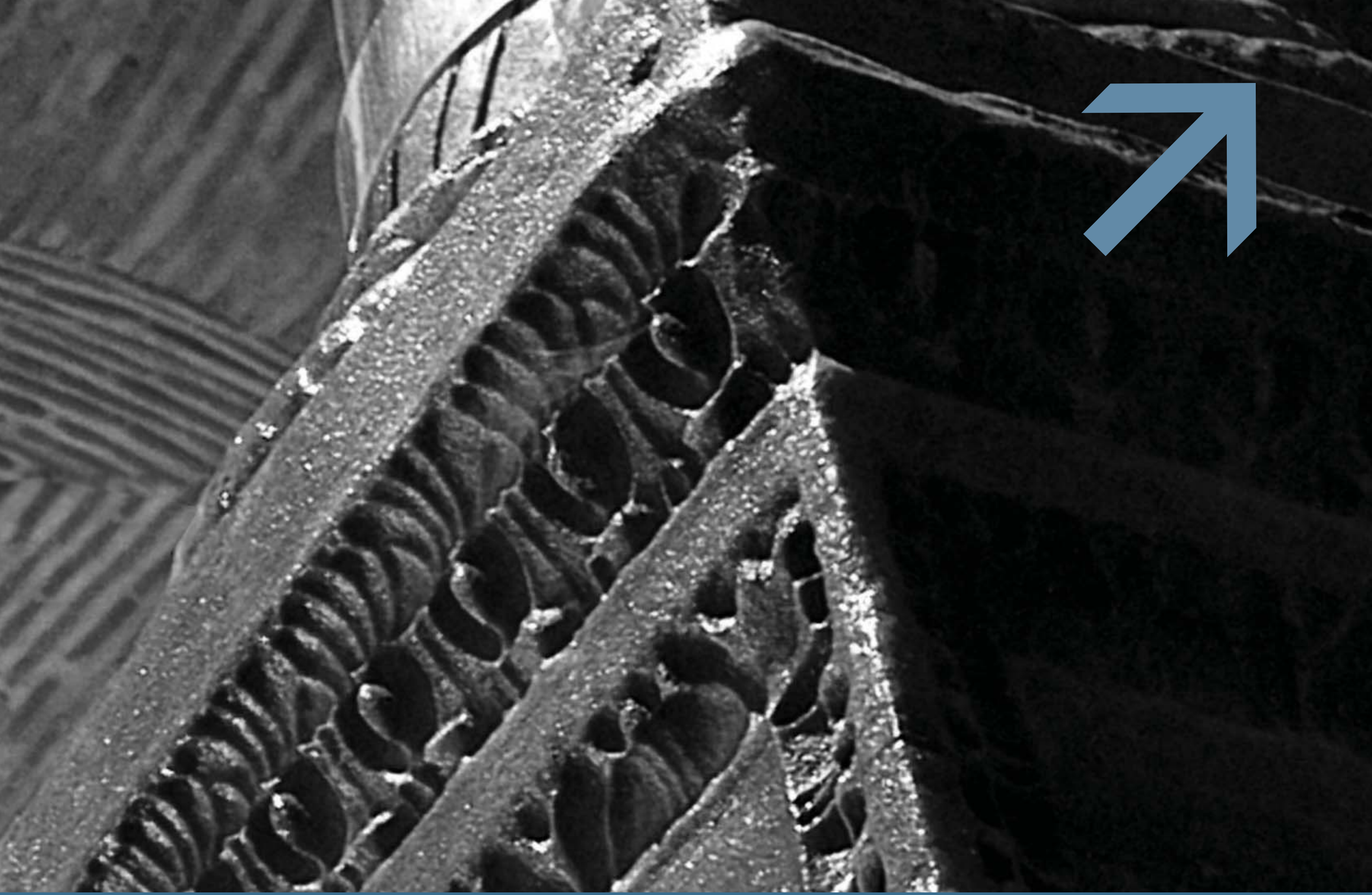

AFIRC - HAWKAMAH
POLICY BRIEF ON CORPORATE GOVERNANCE FOR THE INSURANCE INDUSTRY IN THE MENA REGION

MARCH 2009

HAWKAMAH
THE INSTITUTE FOR CORPORATE GOVERNANCE

منتدى الهيئات العربية
للإشراف والرقابة على أعمال التأمين
ARAB FORUM OF INSURANCE
REGULATORY COMMISSIONS (AFIRC)

IN ASSOCIATION:

FSVC

CONTENTS

EXECUTIVE SUMMARY

The global insurance industry has experienced significant challenges in recent years, not only as a result of a series of natural disasters but also, more recently, as a result of global financial turmoil. Nonetheless, the insurance industry continues to show strong growth, with more than $40 billion of new capital being injected even before the recent global difficulties. Macro economic trends in emerging markets such as India, China, Russia and Brazil, even if more subdued than recent forecasts, will continue to drive strong demand for insurance products.

