OVERVIEW OF CORPORATE GOVERNANCE INITIATIVES IMPLEMENTED IN THE INSURANCE INDUSTRY

Key corporate governance initiatives by Bank Negara Malaysia (the Bank) for the insurance industry since 1990 are set out below.

- On 11 December 1990, **Guidelines on the Duties and Responsibilities of Directors and Chief Executive Officers of Insurers** were issued. The guidelines stipulated the major responsibilities of the board of directors of an insurer, including the responsibility to effectively supervise the affairs of the insurer, ensure that the assets of the insurer are sufficient to meet its liabilities and adopt sound corporate policies and objectives for the insurer. The governance structure was strengthened with the requirement for insurers to establish an audit committee constituted of the board members. On 2 November 1995, the guidelines were enhanced to restrict conditions under which practising lawyers and accountants may be appointed as directors of insurers as well as limit the number of outside directorships that may be held by chief executive officers and executive directors. Insurers were required to ensure a majority of non-executive directors on the board.

- On 25 February 1995, **Guidelines on Audit Committees and Internal Audit Departments for Insurance Companies** were issued to further define the requirements relating to the formation of the audit committee of an insurer. The guidelines established minimum standards to be observed with respect to the constitution, authority and functions of the audit committee. Insurers are required to ensure that the committee members are suitably qualified and audit committee meetings are properly constituted. The guidelines were enhanced on 3 February 1997 to include minimum audit standards with respect to the organisation of the internal audit function, duties and responsibilities of internal auditors, the scope of audit work and reporting and documentation of audit findings. Insurers are also required to conduct regular and comprehensive audits in critical areas of operations identified by the Bank, including the investment, underwriting and claims functions.

- On 20 July 1999, the **Guidelines on Related-party Transactions** were issued to ensure that related-party transactions are conducted in an independent and transparent manner on terms that are fair and reasonable. The guidelines established minimum standards to be observed in related-party transactions and require full disclosure to the board of an insurer of the nature and extent of all related-party transactions. In addition, board authorisation was required for all material related-party transactions. Insurers are required to seek the prior approval of the Bank for the purchase and sale of property to or from related-parties and to periodically report details of material related-party transactions to the Bank.

- On 10 May 2000, the **Prudential Framework of Corporate Governance for Insurers** was issued. The framework sets out principles and best practices of corporate governance that support a strong foundation for effective board oversight, clear management accountability, corporate independence, sound risk management and transparency in dealings with the public. Consistent with an increasing role for market discipline to complement the regulatory system, insurers are required to make a general disclosure in their annual financial statements of the manner in which they have applied the framework principles, justifying any departure from the principles.

- On 19 May 2003, additional **Corporate Governance Standards** were issued to require insurers to form nominating, remuneration and risk management committees with specific terms of references. The standards set out the minimum qualification and training requirement for directors. The independent element of the board was also substantially strengthened by expanding the criteria to be met by independent directors. The expanded criteria, among other things, take into account material interests (including indirect interests) of the director in related corporations of the insurer, whether arising through equity, board representation or family relations. The responsibilities and expectations of independent directors in terms of their contribution to the governance process were also enumerated to encourage more effective participation in the board's oversight role.

- On 21 October 2003, insurers were required to incorporate a clause in their Memorandum and Articles of Association providing for **one-third of the directors of the insurer to retire from office by rotation** in line with the Fourth Schedule of the Companies Act 1965. The process aims to facilitate the assessment of contributions made by individual directors to the financial soundness and development of insurers on an ongoing basis. The retiring directors would be eligible for re-election with the prior approval of the Bank. More effective supervisory assessments by the Bank on candidates nominated for appointments/ reappointments were also achieved with the issuance of revised application forms including additional information to be provided by candidates on their past business and professional conduct.

- On 9 December 2003, insurers were required to provide specific **disclosures on the aggregate remuneration of directors and chief executive officers** in their annual financial statements beginning on or after 1 July 2003. Mandatory disclosures include the aggregate remuneration of executive directors and non-executive directors separately disclosed in respect of salaries, bonuses, benefits-in-kind, fees and other remuneration, and separate disclosure of remuneration, including benefits-in-kind, attributable to the chief executive officer.

- On 18 February 2004, the **fit and proper requirements** aimed at ensuring that persons exercising a controlling influence over insurance licensees are fit and proper were further strengthened. In view of the increasing importance of the role of the appointed actuary in the governance process, the appointed actuary was explicitly included among persons required to fulfil the fit and proper criteria. Licensees were also required to implement a process or mechanism to ensure on an ongoing basis that directors, chief executive officers and managers are fit and proper, and notify the Bank of appointments of key officers to multiple positions in a licensee that could potentially result in a conflict of interest. The notification will facilitate an assessment by the Bank to ensure that adequate mitigating controls are instituted by the licensee to address the potential conflicts.

- Going forward, the year 2004 will see further measures introduced, including the enhancement of the role and responsibilities of the audit committee in assessing the objectivity, independence and performance of appointed external auditors.