



Governance 101: assurance and reinsurance

by David Holden.

In this blog we'll explore the crucial differences between assurance and reinsurance. We'll explain:

- what assurance means in a governance context
- what reinsurance means and how it differs from assurance
- why both assurance and reinsurance matter.

Assurance and reinsurance are fundamentally different and the distinction – and our understanding of that distinction – is critical to good governance. Yet in our consultancy work we witness confusion between the two and that has an impact on board effectiveness and organisational governance.

One of the most common issues is boards and governing bodies relying too heavily on reinsurance and not receiving the right assurance.

Assurance

Assurance is a word that's used in everyday language and means different things to different people. But it's important that everyone involved in the governance of a public body is absolutely clear about what is meant by assurance for their own organisation – and about where assurances come from.

ASSURANCE – provides certainty through evidence and brings confidence that systems are working. With assurance, you have triangulated evidence that what needs to happen is actually happening. You will have seen this evidence in practice or will have received and reviewed reliable sources of information, which is often independent. Your organisation may also have evidence of historic progress in the area in question

and outcomes that confirm this.

Assurance happens when someone tells you what is happening and provides evidence of how it was done.

For instance:

"Are we keeping an accurate record of mortality incidents?"

"Yes, we are. Here you have the documentation presented to the Mortality Group for the past six months."

Reinsurance

In contrast, reinsurance is there to provide comfort and prevent worry.

REASSURANCE – is often based solely on a track record of success; a lack of contradictory evidence or perhaps because people with a professional background and expertise in the subject area or someone with a strong management personality have told you that something is so, and so it must be true. At this point it is often useful to stop and ask:

- Do we really know what we think we know?
- Where does the assurance come from?
- How reliable is this assurance?
- What is this assurance telling me?
- Is the assurance proportionate to the level of risk the organisation is to take?

Reassurance happens when someone tells you all is well, and you believe there's no need for further checks. For instance:

"Are we keeping an accurate record of mortality incidents?"

"Yes, we are."

Why do assurance and reassurance matter?

- Boards should use assurance and reassurance differentially and in context. In some matters, being reassured is enough, while in others the board should seek a greater level of assurance.
- Even the most productive and thorough board can't be assured of absolutely everything. Where possible, boards should deliver their assurance responsibilities through the organisation's governance structure.
- The audit committee, if used well, can play a big role in the assurance/reassurance dichotomy – by assuring the board that governance systems and processes are working effectively
- In contrast, the other committees should function as 'content' committees. They will triangulate evidence by looking at the content that is submitted from management groups.

Next week, we'll look at the Three Lines of Defence governance model. In the meantime if you have any questions or comments about this blog, please call us on 07732 681120 or email advice@good-governance.org.uk.