The need for the global insurance industry to adhere to sound corporate governance is greater now than ever more. This is particularly so in the Middle East and North Africa (MENA), where the insurance industry has been underdeveloped, but is now growing fast. Within the MENA region, the rapid rise of shari'a-compliant insurance and re-insurance provides an additional incentive for strong standards to be developed quickly.

In response to these developments in the MENA region, the Arab Forum of Insurance Regulatory Commissions (AFIRC) and the Hawkamah Institute for Corporate Governance (Hawkamah) launched a Task Force, in conjunction with the Financial Services Volunteer Corps (FSVC) and a panel of volunteer experts, on corporate governance for the Arab Insurance Industry. The Task Force was assembled to identify current corporate governance practices in the insurance industry in the MENA region and to write a Policy Brief on the practical implementation of corporate governance best practices in the region, while taking into consideration international standards.

The Policy Brief was developed from primary data obtained from responses to a questionnaire developed by AFIRC and Hawkamah.. The objective of the brief is to provide a framework of recommendations and actionable items that will enable MENA insurance companies to improve and homogenize their corporate governance practices with emphasis on maintaining fiduciary obligations to each company's constituents, balancing the needs of policyholders (customers), employees, and all stakeholders. Furthermore, secondary data through industry experience and observation was utilized in conjunction with the primary data to arrive at the synopsis of current market practices and recommendations. The countries to which the questionnaire was sent included: Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, United Arab Emirates, and Yemen.

The overall conclusion that can be drawn from the responses to the AFIRC-HAWKAMAH questionnaire is that insurance companies operating in the MENA region have varied strengths and currently face significant challenges. The strengths include recognition of the importance of the role of the financial services sector, of maintaining a strong reputation, and of making a contribution to the community. Many institutions have demonstrated their commitment to accountability, transparency, and fulfilling obligations to their stakeholders and policyholders. Concurrently, many companies face challenges in achieving proper corporate governance as defined by various international professional and regulatory agencies. Such challenges also exist in most other regulated markets and are often based on accepted practices within those markets.

The actionable items set forth in this brief are based on both established governance practices and recent events related to the operation of companies in the insurance industry worldwide. These issues include commitment to good corporate governance; good board practices; adopting and maintaining minimum levels of transparency and disclosure; ensuring an effective control environment; and protection of policyholders and shareholders rights.

Once minimum standards are agreed upon for the MENA region, they should be disseminated and enforced to the best abilities of the regulators overseeing insurance companies in each jurisdiction. The guidelines should be applicable to all insurers in each jurisdiction and should be based on the conclusions and recommendations in this Policy Brief. A key part of this effort will include training seminars for regulators and directors, as well as the further development of AFIRC in its regional role and the promotion of national industry associations.

These recommendations should be viewed as areas for improvement for the insurance sector and the companies operating within the MENA region, as opposed to an attempt to identify specific problems within a particular company or country. This work is also intended to complement the efforts of other organizations working on these issues, for example the International Association of Insurance Supervisors (IAIS), the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

INTRODUCTION

The Insurance industry in MENA is going through a period of rapid development. Regulatory authorities are being re-structured and revised, and the quality of regulation upgraded. State-owned insurance companies are being prepared for privatization. Foreign investors are being welcomed. New thinking on Shari'a-compliant finance is leading to a boom in Shari'a-compliant insurance.

These developments are welcome and long overdue. Insurance penetration in the MENA region remains one of the lowest in the world. Premiums rarely exceed 1% of gross national product in MENA countries, compared to an average of 3% in Europe and over 4% in North America. An analysis of insurance density tells the same story: per capita spending rarely exceeds a few hundred dollars in MENA, compared to well over a thousand in Western Europe and over two thousand in North America.[1]

A larger and more developed insurance industry will bring huge benefits to the MENA region. As the industry grows and becomes more efficient, the price of insurance will fall, making it more accessible to a broader range of people. New products will make the industry attractive to new customers. It will also enhance the ability of individuals to protect themselves against accidents and make long-term saving plans for the future. Businesses will be able to cover their risks more effectively.

