

Session 1

Corporate Governance



IAIS-ASSAL Training Seminar

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Agenda

1. Introduction

2. Board Structure & Governance

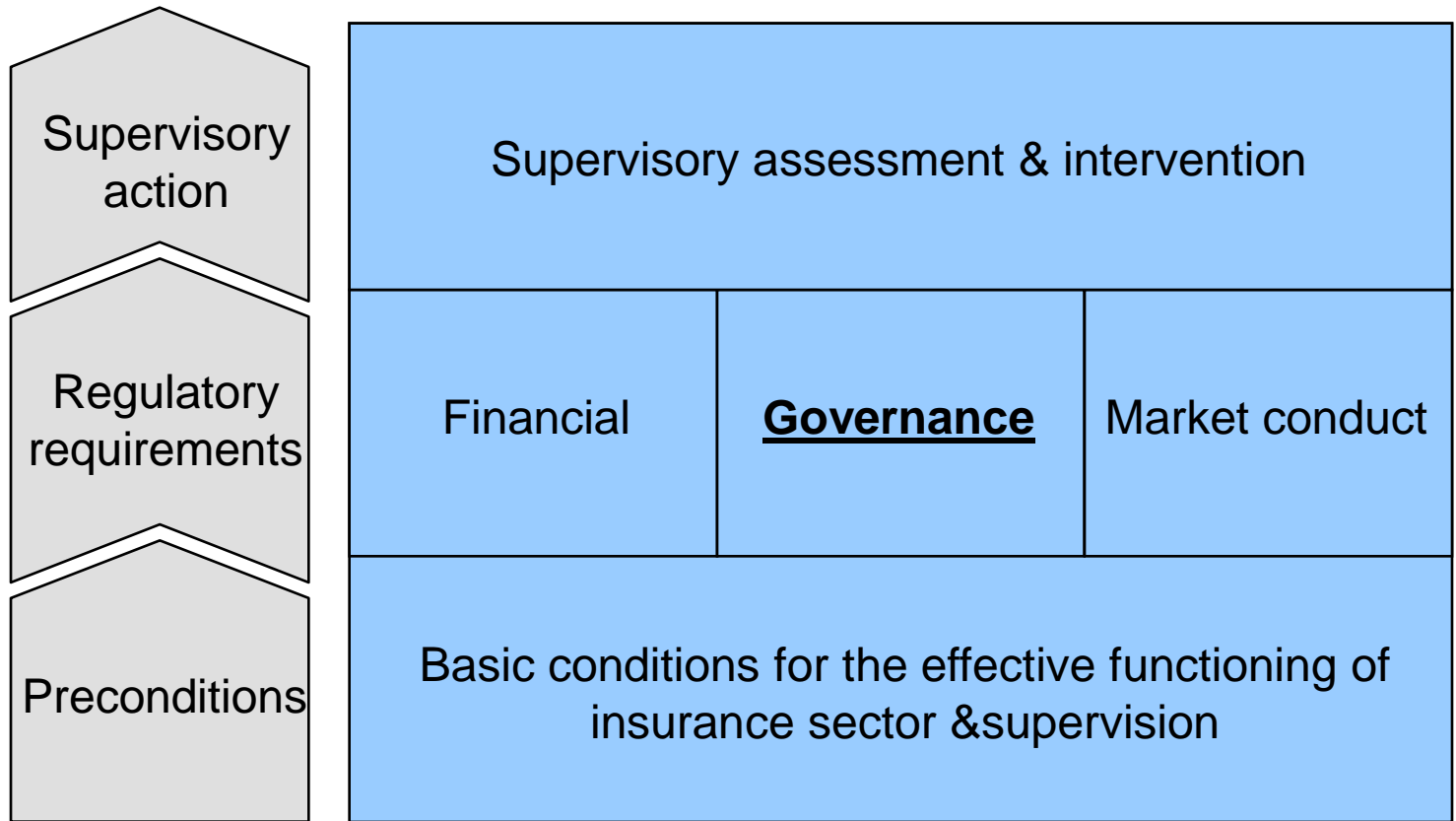
- Composition
- Chair
- Committees
- Information
- Behavioral Factors

