficult issues] were discussed at the board ... The board is not culpable in the decision, but it is if it failed to put reasonable controls into place. We are trying to make sure everyone knows what 'good' looks like."*

Early supervisory attention focused on banks, but insurers are now subject to new kinds of supervision, albeit with a different focus. At a high level, supervisors for both sets of institutions are focused on risk and the culture of risk taking within institutions. This form of supervision entails evaluating risk cultures and controls, testing the health and engagement of the three lines of defense,[7] and assessing the degree of challenge within organizations.

"We don't want to regulate culture because no firm will have the same culture. You have to look at culture like a business model: what kind of risk does it create?"
– Regulator

There are some commonalities between banks and insurers in their oversight of culture; however, authorities that supervise both point to important differences. Within banking, supervisors have focused more attention on ethics and the elements of culture that may contribute to ethical lapses. *"In banking, cultural issues are deep and often offensive, like LIBOR [the London Interbank Offered Rate scandal],"* one supervisor said. In contrast, the supervisor continued, *"My concern in insurance is more the nascent state of risk management. I've been more focused on risk culture [than on ethics]."* Insurance supervisors have been looking at whether organizational cultures promote the following:

- **Voicing challenge.** One supervisor noted, *"Often, things we find are things people already know about. It raises the question of why people don't talk about it."* An executive agreed: *"It is a lot less about colluding in chat rooms and more about your internal culture and [asking yourself] if you see something that could incur a large loss, would you actually say something?"*

- **Accountability and learning.** Supervisors also want to better understand how errors in judgment are treated, whether individuals are held accountable, and whether firms publicize lessons learned. Participants noted that legal requirements, such as certain termination and non-disparagement clauses, can inhibit or prevent firms from publicizing positive and negative events, though several participants said that their organizations are exploring whether they might do more to share stories as a means to promote healthy culture.

- **Management of new risks.** Finally, as insurers increasingly explore new areas of risk, supervisors are keen to understand how risk functions and how leaders think about those new risks. One chief risk officer (CRO) said, *"There are areas where we need to improve our thinking on risk. We are good at accumulation of risk in property – i.e., catastrophe modeling – but poor at casualty. We have taken on risk in the books but not in investment, and that is changing."*

Scandals: high-profile scandals and challenges put culture on the front page

"It seems like every week there is a new corporate scandal making headlines," said one director. No sector or country seems immune. High-profile scandals at organizations like Volkswagen and Mitsubishi, Olympus, Petrobras, and Deutsche Bank continue to draw attention to cultural and leadership failures. Furthermore, as one participant argued, these incidents may serve to build more cynicism and anticorporate populism within media and the public sphere. Given the tremendous risk to reputations, many directors are looking at the trends behind the headlines, such as poor governance, weak controls, and cultures that prioritize fraud over failure.

Strategy: insurers must position themselves for a different future

"Boards are focusing more on culture, not just in response to regulators … Companies interested in transforming their organizations recognize culture change plays a big role," said one director. In numerous IGLN discussions, participants have observed that companies need different kinds of services and products to compete in the digital world. Future success may depend on the following:

- **Creating a more agile environment.** One director argued, *"The biggest issue is that things are changing at a more accelerated rate. You can't have a static culture; it has to be dynamic. The culture you had in the mid-1990s wouldn't work today."* Agility can take many forms, including more rapid, streamlined, or diffused decision-making and faster product development. Participants noted that becoming more agile requires a combination of new structures, processes, and even organizational values. For example, if decision-making devolves to lower levels of an organization, new processes and cultural norms will be needed to help guide behavior, and they may help substitute for more rigid or hierarchical structures. The challenge for insurers is to put these changes into action in an industry that is hierarchical and slow by design. One director said, *"Today, everybody is looking for a greater level of urgency with more effective decision-making. You don't want to punish people for being appropriately aggressive. You need to have some tolerance for experimentation."*