If the industry is to grow, it needs to be well governed, transparent and free from scandal. Good governance ranks alongside enabling legislation, sound regulation and competent staff as one of the prerequisites without which the insurance industry will be unable to expand. Indeed, at a time of such rapid transition, sound governance is probably the single most important factor that will assure the industry's future.

In April 2007, The Arab Forum of Insurance Regulatory Commissions (AFRIC) and Hawkamah, The Institute for Corporate Governance agreed to establish a Task Force on Corporate Governance for the Insurance and Re-Insurance Industry in the Middle East and North Africa. The ultimate goals of the Task Force are to undertake an assessment of corporate governance in the insurance sector in participating Arab countries; to develop a Policy Brief on corporate governance, which takes account of both conventional insurance and Shari'a-compliant insurance and lays out guidelines for the insurance sector; and to build the corporate governance capacity of the industry. Another main objective is to achieve the harmonization of corporate governance standards among AFIRC members; a harmonization of those standards with international best practices; and finally, a harmonization of relevant statutes published in Middle East and North African states.

As a first step, a questionnaire was developed and sent to 100 companies and 13 regulatory authorities in the region. The questionnaire consisted of two parts. Part I was to be answered by all respondents and Part II by insurance supervisors only. The questionnaire was circulated with the understanding that the responses did not necessarily represent the views of the organizations to which the respondents belong, but would be regarded as their personal opinions. The questionnaire was completed by 47 companies and regulators from nine MENA countries: Bahrain, Egypt, Jordan, Saudi Arabia, Lebanon, Oman, Palestine, Sudan, and the United Arab Emirates. (Information on the respondents is given in Appendix II and a copy of the questionnaire is attached as Appendix III.)

The results of the questionnaire confirmed that the insurance sector is undergoing rapid change and that many areas exist for improving corporate governance. For example, 70% of respondents indicated that corporate governance deserves special attention in the insurance industry. Eighty-five percent of respondents indicated that it would be desirable for their countries to develop corporate governance principles that exclusively, or mainly, focus on the insurance industry. These responses, and others, make clear that a corporate governance framework, providing broad-based, practical and actionable recommendations and guidelines would therefore be beneficial in MENA.

1 Source: Swiss Re Sigma Report, "World Insurance in 2007".

Hawkamah therefore, in conjunction with the Financial Services Volunteer Corps (FSVC), a New York-based not-for-profit company which promotes the development of efficient, market based financial systems in developing and transitioning economies, developed a Policy Brief on corporate governance for the insurance sector, taking into account the responses to the Hawkamah/ AFIRC survey as well as current thinking on international best practices.

In March 2008, this draft was presented to a Task Force of regional experts assembled by Hawkamah and AFIRC. Hawkamah and the FSVC team incorporated the comments from the Task Force members into the Policy Brief and a further revised version was sent out to insurance companies and regulators throughout the region for comments. This final document includes these comments, further inputs from the Task Force and AFIRC members, and final revisions and additions from Hawkamah and the FSVC team.

In presenting this Policy Brief, the authors recognize the work that has been done by others to promote good governance in the insurance industry. For example, in September 2007, the International Association of Insurance Supervisors (IAIS) published its "Recommendations on Corporate Governance". The Islamic Financial Services Board published in December 2006 its "Guiding Principles on Corporate Governance for Institutions offering Only Islamic Financial Services" and in December 2008 an Exposure Draft "Guiding Principles on Governance for Islamic Insurance (Takaful) Operations" . Moreover, many of the general principles contained in the OECD's "Principles on Corporate Governance" are relevant to insurance and Shari'a-compliant insurance companies. The OECD also has specific guidelines for insurers.

Any Policy Brief on Middle East insurance must recognize the rapid growth of Shari'a-compliant insurance. Most principles of governance apply equally to conventional and Shari'a-compliant insurance. Both types of firm should be governed by independent, knowledgeable and committed board members. Both need to respect all stakeholders, regardless of the size of their holdings. However, the specific structure and operations of Shari'a-compliant insurance firms do prompt some particular considerations for good governance, particularly the presence of a Shari'a supervisory Board (in addition to the normal Board of Directors) as well as heightened disclosure by the Shari'a Supervisory Board through their year-end report on the final accounts, and the necessity of separating the Shareholders' fund and the Policyholders' fund. Section VI provides an overview of governance needs specific to Shari'a-compliant insurance firms.