3. Control Tools

- Delegation & Reporting
- Performance Evaluation & Remuneration



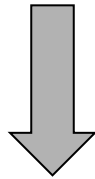
IAIS Framework for Insurance Supervision





Objectives & Strategies

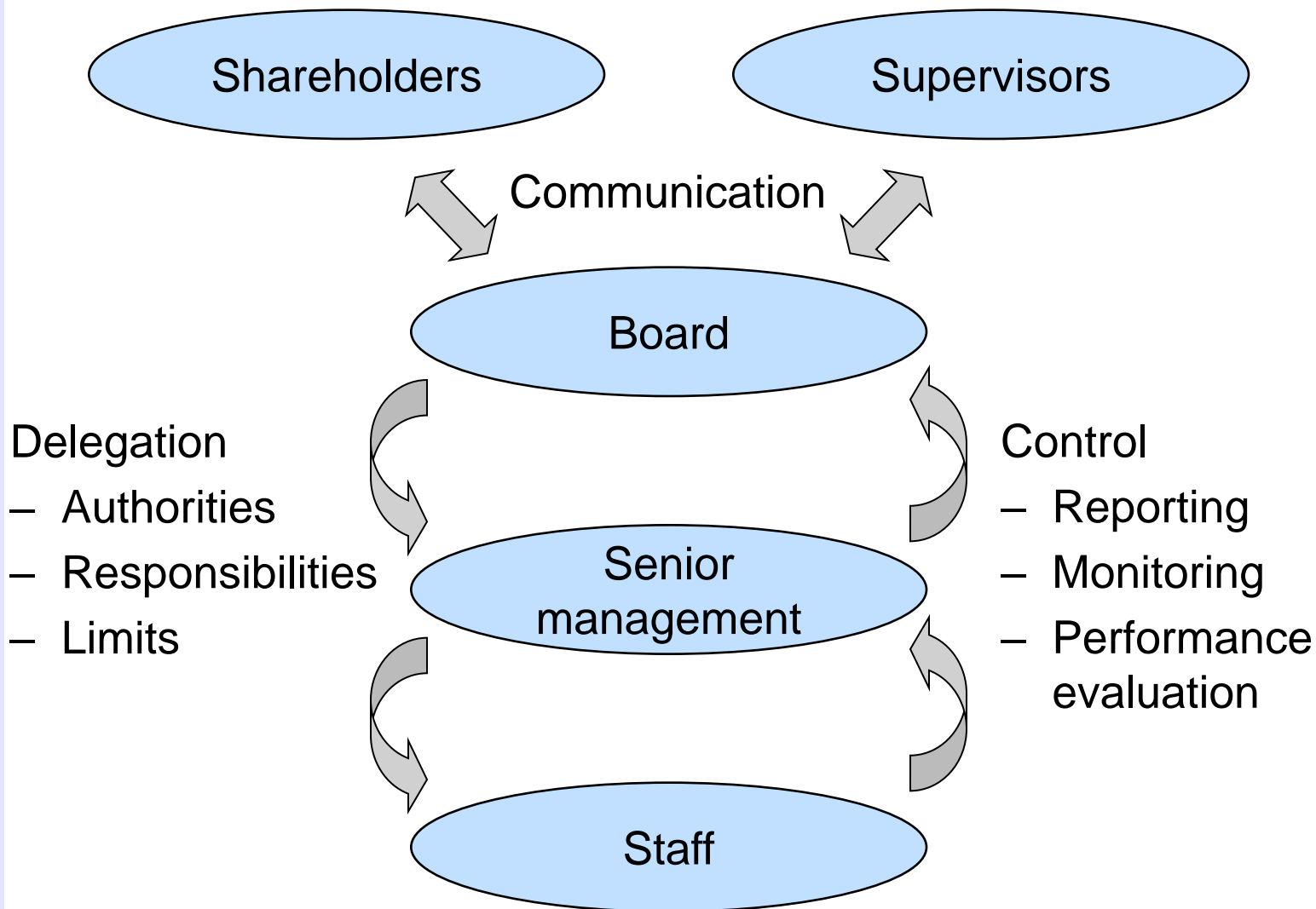
- Board sets business objectives, strategies & risk appetite
- Also oversees implementation
- How to effectively implement?



