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General Report on the Corporate Governance of Insurers

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Acknowledgement

- The author extends his thanks to the respondents of the following Non-European national chapters: Argentina, Australia, Bolivia, Brazil, Colombia, Chile, Japan, Mexico, Peru, Taiwan, Uruguay.
- Mistakes might arise in certain national reports due to the inaccuracy in English translation from their original languages.

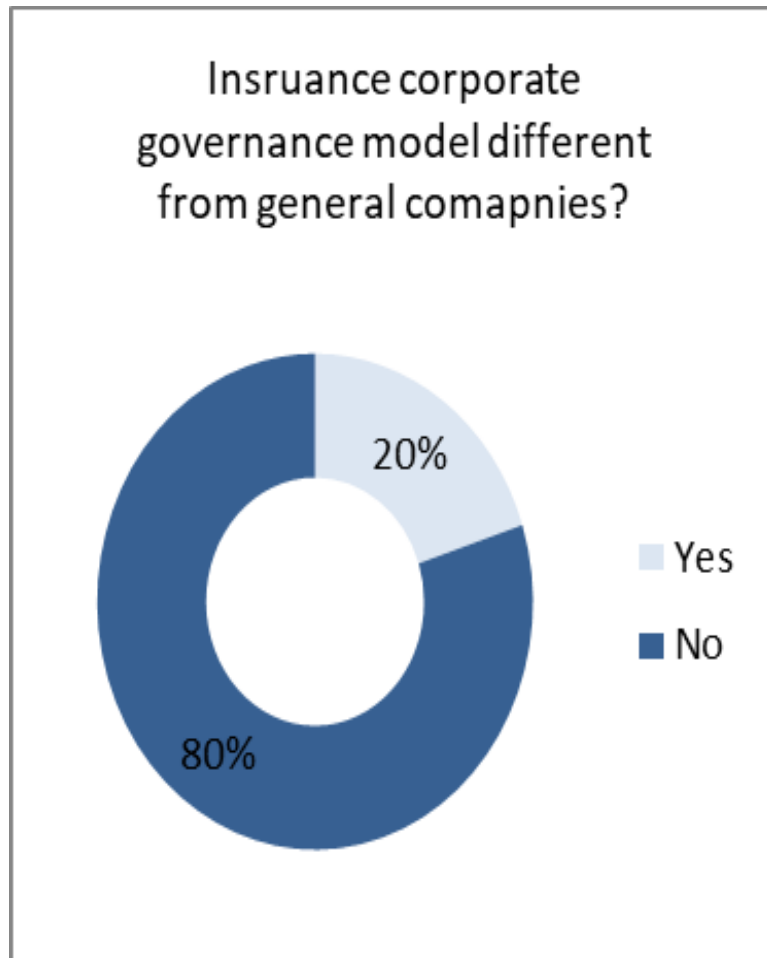


1-1 General Structure: Governance Model

- What corporate governance models are available to insurance companies?
- In case multiple models are available, describe the main differences and the allocation of management and monitoring powers among the relevant bodies/committees
- Which model is generally or ideally adopted by insurance companies?



What NCs say:



- 80 % of the NCs observed that insurers are subject to general company law and regulation and have no difference in corporate governance structure than other corporations.
- Insurers in a few (20%) jurisdictions are required to adopt further or specific regulation in the matters of corporate governance.

1-2 General Structure: Main Sources

- What are the main sources of regulation addressing corporate governance of companies (and in particular of insurance companies)?



What NCs say:

- The desirable mix between legislation, regulation, self-regulation, voluntary standards, etc., will therefore vary from country to country.
- The sources for addressing corporate governance rest majorly upon their legislation and regulation, required by the insurance supervisory authorities.
- Very few NCs responded that insurance industry or an individual insurer to commit themselves to promote best practices or self-regulation in this regard.