- **Attracting new kinds of talent.** During the 2015 IGLN Summit, participants spoke of the need to diversify the workforce by hiring people with different kinds of skills, including engineers, data scientists, and individuals with high emotional intelligence.[8] Attracting the right kind of talent will also mean wooing a younger demographic. *"The slow, plodding reputation of the sector and of companies has to change if we are to retain millennials. We need to be a company in touch with the world,"* argued a director.
- **Elevating customer centricity.** As the saying goes, insurance is sold, not bought, but insurers recognize this will be less true in the future. As a result, groups are trying to shift from a product focus to a customer focus. A director described this fundamental change in orientation: *"The old tenets of insurance were that you have to understand risk and asset-liability matching. That has been guiding behavior forever. The big change is that the winning carriers will bring that down to the customer level. Do you really understand your customers' risk and capital needs?"*

"People have to have the ability to have connected thinking, and not just one discipline but [rather] understanding in things like the financial markets, technology, and even climate change."
– Director

Mergers and acquisitions: consolidation raises questions about cultural fit

In 2015 there was a significant increase in merger and acquisition (M&A) activity in the insurance industry.[9] Most directors suggest cultural fit is – or should be – a major consideration in premerger due diligence as well as postmerger integration. One director said, *"[Acquisition] is a large risk. You need to assess it in the diligence phase, but the diligence phase will never get you all the answers. It is always different once you go under the covers. It will never be the way you think it will be. You have to be ready to manage that risk."*

"Certain cultures may not work in all cases, and it impacts who [you acquire] and if you go out and acquire someone."
– Director

As with any consideration that combines culture and strategy, the type of transaction will inform the consideration of culture. For example, in an acquisition of a boutique firm, maintaining distinctive cultures may be an asset, whereas a merger of equals may require more comprehensive cultural integration. One director noted, *"You can destroy value pretty quickly if you can't get postmerger integration right. Sometimes the problems that crop up are pretty obvious and should have been flagged when the deal was being considered."*

Even international supervisors are focusing on the potential impacts of transactions. The International Association of Insurance Supervisors is urging supervisors to secure powers to reject and shape transactions because of concerns regarding shocks between organizational and risk cultures that may result in increased prudential risk.[10]

What is the board's role in shaping organizational culture?

"Management's role is to define culture. The board's role is to offer its perspective and provide challenge."
– Director

Most participants agreed that management, led by the CEO, owns culture, but boards are playing an increasingly important role in shaping and governing it. *"It is important to talk about who owns it. My personal opinion is culture is owned by the CEO and a small subset of senior executives,"* one expert said. He added, *"There are some people who think it should be an ethics group or the risk function, but if it is not owned by the bosses and really subscribed to, then it will not be successful."*

Participants identified the following ways in which the full board, as well as specific committees, should engage on culture:

- **Challenge and advise senior management.** For most participants, this is the primary role of the full board, with respect to culture. One expert elaborated, *"The board should be pushing the senior team. That is where [the board] can be valuable. The board pushes the executive to ensure the agreed-to values are instilled throughout the organization."* Another participant commented, *"The board can also serve as a check function. Are you walking the walk?"* Individual directors bring independence and a wealth of experience to this role and can be more objective.

- **Lead during crisis.** Participants also agreed that boards should take a more active role in cultural questions in the event of a crisis. *"When there is a real crisis, the board, and particularly board leadership, is heavily involved,"* said one director. He continued, *"Oftentimes there is a cultural element to any crisis. The board should be present to address the crisis and understand the implications for culture."*

- **Evaluate mergers and acquisitions.** As the pace of M&A activity accelerates, boards are trying to better understand cultural fit and compatibility. Directors are keenly aware that many transactions do not realize their stated potential and that cultural disconnect is commonly cited as a root cause of failure. One director said, *"The industry is in the middle of many M&As. Some of the cultures are compatible, while some are not. Do you leave it that the acquiring company establishes its culture? How do you ensure integration? It is an interesting challenge for the industry."* For the most part, cultural assessment still happens after acquisition when gaps and challenges become apparent, but one expert asked, *"How much due diligence do you do on culture in M&A? Do you expect that to happen more? Has this come up in board discussions?"*

- **Consider the intersection of culture and strategy.** While culture may not be a stand-alone, full-board discussion topic, one director said, *"Culture is on our board agenda every time we talk about strategy and our competitors. We get into it on discussions about the challenges for insurance. The industry is a little too stable and slow, and the world isn't anymore. We talk about it and realize what we have is not what we need. The organization is not moving fast enough."* Participants agreed that for insurers, strategy conversations often include discussions of organizational agility and customer centricity, which relate back to culture.

