

**NAIC Comments in Response to FSB Consultative Document:
*Recommendations for consistent national reporting of data on
the use of compensation tools to address misconduct risk***

General Comments: The NAIC notes that there are a number of significant differences in the business models of banks and insurers that result in varying compensation policies and practices. Given these differences, U.S. state insurance supervisors have not identified a trend of insurer compensation programs leading to increased levels of misconduct. However, as there is the potential for incentive compensation to promote inappropriate risk taking, a number of tools have been put in place in the U.S. to require basic reporting on compensation practices, many of which are similar to those recommended in the Data Set. Regardless, U.S. state insurance supervisors generally expect the oversight of compensation programs to be a key element of effective governance and a core responsibility of a firm's Board of Directors. Therefore, U.S. state insurance supervisors generally promote a principles-based approach to reporting in this area, with more detailed investigation performed as necessary to address governance weaknesses or variances noted in examinations and reported results.

The FSB invites comments on the following specific questions:

1. *Is the proposed "Data Set" sufficient to help (a) supervisors and (b) firms to monitor the effectiveness of the use of compensation tools to address misconduct?*

The proposed "Data Set" includes information to assist regulators in understanding company policies and practices related to incentive compensation, however, it is not likely to result in data that could be effectively aggregated or benchmarked across the industry or industries.

2. *If not, which additional data/information should be collected?*

Jurisdictions should consider developing standardized reporting templates for the collection of actual compensation data for key individuals, which could be used for data aggregation and benchmarking (see attached Supplemental Compensation Exhibit).

3. *Are there any impediments to (a) firms and (b) supervisors in (i) gathering or (ii) using the Data Set?*

The Data Set requests a wide-range of data and information that may not be available at certain companies and could result in a significant regulatory burden to produce. Therefore, we agree that the FSB recommendations should only apply to significant institutions and that supervisors should carefully consider proportionality and the risk profile of the company before requiring the full Data Set to be provided. In addition, supervisors should carefully consider the frequency that the Data Set should be collected (Core Data A and B).

4. *Are there any elements in the "Data Set" that may not be relevant to a particular financial sector?*

From an insurance industry perspective, U.S. state insurance supervisors have not seen extensive misconduct problems resulting from compensation structures, which may be due to differences between the business models of insurers and banks/securities firms. As such, the elements in the Data Set that focus on misconduct categories, definitions and incidents are not likely to be as relevant or beneficial to insurance supervisors as they could be to other supervisors.

5. *Are there any additional elements that should instead be considered for a particular financial sector?*

Given that the business model of insurers relies heavily on producers (agents & brokers) to bring business to carriers, there may be additional elements related to the reasonableness of aggregate commissions and fees paid to brokers that may be relevant for jurisdictions to consider. In addition, another element to be considered in collecting and using the Data Set includes the structure of the compensation program in relation to the complexity of the specific insurance legal entity and the overall holding company group. For example, relevant factors that could influence the compensation program include the various types of insurance business being written, the complexity of the reinsurance programs in place, the overall maturity of the corporate governance structure, the maturity and adequacy of the IT department, the maturity of the Enterprise Risk Management processes, etc.

6. *What elements of the Data Set are not already utilised by firms in their own monitoring of compensation and misconduct risk management practices?*

Again, given the differences in business models of insurers versus banks and limited frequency of “misconduct events”, insurers are not as likely to have formal processes in place to identify specific misconduct categories, set formal definitions and track/report on misconduct incidents.

7. *What types of information have been most useful to firms in their monitoring and assessments of potential misconduct, and when assessing the effectiveness of compensation tools?*

No comment.

8. *What are the most important changes that have occurred in firms’ management of compensation and conduct risk in recent years? Do the current Recommendations focus enough on these developments that may help to better achieve alignment of risk and reward?*

The most important changes in firms’ management of compensation and conduct risk in recent years have been to align compensation programs and incentives with risk appetites, tolerances and limits. This tends to place a greater emphasis on incentivizing positive behavior, as opposed to focusing only on the prevention of negative behavior. As such, while the recommendations attempt to cover both perspectives, they appear to be overly focused on preventing misconduct at the expense of encouraging alignment with risk management. For example, the Core Data element at A2 asks the company to describe its processes for determining, monitoring and reviewing the firm’s use of compensation in supporting effective risk management, but supports that request with bullets that only address misconduct-specific items. In addition, many of the processes that support effective alignment of compensation and risk management are listed as additional information (e.g., Compensation Governance, key risks, code of conduct, etc.), as opposed to Core Data elements.

9. *How do firms monitor and validate the use of compensation tools when misconduct occurs to ensure an appropriate balance between risk and reward? What analytics support firms’ judgments in these areas?*

No comment.

SUPPLEMENTAL COMPENSATION EXHIBIT

For The Year Ended December 31, 2017

(To Be Filed by March 1)

PART 1 – INTERROGATORIES

- 1. The reporting insurer is a member of a group of insurers or other holding company system. Yes [] No []
 If yes, do the amounts below represent 1) total gross compensation paid to each individual by or on behalf of all companies that are part of the group: Yes [];
 or 2) allocation to each insurer: Yes [].
- 2. Did any person while an officer, director, or trustee of the reporting entity receive directly or indirectly, during the period covered by this statement any commission on the business transactions of the reporting entity? Yes [] No []
- 3. Except for retirement plans generally applicable to its staff employees, has the reporting entity any agreement with any person, other than contracts with its agents for the payment of commissions whereby it agrees that for any service rendered or to be rendered, that he/she shall receive directly or indirectly, any salary, compensation or emolument that will extend beyond a period of 12 months from the date of the agreement? Yes [] No []

PART 2 – OFFICERS AND EMPLOYEES COMPENSATION

1 Name and Principal Position	2 Year	3 Salary	4 Bonus	5 Stock Awards	6 Option Awards	7 Sign-on Payments	8 Severance Payments	9 All Other Compensation	10 Totals
Current: 1. Principal Executive Officer	2017 2016 2015	...............	...............	...............	...............	...............	...............	...............	...............
Current: 2. Principal Financial Officer	2017 2016 2015	...............	...............	...............	...............	...............	...............	...............	...............
3.	2017 2016 2015	...............	...............	...............	...............	...............	...............	...............	...............
4.	2017 2016 2015	...............	...............	...............	...............	...............	...............	...............	...............
5.	2017 2016 2015	...............	...............	...............	...............	...............	...............	...............	...............
6.	2017 2016 2015	...............	...............	...............	...............	...............	...............	...............	...............
7.	2017 2016 2015	...............	...............	...............	...............	...............	...............	...............	...............
8.	2017 2016 2015	...............	...............	...............	...............	...............	...............	...............	...............
9.	2017 2016 2015	...............	...............	...............	...............	...............	...............	...............	...............
10.	2017 2016 2015	...............	...............	...............	...............	...............	...............	...............	...............

PART 3 – DIRECTOR COMPENSATION

1 Name and Principal Position or Occupation and Company (if Outside Director)	Paid or Deferred for Services as Director				6 All Other Compensation Paid or Deferred	7 Totals
	2 Direct Compensation	3 Stock Awards	4 Option Awards	5 Other		