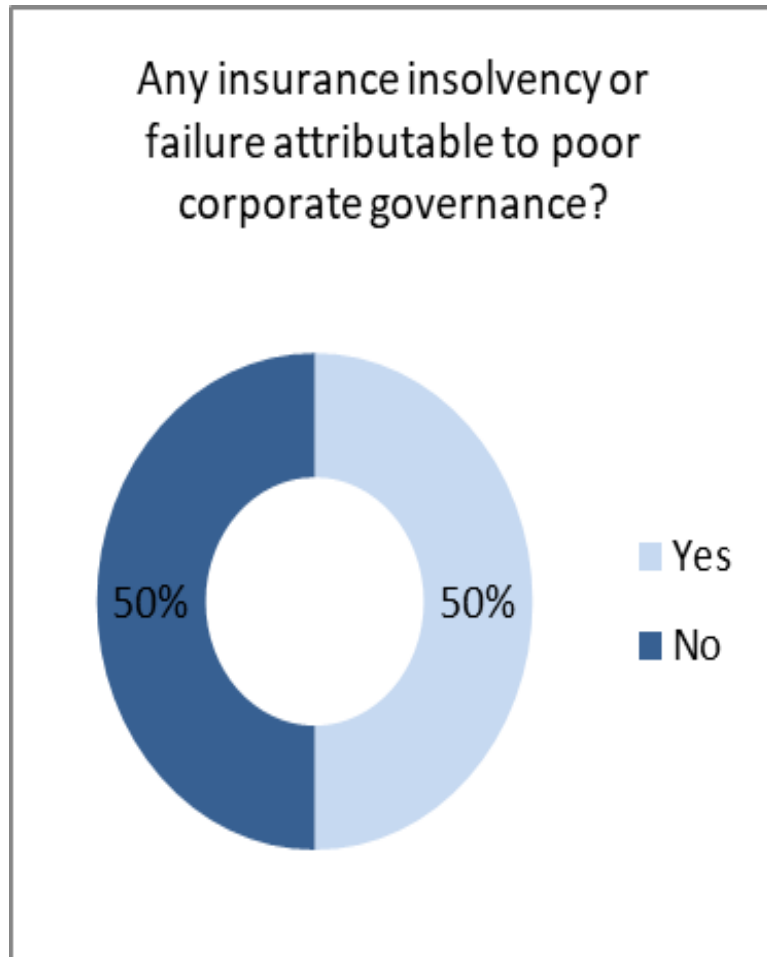


1-3 General Structure: Insolvency & Governance

- Any insolvency or distress of an insurer directly attributable to poor corporate governance standards or practices or failure to adequately implement and apply such principles?
- If so, please identify the main triggers of the insolvency.



What NCs say:



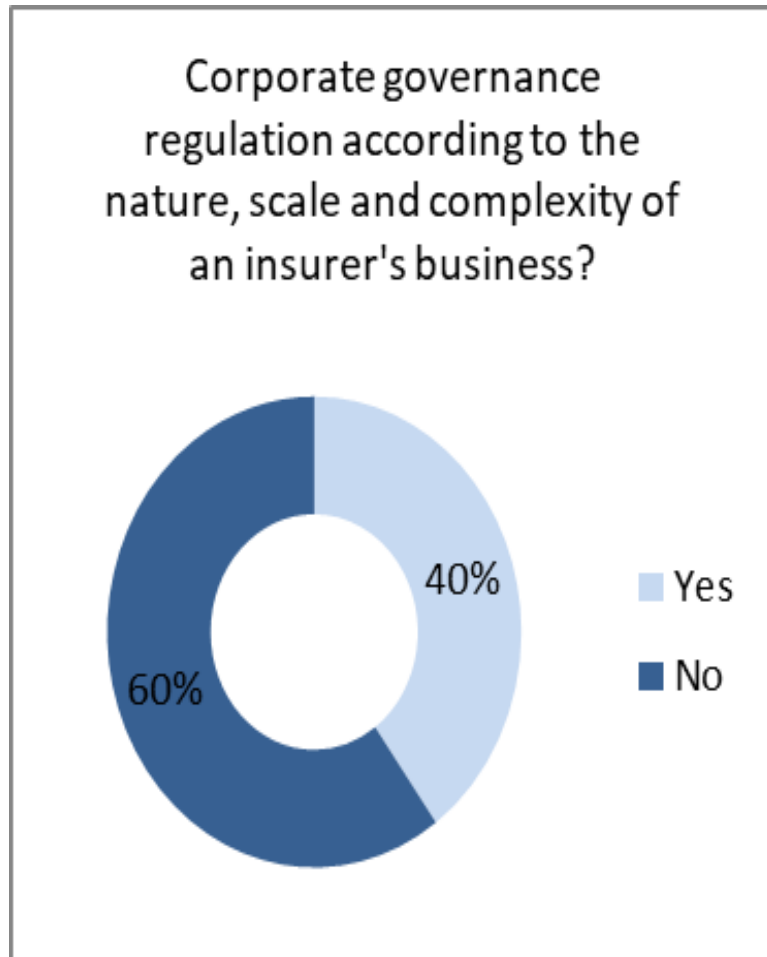
- 50% of the NCs observed that insurance insolvency or failure can be attributed to poor corporate governance.
- In Japan, none of them have been directly linked to violations of corporate governance standards or regulations, but related to changes in the business environment and the occurrence of major disasters.
- In Mexico, certain insurers have been recently declared in liquidation per instructions of the regulator, due to their poor corporate governance standard.

1-4 General Structure: Proportionality

- Is corporate governance regulation applied according to the nature, scale and complexity of an insurer's business?
- If so, please describe any significant differences and rationale for the differences.



What NCs say:



- Given the differences in the nature of their business, stakeholders and scale, differences certainly arise among insurers in the structure of their corporate governance.
- 40% of the NCs observed that corporate governance regulation applied to the insurance sector according to the nature, scale and complexity of an insurer's business.

1-5 General Structure: Self Regulation

- Please provide specific examples of corporate governance structures and practices that are better implemented through self-regulation rather than through legal or supervisory requirements.



What NCs say:

- In Brazil, the creation of collective ombudsman's offices and the prohibition of misleading advertising, since they aim to improve the image of the group of economic players and the market. (BRA)
- In Japan, it is inappropriate for laws and regulations to micromanage the operations of such companies' management. (JPN)
- Mexican law permits to submit to the Regulator “self-correction programs” in case the insurance company detects a violation to applicable regulation. The Regulator would not sanction any violation that was “self-corrected” by itself through this program. (MEX)