- **Select and ensure alignment across the leadership team.** Many directors point to CEO and C-suite selection as a critical tool to maintain or shift the company culture. One director noted, *"The culture in the company is extremely driven by individual personalities of senior positions, especially the CEO. When there is a change in these positions, it is almost a non-verbal type of indication of the culture."* The nomination and governance committee plays a central role in this area as it is responsible for vetting outside executive candidates and developing internal ones. Once top teams are installed, the full board has a unique vantage point from which to understand how well they function. Most participants agreed with one who said, *"Culture is created by individual leaders like the CEO, and it comes from alignment across the leadership team. A lot of effective change management is about that alignment."*

- **Ensure board culture supports tone from the top.** Participants universally agreed on the importance of having senior executives lead by example, starting with the CEO.

> *"Sometimes insular views can take hold, and it is hard for management to look outside itself. The board can help management to better identify and assess culture."*
> – Director

> *"It starts with tone at the top. We are responsible for selecting the CEO. It is then about how we interact with the CEO and how the CEO extends his influence throughout the organization."*
> – Director

One participant commented, *"It is a matter of people, not structure. You need to ask management to lead by example in order to create a feeling of belonging and strong values. You don't solve it by just processes or compensation."* Several participants also spoke of the importance of board culture, noting that it should be reflective of and consistent with company culture. One director said, *"The activities of the board are more transparent now than they have ever been. It would be a mistake to think the company does not see what is happening at the board level."* Like the selection of the executive team, rotating members on and off of the board can be an important lever for shaping culture. Senior management may have the biggest role to play in setting tone from the top, but the board can provide consistency and model behaviors and values for the rest of the organization. Both how and how well the board operates will influence the broader organization.

"Board culture is critical. Organizations are shadows of their leaders. Behavior within the board helps to set these unwritten rules."
– Expert

- **Refine compensation to support strategy.** Incentives are a powerful lever to affect behavior and set culture. Participants discussed the importance of both quantitative and qualitative metrics in compensation evaluations, rewarding long-term thinking over short-term profits, and understanding employee motivations. *"You need to understand what motivates the people you recruit. For some it is only money – then you see behavior like doing things purely to maximize the bonus; you see short-termism. The remuneration committee needs to oversee these things,"* a participant said. An executive observed that change over time can be done through hiring and selection, but for more rapid change, incentives are the most powerful tool. Compensation schemes in a number of countries, particularly in Europe, are shifting largely in response to regulation. New approaches to compensation include bonus-level caps, resultant increases in base salary, more prescriptive compensation metrics, and stronger malus and clawback provisions.[11] As a result, many boards are undertaking reviews, refining quantitative and qualitative measures, and attempting to optimize approaches.
- **Oversee controls and risk culture.** One director explained, *"At the audit committee, we do most of the heavy lifting on regulatory issues, including financial issues and code of conduct. At every meeting, we devote quite a significant amount of time on code-of-conduct issues."* The risk committee also plays a very important role through the determination of risk appetites, tolerances, and related controls.

In what ways are executive leaders trying to advance thinking on culture?

While a number of culture-related responsibilities increasingly connect to the board, many of the most powerful levers to shape culture reside with executives. Several participants noted that for some large groups, thinking about these levers and how to improve the approaches to shaping culture continues to evolve. There are few, if any, best practices in this area, and groups are experimenting with a variety of approaches, including the following:

- **Evaluating what to communicate.** There is a tension between publicizing events to create opportunities for learning and protecting privacy and reputations. This tension is most acute around hiring and firing decisions. One executive asked, *"Do you put heads on a stake? Or is it a culture that ushers people quietly out the* *back door? Who you promote and let go is one of the strongest levers. Do you celebrate successes?"*

