Corporate Governance and Insurance Supervision

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Agenda
Topics we will address today

• Corporate Governance in an insurer
• Relevance for the supervisor
• Four lessons from market turbulence
  • Knowledgeable senior management
  • Remuneration
  • Independent control functions
  • Governance of the valuation process
• IAIS Governance and Compliance Subcommittee
Corporate governance in an insurer
The Dutch situation

**Principal:**
- Society
  - Shareholders
  - Accountant
- Supervisor
  - Stakeholders
  - Actuary

**Agent:**
- Insurer
  - Supervisory Board
    - Executive Board
      - Compliance function
      - Internal Audit function
      - Operational Organisation
Relevance to the Supervisor

We are concerned with this subject because:

• Supervisors need to approach a conglomerate systematically both top down and bottom up
• Supervisors are interested in effective control of financial conglomerates
• Risk based supervision is the only way to approach modern complex organisations
• Therefore effective management is the logical starting point for supervisors
Market turbulence
We have learned at least four important lessons:

• People matter more than structures
• Remuneration and adverse incentives
• The importance of independent control functions
• Impact of governance on valuation processes
Knowledgeable senior management
People matter more than structures:

• Fit and proper criteria
• Required knowledge
• Senior management attitude
Remuneration
A very political hot topic:

• Compensation schemes encouraged disproportionate risk-taking with insufficient regard to longer-term risks.

• The financial industry should align compensation models with long-term, firm-wide profitability.

• Regulators and supervisors should work with market participants to mitigate the risks arising from inappropriate incentive structures.
Governance of the valuation process
Impact of fair value accounting:

- Governance process on valuation
- Integrating risk management and accounting
- Involvement of senior management
- Clear internal reporting
- Public disclosure
IAIS
Governance and Compliance Subcommittee

• Carry out a survey into industry practice in the area of corporate governance and report on the findings with the OECD.
• Promote the effective and efficient application of the principles and guidance issued
• Provide input to the revision of the ICPs specifically on those elements relating to corporate governance
• Develop training material regarding corporate governance specifically for insurance supervisors.
• Consider and, if warranted, develop proposals for work on compliance.
If you were to remember only one thing...
...it should be that people matter most