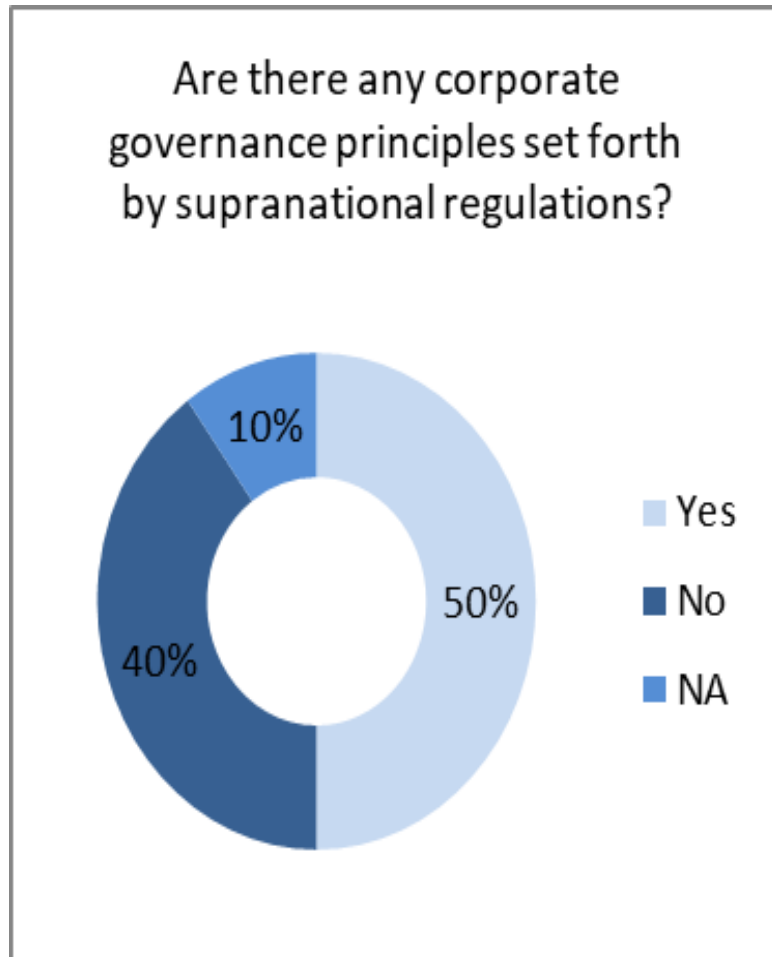


1-6 General Structure: Supranational Regulation

- Is recently requested to implement domestically certain corporate governance principles set forth by supranational regulations?
- If so, describe the main obstacles and problems resulted from such process.



What NCs say:



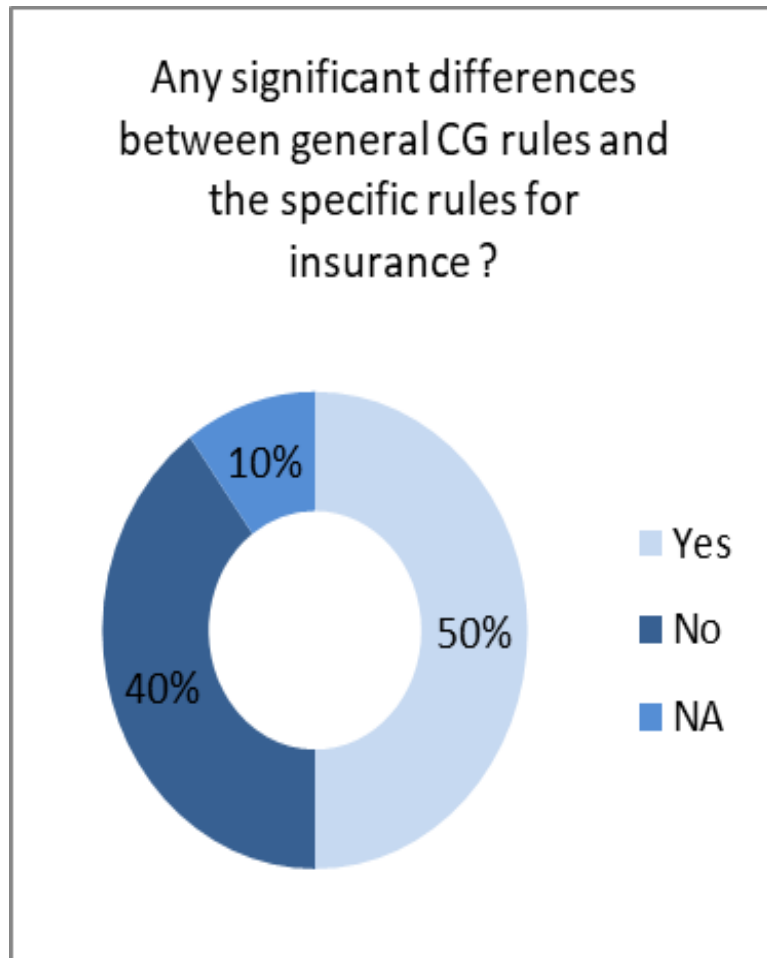
- 40% of the NCs observed that insurers were recently requested to implement domestically certain corporate governance principles set forth by supranational regulations. 50% of them had no such cases.
- In Peru, the principles of OECD corporate governance have been taken into account for the elaboration of the code of good corporate governance. (PER)

1-7 General Structure: Significant Differences

- Are there any significant differences between general corporate governance rules and the specific rules governing insurance companies?



What NCs say:



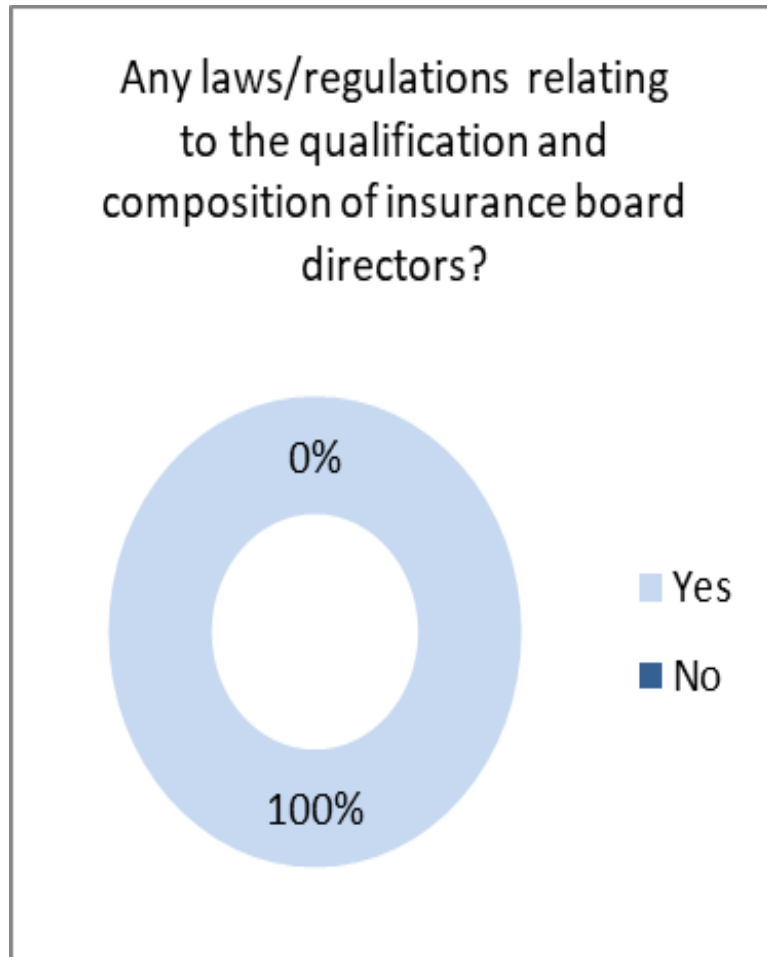
- 50% of the NCs observed that there exists significant difference between general corporate governance rules and specific rules governing insurance companies. 40% of them responded no such differences exist.
- In Colombia, there is a big difference between the general regulatory framework applicable to commercial companies and the specific framework related to insurance companies. They are complementary and finding specific issues to the insurance industry. (COL)

2-1 Fitness and Propriety: Regulation

- Are there any laws or regulations already adopted or any proposals in your jurisdiction, relating to the qualification and composition of board directors in an insurance company?
- If so, please explain.



What NCs say:



- All the NCs observed that there exists laws or regulations already adopted or any proposals in their jurisdiction, relating to the qualification and composition of board directors in an insurance company.

2-2 Fitness and Propriety: Independence Weakening

- What factors, conditions, or incentives might weaken the independence of the board of directors or individual members of the board?



What NCs say:

- Most insurance companies are controlled by a sole shareholder and employees of its parent company. This affects the possibility of having broad and different views within the board. (CHL)
- Remuneration schemes where management intervenes in the remuneration of non-executive members may create a conflict of interest for the directors in the surveillance obligations of management and reporting to the shareholders. (MEX)



2-3 Fitness and Propriety: Methods to Endure

- How does an insurance company ensure that individual board members and the board collectively have enough knowledge to monitor and oversee the activities of the insurer appropriately, particularly where specific expertise is needed.



What NCs say:

- In Brazil, some directors being judicially prosecuted, by decisions approved by the respective councils and subsequently characterized as injurious actions raised by the shareholders. (BRA)
- In Colombia, board of directors may have capabilities sufficient for the performance of its functions, e.g. establishment of the board, permanent training, information flow to directors, evaluation of board directors. (COL)
- In Mexico, insurers must maintain a file of each member evidencing his/her capacity, experience, honorability and credit history. (MEX)



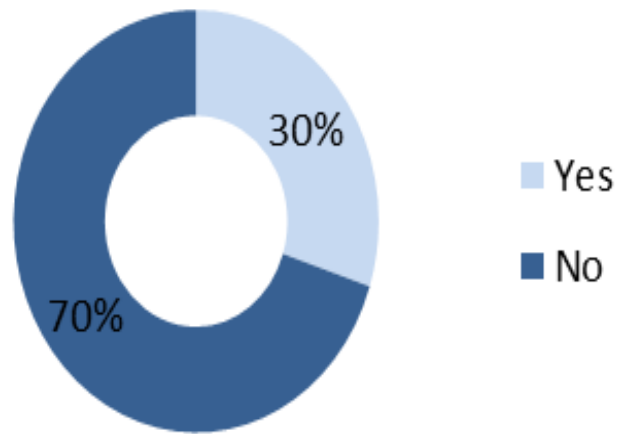
2-4 Fitness and Propriety: Differences

- Are there significant differences in terms of requirements and duties between executive and non-executive members of the board of directors of an insurer?



What NCs say:

Any significant differences in terms of requirements and duties between executive members and non-executive ones?