- **Assessing skills gaps and targeting training.** An executive noted, *"The root cause of control issues is often that you have someone who is unconsciously incompetent. Firms need to tie training to role competency. How do you keep skills live and recognize where there are gaps?"* Competency can be an issue particularly when a role requires skills that are different than, or even in opposition to, skills that have enabled that employee to be successful in the past. One participant said, *"It can be a big change: middle management got to where they are through command and control – now you want them to coach. You can't have a new culture without knowing how to do it."*

- **Connecting risk culture to organizational culture.** According to some CROs, "risk culture" has developed, to some degree, as a distinct discipline that is separated from other discussions of organizational culture. Increasingly, executives want to integrate different lines of thinking on culture. One CRO said, *"Risk culture and organizational culture should be joined and not treated in isolation. There is a joint role for CROs and CHROs [chief human resources officers]."*

How can boards best understand culture within their organizations?

To influence culture, firms first must know what their culture is. *"Making culture tangible and measurable is challenge number one,"* said an executive. Directors acknowledged that the obvious first step in addressing their culture is to assess the company's current state via measures, metrics, and observation, but they struggle with finding appropriate methods and analysis.

Assessing cultural health is complicated by several factors

Participants pointed to several aspects of culture that make it particularly difficult to parse:

- **Complex organizations contain many different cultures.** Functions, regions, and departments within a group have different cultural attributes by design and because of local forces. This variety of cultures strengthens the organization by providing important ties to local communities and guiding principles for functions. In addition, groups that rely on agents and independent distribution will not fully or directly control the customer-facing culture. In this context, insurers may attempt to extend cultural attributes to distribution partners, and ultimately to policyholders, via selection of partners, monitoring of activities, and compensation. Understanding these dynamics is challenging at any level of the organization, and even more so at the level of the board.

"When there was a need for global change, we struggled. There was not even a commonality of language in talking about outcomes and goals."
– Director

- **Cultural indicators are myriad, varied, and imperfect.** A director argued, *"There is high anxiety around measurement of culture. Many companies are several years into change programs and they have lots of data, but no one is confident that they have really cracked this."* There are no simple metrics to assess culture. Combinations of measures, surveys, and other tools can create pictures of the various cultures within an organization, and several executives noted that tools are improving dramatically, but it is an imperfect science.

- **Written and unwritten rules may conflict.** Participants generally agreed that corporate cultures are heavily influenced by unwritten rules, which can sometimes be in conflict with written rules and processes. Simply being aware of or understanding these areas of conflict is challenging. One participant gave the following example: *"If the conversations are more about how to optimize earnings quarter to quarter, then that will be what you see in the culture [regardless of any public emphasis on long-term value creation.]"*
- **Seemingly healthy cultures can create blind spots.** Several participants observed that even healthy cultures can be dysfunctional insofar as they help create blind spots. One participant noted that he worked for a firm whose strong belief in itself, arguably a positive virtue, drove an inward focus that ultimately caused it to miss important external forces and events.

"You cannot change [culture] overnight. You have got to have a willing workforce. You generally have to do it gradually over a number of years if you want it to stick."
– Director

- **Culture takes time to assess and alter.** The steps required to shape culture – which may include repeated assessment and benchmarking of the culture, development and implementation of new policies, compliance activities, and replacement of key personnel – may take many years. According to one director, *"It takes five-plus years to change a culture. That is the conventional wisdom."* The sheer amount of time needed, in addition to the many variables that inform culture, make it difficult to understand if a cultural shift is even under way, let alone if it is proceeding as intended.

Meaningful analysis of culture requires numerous tools and approaches

Complex insurers typically rely on a large number of traditional business metrics in combination with targeted surveys and interviews to describe organizational culture:

- **Traditional measures.** Participants noted that a variety of traditional or common metrics can provide data on culture as well as other elements of business health. Looking at these metrics through the lens of culture can paint a picture of how well customers are being served by employees and products, as well as how well employees understand the mission, values, and brand. Significant metrics should be, in the words of one executive, *"sliced and diced in a lot of ways"* – for example, by product, geography, or customer type, as well as over time. Key metrics include the following:
  - Customer retention and early lapse
  - Net promoter scores and referrals
  - Claims and problem resolution
  - Profitability
  - Overall awareness of values
  - Quality assurance failures