- Corporate governance & internal control
- Provide reasonable assurance that business is operated consistently with
 - Business objective
 - Strategy & risk appetite
 - Policies & processes
 - Laws & regulations



Overview





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Composition

- Sufficient number of members
 - Collectively & individually maintain necessary skills, knowledge, competency & understanding of business
 - But not so large to maintain efficiency
- Expected areas of expertise
 - Lines of insurance underwritten
 - Actuarial
 - Finance
 - Accounting
 - Investment analysis & portfolio management
 - Fair treatment of customers
 - Control



Chair of Board

- Chair of board has pivotal role
 - Set board's agenda
 - Ensure allocation of adequate time for discussion, especially when involving strategic decisions
 - Promote culture of openness & debate
 - Facilitating participation & communication
- Separation of chair of board & CEO desirable
 - Clear distinction between accountability for oversight & management



Committees

- May establish specific committees within board
 - Clearly defined mandate & authority
 - Board remains ultimately responsible
- Examples
 - Audit
 - Remuneration
 - Compliance
 - Nomination
 - Risk management



Information

- Information is foundation of decision making
 - Frequency, scope & level of detail
 - Financial & non-financial information
- Board generally relies information from management
- Needs to ensure internal system that adequate information is provided
 - Timely & comprehensive information
 - Direct access to relevant persons
 - Whistle blowing



Behavioral Factors

- Avoid commercial conflict of interest
 - Disclosure of potential conflict of interest
 - Requirement for arm's length transaction
 - Prior approval of transaction by board or shareholders
 - Decline to vote or take any decisions in related matters
- Separation of functions
 - Oversight responsibility (non-executive)
 - Day-to-day management (executive)
- Independence & objectivity
 - Especially sensitive in remuneration & audit areas



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Delegation

- Board should have well-defined power
 - Clearly set out (e.g. articles of incorporation, organisational rules)
- May delegate some authorities & responsibilities
 - Clear mandate with well defined terms (e.g. who is empowered to make decisions)
 - No undue concentration of power (“check & balance”)
 - Retain ability to withdraw delegation
- Board remains ultimately responsible



Control

- Monitoring proper functioning
 - Accuracy, completeness & timeliness of records, accounts & reporting
 - Compliance with laws, rules & procedures
 - Appropriate authority on transactions
 - Safeguard of assets
 - Segregation of duties
- Internal audit
- Reporting system
 - Information management system
 - Whistle blowing



Remuneration

- Performance evaluation & remuneration affects behavior!
 - Promote business objectives & risk strategies if appropriately set
 - Ethics is important but...
- Remuneration policy should
 - Not encourage excessive or inappropriate risk taking
 - Be consistent with identified risk appetite & long term interests of insurer
- Should at least cover individuals who may have material impact on risk exposures & results



Variable Payment

- Appropriate mix of fixed & variable components
 - Depend on position, responsibility & nature of risk
 - If variable component is significant, major part should be deferred for appropriate specified period
- “Performance-based”
 - Use measures of individual and/or unit performance
 - Clearly defined & objectively measurable
- “Risk-adjusted”
 - Include adjustment for risks associated with performance
 - Set in multi-year framework with claw back arrangement
 - Based not only on financial but also on non-financial criteria (e.g. compliance with regulation, treatment of policyholders)
 - Do not treat growth/volume in isolation



Share-based Payment

- Share (Stock)-based components
 - Stock itself
 - Stock options or similar instruments
- Safeguards
 - Vesting restriction: do not vest for specified period after award
 - Holding restriction: not exercisable for specified period after award
 - Retention restriction: required to retain certain portion of shares



¡Muchas gracias!



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