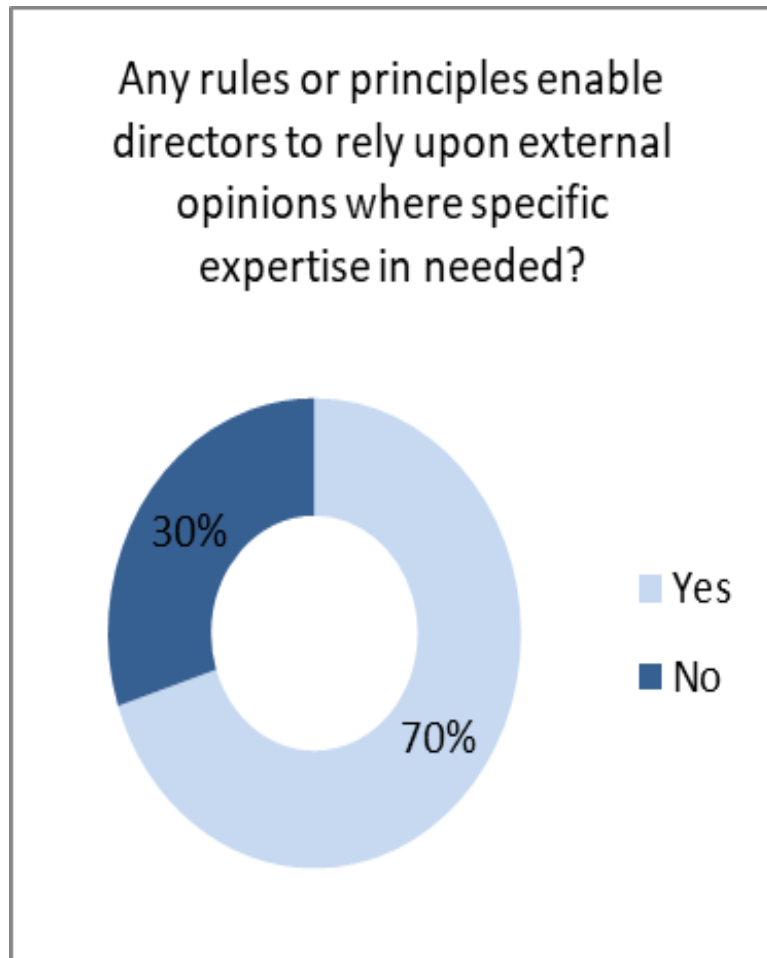
- A sufficient number of outside directors (ie, non-executive and independent) on the board may contribute to the independence, particularly important for dealing with issues where conflicts of interest arise.
- 30% the NCs observed that there are significant differences in terms of requirements and duties between executive and non-executive members of the board.

2-5 Fitness and Propriety: External Opinions

- Are there any black letter rules or general principles that enable directors to rely upon external opinions when addressing issues or aspects where specific expertise is needed?



What NCs say:



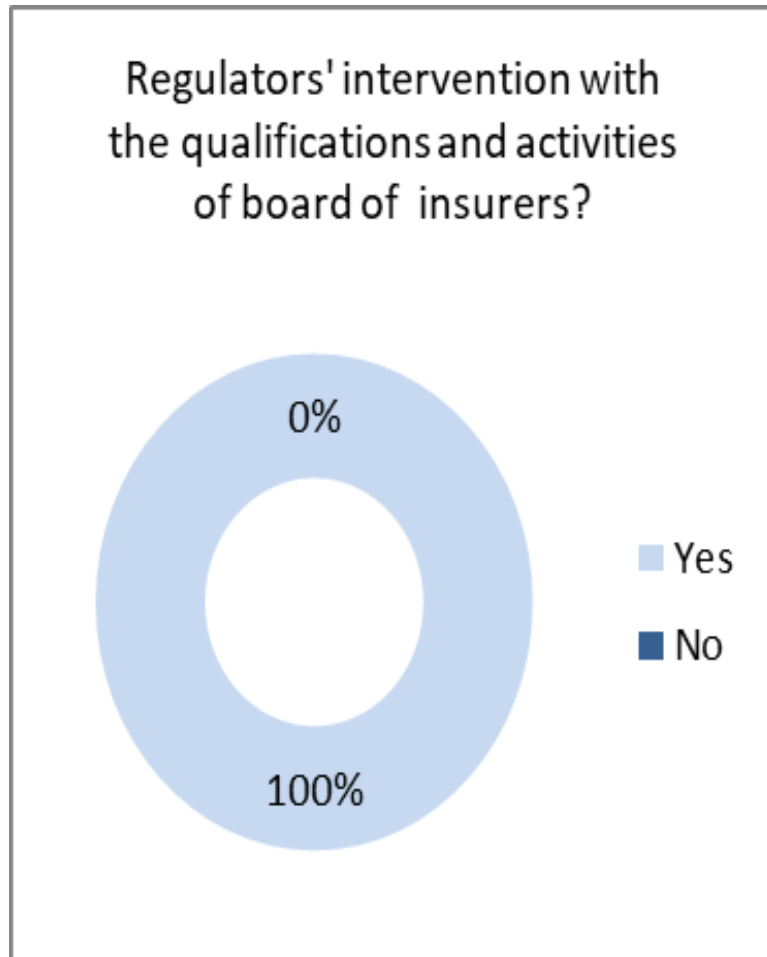
- 70% the NCs observed that there are rules or general principles to enable directors to rely upon external opinions when addressing issues or aspects where specific expertise is needed.
- In Chile, it is suggested boards directors have external expert opinions when needed in consideration to complexity or relevance of a specific matter. But it is not mandatory to do so. (CHL)

2-6 Fitness and Propriety: Interventions

- Describe the extent and scope of supervisors'/regulators' intervention with reference to the qualifications and to the activities of the board of an insurer.



What NCs say:



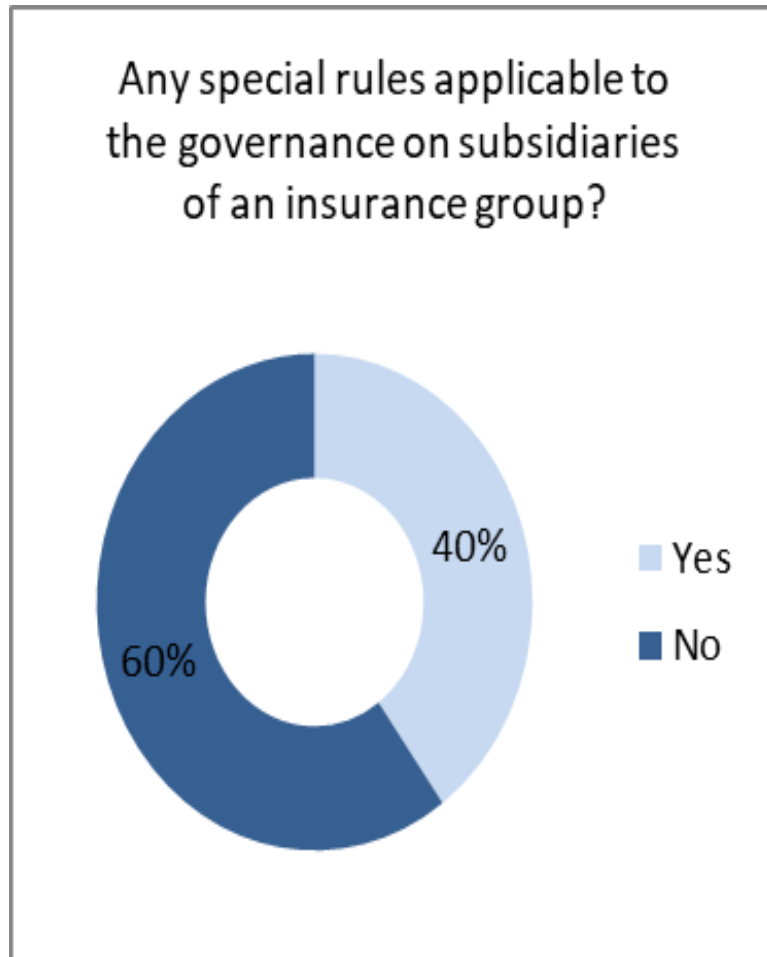
- All the NCs observed that supervisors or regulators have intervention with reference to the qualifications and to the activities of the board of an insurer.
- In Uruguay, the high standards used by the Regulator to grant the no-objection must be maintained during the time the director holds the position. (URY)
- In Taiwan, the competent authority has the legal power to order the insurer to replace directors who do not meet the qualifications set forth in the Regulations. (TWN)

2-7 Fitness and Propriety: Subsidiary Control

- Are there any special rules and regimes applicable to the governance of subsidiaries belonging to an insurance group, also in terms of information flows?



What NCs say:



- 60% of the NCs observed that there are special rules and regimes applicable to the governance of subsidiaries belonging to an insurance group, also in terms of information flows.
- In Taiwan, “Financial Holding Company Act” and “Corporate Governance Best Practice Principles for Financial Holding Companies” are two primary regulations concerning the governance of subsidiaries belonging to an insurance group. (TWN)

3-1 Risk Management: Biggest Challenge

- What is the biggest risk challenge facing the insurance industry today in your jurisdiction?
- (e.g. regulation, capital standard, pricing, interest rate, cyber, terrorism, etc.)



What NCs say:

- The risks may inflict adverse impacts on insurance business, such as large-scale natural disasters, epidemics, terrorism, system outages caused by cyber-attacks, slumps in Japanese government bonds and share values. (JPN)
- The increase of cost related with the new regulation and the new solvency model implemented by the regulators that insurance companies may not be able to meet. (MEX)
- The major challenges are related to an overly protectionist trend in favor of the beneficiaries of the insurance by the entity responsible for the defense of the rights of the consumer. (PER)



3-2 Risk Management: Regulatory Risks

- What specific laws or regulations, actual or pending in your jurisdiction, will present significant implementation risk challenge toward the insurance industry?



What NCs say:

- In Brazil, technology has become the mainspring of productive process, it needs planning for the digital transformation of their business. The regulation agency SUSEP will be responsible for flexibilizing and creating new rules to meet this growing consumer demand. (BRA)
- In Colombia, the delivery of different standards that have strengthened the regulatory framework to establish rules of game similar and consistent with international standards, on issues such as technical reserves, solvency, investment and protection to the consumer. (COL)
- In Mexico, the new National Anti-Corruption System in 2017 brings new obligations and responsibilities to the private sector, including insurance companies. (MEX)



4-1 Ethics and Corporate Social Responsibility: Examples

- Please provide any concrete examples where business ethical standards and/or corporate social responsibility standards have been applied and have changed the behaviors of the insurance company.



What NCs say:

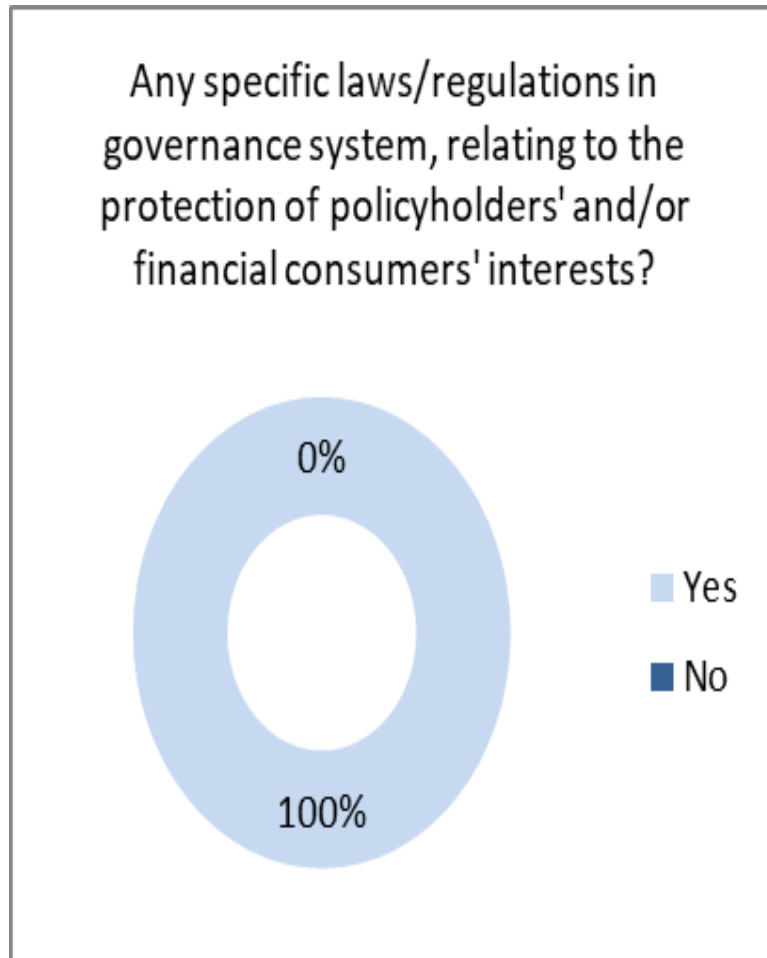
- In Colombia, corporate social responsibility has impacted the performance of the insurance entities is the case of micro-insurance. From long ago the insurance sector companies have generated programs communities, seeking the improvement of the socio-economic conditions in the places where they operate, through inclusion and responsible management initiatives with interest groups. (COL)
- A major insurance company in Mexico has recently adopted additional standards addressing this concern by creating an ombudsman for the insured/contractor, which main function is to review and resolve claims. (MEX)