"The truth is, you cannot cover up a deficient culture for long. You will see effects in things like customer retention and market conduct."
– Director

- **Scorecards and surveys.** Some participants recommended the use of surveys, both traditional employee and customer engagement surveys, as well as broader cultural–

assessment surveys conducted by third parties. Assessments like balanced scorecards and Gallup surveys typically combine financial, customer, employee, business process, and learning and development metrics. Several executives noted these surveys provide a tremendous wealth of data that can be delved into if there are concerns. Another participant noted the increasing use of "well-being scores," which provide feedback on additional areas like individual emotional health, financial health, and social engagement.

- **Exit interviews.** One director said, *"One thing my board does is the HR committee summarizes all exit interviews, including summer students. What we learn from these summaries is really enlightening. People are very honest about the environment and management team."*

Ultimately, the effectiveness of these tools and metrics will also depend on how they are used. Directors and executives identified several methods and approaches to help ensure groups establish robust cultural-evaluation programs:

- **Ability to analyze high-level and specific data.** Participants agreed with one who said, *"It is less important which survey you use and more how you use it. Do you look at the overall results and then dive into the details?"* Several executives spoke of the importance of evaluating small-group and individual performance as well as broader results.

- **Reliance on multiple tools.** No one survey can be comprehensive, but combinations of metrics and stakeholder (e.g., employee, customer, job applicant, alumni) surveys offer important insights. One supervisor described drawing evaluative information from a variety of sources: *"Some supervisors are taking a mosaic approach. You need employee surveys blended with performance data and employee data. It needs to be a blend of hard and soft."*

- **Observation of trends over time.** In addition to understanding point-in-time metrics, boards hope to learn more by observing trends. *"Typically, metrics don't offer much information at a single point in time. Over several quarters or years, you can begin to piece together a story,"* one CRO said.

- **Use of non-leading or difficult-to-game questions.** Several participants acknowledged that it is difficult to ask good questions and elicit meaningful responses. One participant noted that her firm is focused on improving the kinds of questions it asks: *"It is not helpful if they think they should answer 'yes' or choose to answer 'no' just to make a statement."*

"Intuition is as important as measures. How much time can you take to listen to and feel the business?"
– Director

Boards want to test what they learn from metrics and management

Most participants conceded that metrics and management reports alone do not provide a full picture. For many non-executive directors, interactions and direct observations are equally as important:

- **Observe senior management interactions.** Several participants noted that the best method to verify results, and to uncover leading indicators, is to directly observe behavior. One executive said, *"If you want to know the tone at the top, look at the tone during these meetings. Are core values being discussed?"* A director agreed and added, *"You* *need to talk to people. Get outside of the boardroom and see people in other environments."* Finally, several participants suggested that observing the CEO is very important. Does he or she let management answer questions? Is the CEO comfortable with directors talking to others? One director asked, *"What do you feel and sense when the CEO is in the room?"*

- **Connect directly with more members of management.** One participant commented, *"We have dinners between the board and management. These are great opportunities for the board to speak directly with management and where it is not filtered by the CEO. You can gain depth and engage in how the company thinks and acts."* Another director mentioned meeting once a year with the chief actuaries from critical business units*: "It is amazing to see in person that the messaging is so focused on making profits only when it is appropriate. When I hear it directly from the chief actuaries, it shows the culture is cascading down the organization."* Finally, most directors said that their boards rotate board meetings through several locations throughout the year.

- **Encourage rigor and post-event analysis.** Ultimately, only management has the resources to effectively measure and assess culture. One executive acknowledged his leadership role and noted that his board had challenged him to develop a method to measure the firm's culture. A director commented, *"We call upon management to create an objective assessment rather than a subjective assessment. For instance, we ask for a post-acquisition analysis following a major purchase. Two years later, how did the actuals pan out? It needs to be the same rigor to approaching culture as you do financial matters."* Other participants noted that any adverse event provides an opportunity for evaluation and learning. *"If we have a reserving problem or another major issue in a unit, what are we learning?"* asked one executive.

"We spend a fair amount of time speaking to people who run individual business lines. This way, we get one step closer to what is going on in the floor of the factory."
– Director

Measurement has limitations

While metrics can provide certain information, they can also fail to capture or even distort cultural realities. One participant said, *"If culture is about outcomes, then do we really want metrics? Measuring can lead to dysfunctional outcomes and may hinder the real management of culture. It is important to know what distorting effects there may be."* In other words, the act of measuring itself may prompt different kinds of behaviors, essentially altering cultural norms, albeit in implicit and unintentional ways. Several directors were keen to acknowledge that any form of measurement, and especially measurement of something as complex as culture, will be imperfect.

Furthermore, measurement does not lead to change. Changing the culture requires changing thinking. *"You cannot measure your way to a new culture,"* said one participant. As many non-executives and executives have observed, a risk-only focus on culture leads to more controls but does not change behavior. *"You put in bigger signs and bigger speed bumps, but you don't change thinking,"* said one expert.

★★★

Whether because of regulation or other external factors, boards seem to have a growing role in understanding and shaping culture within insurance groups. As the topic of culture rises on board and executive agendas, both groups are exploring different ways to understand, assess, and shape their organizations. They are simultaneously defining and redefining their respective roles. Continued discussion between boards, management, and supervisors will further clarify the expectations and possible models for governance of culture.

About the Insurance Governance Leadership Network (IGLN)

The IGLN addresses key issues facing complex global insurers. Its primary focus is the non-executive director, but it also engages members of senior management, policymakers, supervisors, and other key stakeholders committed to outstanding governance and supervision in support of building strong, enduring, and trustworthy insurance institutions. The IGLN is organized and led by Tapestry Networks, with the support of EY. *ViewPoints* is produced by Tapestry Networks and aims to capture the essence of the IGLN discussion and associated research. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, senior management, advisers, and stakeholders who become engaged in this leading-edge dialogue, the more value will be created for all.

About Tapestry Networks

Tapestry Networks is a privately held professional services firm. Its mission is to advance society's ability to govern and lead across the borders of sector, geography, and constituency. To do this, Tapestry forms multistakeholder collaborations that embrace the public and private sector as well as civil society. The participants in these initiatives are leaders drawn from key stakeholder organizations who realize the status quo is neither desirable nor sustainable and are seeking a goal that transcends their own interests and benefits everyone. Tapestry has used this approach to address critical and complex challenges in corporate governance, financial services, and healthcare.

About EY

EY is a global leader in assurance, tax, transaction, and advisory services to the insurance industry. The insights and quality services it delivers help build trust and confidence in the capital markets and in economies the world over. EY develops outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, EY plays a critical role in building a better working world for its people, for its clients, and for its communities. EY supports the IGLN as part of its continuing commitment to board effectiveness and good governance in the financial services sector.

Appendix 1: discussion participants

In March of this year, Tapestry and EY hosted two IGLN meetings on organizational culture and the changing role of the board, and had more than 35 conversations with directors, executives, regulators, supervisors, and other thought leaders. Insights from these discussions informed this *ViewPoints* and quotes from these discussions appear throughout.

The following individuals participated in IGLN discussions:

Autorité de Contrôle Prudentiel et de Résolution

- Bertrand Peyret, Director, Insurance Supervision

Aegon

- Dirk P.M. Verbeek, Audit Committee, Nominating Committee, and Risk Committee Member

Aviva

- Angela Darlington, Chief Risk Officer
- Bob Stein, Nominating Committee Member, Remuneration Committee Member, and Risk Committee Member

Chubb

- Michael Atieh, Audit Committee Chair and Executive Committee Member

Federal Reserve Bank of New York

- Lauren Hargraves, Senior Vice President and Senior Supervisory Officer, Financial Institution Supervision Group
- Vandana Sharma, Vice President, Financial Institution Supervision Group

Financial Conduct Authority

- Jonathan Davidson, Director of Supervision Retail and Authorization Division

MetLife

- Frank Cassandra, Senior Vice President, Global Risk Management

NN Group

- Doug Caldwell, Chief Risk Officer and Management Board Member

Old Mutual

- Mike Arnold, Risk Committee Chair, Audit Committee and Nomination Committee Member