4-2 Ethics and Corporate Social Responsibility: Policyholders Protection

- Are there any specific laws or regulations already adopted or any proposals, or any arrangements in place in the governance system, relating to the protection of policyholders' and/or financial consumers' interests?



What NCs say:



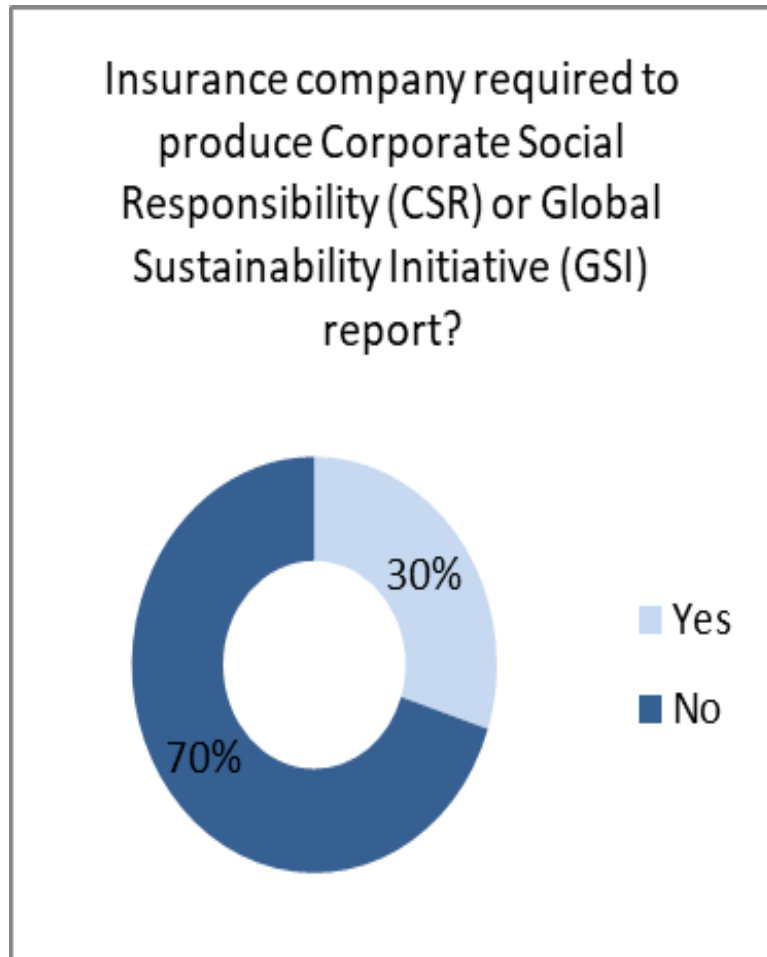
- All the NCs observed that there are specific laws or regulations already adopted in the governance system, relating to the protection of policyholders' and/or financial consumers' interest.
- Since 1990, the Brazilian legislation has had the Consumer Protection Code (Law No. 8078), which is now an instrument adopted by insurance companies in their compliance and Corporate Governance programs. (BRA)

4-2 Ethics and Corporate Social Responsibility: Reporting

- Is an insurance company required to produce an annual Corporate Social Responsibility (CSR) report or a Global Sustainability Initiative (GSI) report?
- If so, what context needed to be disclosed in these reports?



What NCs say:



- In Brazil, some insurers have begun to disclose their initiatives related to the Global Compact, the Millennium Development Goals and the Equator Principles, as well as to align themselves with sustainability of certain Stock Exchanges. (BRA)
- In Colombia, different entities from the insurance sector periodically advance sustainability reporting under the methodology of the Global Reporting Initiative. (COL)

5-1 Disclosure/Transparency: Mechanisms

- What mechanisms shall be in place or considered in an insurance company to ensure the transparency of its governance structure?
- e.g., the articles of association, the organization chart, any existing committees, the major shareholders, the ethical standard, corporate social responsibility, etc.



What NCs say:

- It is recommended that the policy provides for the Executive Board to be the authority responsible for approving all disbursements related to political activities. (BRA)
- In Chile, the stock ownership of insurance companies is usually concentrated in one shareholder, we believe that having a high ethical and corporate social responsibility standard may provide the tools needed for insurers to fill such gaps. (CHL)
- In Uruguay, starting in 2017, insurers need to prepare, on an annual basis, a corporate governance report with a certain minimum content posted in their website. (URY)

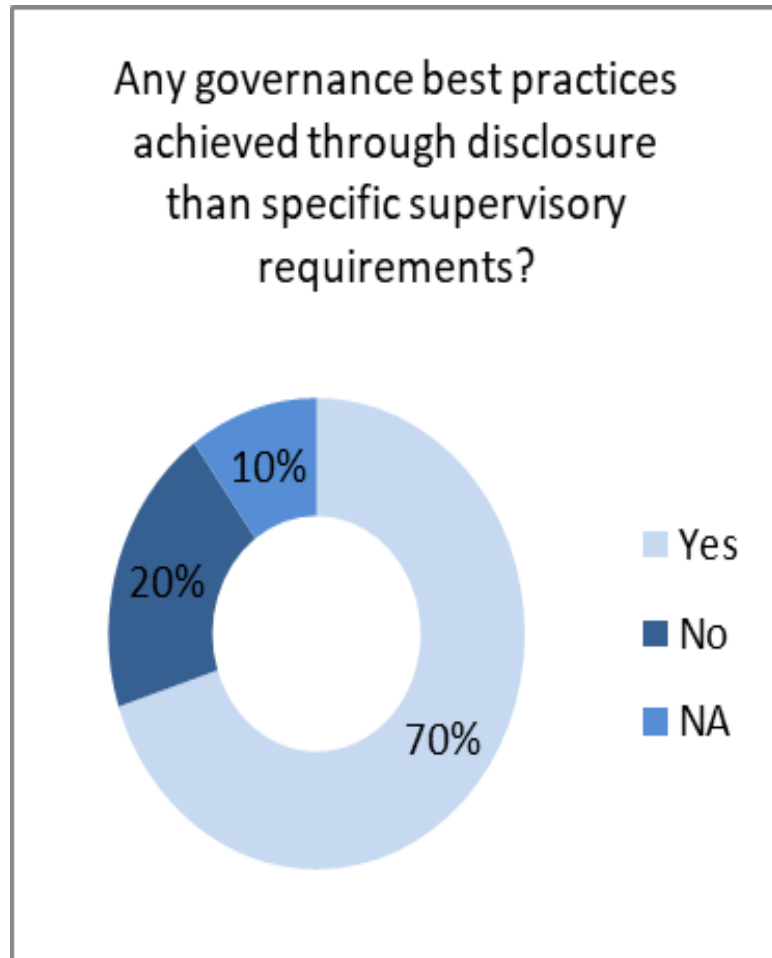


5-2 Disclosure/Transparency: Practices

- Are there any governance practices that, in your opinion, can best be achieved through disclosure rather than through specific supervisory requirements?
- Which governance practices should be mandatory for an insurance company?



What NCs say:



- To achieve efficient corporate governance, many jurisdictions are increasingly setting specific requirements for disclosing on significant information.
- 70% of the NCs observed that certain governance practices can best be achieved through information disclosure to the public rather than through specific supervisory requirements.

5-3 Disclosure/Transparency: Interplay

- What is the interplay between market abuse regulations and other disclosure/transparency rules applicable to listed insurers and industry specific rules applicable only to insurance companies?



What NCs say:

- In Argentina, the regulation creates a control organism include Anti-trust Commission, Stock exchange commission and the insurance supervisor. These state supervisors work together and interplay in this subject. (ARG)
- In Taiwan, the main concept of market abuse includes insider trading and unlawful disclosure of inside information, while the primary idea of corporate transparency involves the clarity and accuracy of information disclosure. The major interplay between these regulations and rules promotes the protection of shareholders. (TWN)



6. Outlook

- In respect of the corporate governance of insurers, please describe your criticisms on the system in your jurisdiction,
- Any recommendations for the future, and/or the main challenges which insurance undertakings encountered.



What NCs say:

- These programs are only on paper because they are not applied and observed by the managers of the companies. In short, its execution is not promoted. (BRA)
- There is a gap between modern trends in the insurance industry, local practices and regulation. Although our regulation has welcome foreign standards, it has been proven slow to add flexibility and to gather changes occurred in more dynamic insurance markets. (CHL)



What NCs say:

- The entry of new competitors (Fin-tech and Insur-tech) leads to regulators and companies need to set medium- and long-term strategies that include the adaptation of models of business against the growing automation and digitalization of the industry. (COL)
- Neither new mechanisms to create and develop additional channels for the distribution of insurance products, nor mechanisms to improve penetration and financial inclusion in a market in need such as the Mexican market. (MEX)



What NCs say:

- The results of risk management activities are never reflected in daily operations, let alone at the corporate level of strategy. It is suggested that the implementation of the so-called “Use Test” within the insurance sector. Under which, insurance companies are required to demonstrate whether the results of their risk management activities affect company daily operations and corporate strategy and in what way. (TWN)



Conclusion

- A corporate governance system of insurance should promote transparent and fair markets, and the efficient allocation of resources.
- It should be consistent with the rule of law and support effective supervision and enforcement.
- Timely and accurate disclosure to the public is taking its important role, in respect of all material information regarding the corporation, including the financial situation, performance, ownership, and governance of the company.



Conclusion

- Significant business risks challenge the insurance industry, including high ethical standards and corporate social responsibility (CSR), disclosure and transparency, compliance, cyber risk and crime, capital adequacy standards.
- Certain specific requirements for the insurance sector might emerge, especially its high profile and link to the public interests.
- Best practice of insurance corporate governance to be driven or encouraged mainly by the regulatory enforcement, rather than by the market force.



Thanks for attendance!