Prudential Financial

- Nicholas Silitch, Chief Risk Officer and Senior Vice President

QBE Insurance Group Limited

- Marty Becker, Chairman of the Board
- Jason Brown, Chief Risk Officer

Senn Delaney

- Michael Marino, Partner and Executive Vice President
- Dustin Seale, Managing Director, EMEA

Sompo Japan Nipponkoa

- Jan Carendi, Senior Advisor to CEO

Sun Life Financial

- Marianne Harris, Audit Committee Member

USAA

- Herman Bulls, Risk Committee Chair
- Torben Ostergaard, Chief Risk Officer and Senior Vice President

XL Catlin

- Suzanne Labarge, Nominating, Governance, and External Affairs Committee Chair and Audit, Risk and Finance Committee Member

EY

- Gilly Bryant, Partner, People Advisory Services
- Shaun Crawford, Global Insurance Sector Leader
- Peter Manchester, Partner, Advisory Services
- Charlie Mihaliak, Principal, Advisory Services
- Chad Runchey, Principal, Advisory Services

Tapestry Networks

- Leah Daly, Principal
- Colin Erhardt, Associate
- Peter Fisher, Partner

Appendix 2: 10 questions on culture for non-executive directors

- How important an issue is culture and cultural change for today's leading insurers?
- What is causing the board and/or management to engage on the topic?
- How can group boards strike a good balance between lower-level and centralized cultural norms?
- How can insurers best provide consistent messaging about culture, including both positive and negative stories?
- How are you engaging with regulators on the issue of culture?
- How does your board oversee culture?
- How would you describe the key elements of your firm's culture? Is it possible to understand an organization's culture before you join a board?
- How is culture monitored and progress assessed?
- What strategies are your firms pursuing to address cultural issues?
- What actions can board directors and senior executives take to demonstrate a commitment to culture shaping, if one is required?
- How would you describe the culture(s) of your board(s)? How did you evaluate culture in advance of joining?

Endnotes

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[1] *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby names of network participants and their corporate or institutional affiliations are a matter of public record, but comments are not attributed to individuals, corporations, or institutions. Network participants' comments appear in italics.

[2] "Culture Is a Matter for Banks not UK Regulators," *Financial Times,* January 12, 2016.

[3] Albert Musalem, "Why Focus on Culture?" (speech, Towards a New Age of Responsibility in Banking and Finance: Getting the Culture and the Ethics Right conference, Frankfurt, November 23, 2015).

[4] William Dudley, "Enhancing Financial Stability by Improving Culture in the Financial Services Industry" (speech, Workshop on Reforming Culture and Behavior in the Financial Services Industry, New York, October 20, 2014).

[5] Jill Treanor, "Banking Culture Review: Treasury Defends FCA Decision to Scrap Study," *Guardian,* December 31, 2015.

[6] "Senior Insurance Managers Regime – Are You Prepared?" Lloyds, October 30, 2015.

[7] The three lines of defense is a framework that relies on three groups, or lines, to create effective risk management. The first line includes the functions that own and manage risks, typically operational managers. The second line includes the functions that oversee risks, including risk and compliance functions. The third line provides independent assurance via internal audit.

[8] Insurance Governance Leadership Network, *Sustaining Growth and Innovation in the Insurance Sector,* ViewPoints (Waltham, MA: Tapestry Networks, 2015), 24.

[9] A sample of recent M&A activity includes the mergers of XL and Catlin, Ace and Chubb, Ironshore and Fosun, PartnerRe and Exor, Endurance and Montpelier, Tokio Marine and HCC, Renaissance Re and Platinum, Sompo and Canopius, Fairfax and Brit, Validus and Western World, and Tokio Marine and Safety National.

[10] "IAIS Flags Risks of M&A," *Insurance ERM*, January 7, 2016.

[11] Malus refers to a performance adjustment that requires the employee to forfeit of all or part of a bonus or long-term incentive award before it has vested and been paid. Clawback refers to the recovery of monies already paid.