What makes this Policy Brief unique is that it is rooted in the experience of insurance companies and regulators in the MENA region, and that it is written specifically to address the challenges which they are facing. The process of drafting the document began with a review of the AFIRC-HAWKAMAH questionnaire, and was developed in constant consultation with industry professionals from the region. It also uses the work of bodies such as the IAIS to provide broader context and facilitate wide applicability of the recommendations.

The Policy Brief is designed to be a practical guide. Throughout the document, the authors provide actionable recommendations, which can be taken by executives in MENA who are trying to strengthen corporate governance in the companies which they manage, or which, as regulators, they supervise.

All the partners involved in the production of this Policy Brief are committed to propagating its recommendations and guidance in the MENA region. That commitment will go beyond simply publishing the document and ensuring its wide distribution. The partners intend to hold a series of seminars in the region, during which authors of the report, and members of the Task Force, will explain the thinking behind the document, and work with local insurance executives to find the best ways to implement its recommendations.

BROAD PRINCIPLES OF CORPORATE GOVERNANCE AND ITS PARTICULAR IMPORTANCE TO THE INSURANCE INDUSTRY

The principles of corporate governance are not new, but it is only recently that corporate governance has emerged as a distinct and formal discipline through which to ensure the sound conduct of business. Prioritization and implementation have varied from industry to industry, country to country, and region to region, and this is as true in the MENA region as it is anywhere else in the world.

Across the global insurance industry, there have been moves to harmonize and formalize best practices so that all companies can conduct business in a clear, fully understood, and approved manner. Given that the insurance market is built largely on a foundation of trust and reputation, it is vital that any participant in any sector within the community maintains a strong culture of trust and transparency. This is greatly enhanced by formalized, consistent, transparent, operative, and enforced corporate governance practices.[2]

Importantly for the growing insurance markets in the MENA region, there is evidence that good governance contributes to faster growth and stronger profitability. In its September 2005 report, "The Irresistible Case for Corporate Governance," the International Finance Corporation also asserts that sound corporate governance increases company valuations by 20-30% in developing markets and leads to higher credit ratings and a corresponding improvement in access to finance.

The "OECD Principles of Corporate Governance" published by the Organization for Economic Cooperation and Development (OECD) in 2004 defined corporate governance as "a set of relationships between a company's management, its board, its shareholders, and other stakeholders." The "Principles" further say, "Corporate governance also provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy."

The key factors for maintaining a strong reputation from a governance oversight perspective include:

Transparency and Disclosure:

One of the most important facets of good governance is maintaining a system of rigorous reporting requirements throughout a region or within a particular country. Challenges facing participants include: engaging specialized expertise, adhering to national regulatory requirements, adhering to International Financial Reporting Standards (IFRS) (and/ or, in the case of Shari'a-compliant institutions, adhering to standards formulated by well-recognised bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions Standards (AAOIFI) and accessing adequate accounting and actuarial resources. Notwithstanding these challenges, insurance companies – whether private or public – should seek to provide as much transparency as possible to the public, to stakeholders, and to policyholders. For publicly held companies, disclosure should also comply with all local exchange regulations.

Solvency:

The financial strength of any financial institution is paramount in order to establish and maintain a sufficient level of trust. Each country has prescribed solvency requirements, strictly divided between life and non-life insurance. The type and apportioning of the portfolios backing solvency are closely regulated. Lack of solvency or threatened solvency can result in liquidation of the company.

2 All financial services companies are highly dependent on trust and transparency, but the long-term nature of many insurance company obligations places particular focus on these virtues.

Accountability:

Board members and senior management should be held accountable for their actions and should have in place adequate checks and balances to ensure that their actions are in accordance with the law and regulations of the jurisdiction in which the company operates as well as with good business practices. It is critical to work with independent external auditors to maintain accountability of all constituents. Board members need to consider the interests of all stakeholders, including their policyholders. Additionally, board members have a fiduciary obligation to the owners of the insurance company regardless of ownership structure.

The purpose of this brief is to set forth corporate governance guidelines that can be implemented within the MENA region. Notwithstanding the sophistication of governance procedures within any market region or business sector, areas for improvement always exist. It is recognized that cultural, religious, technical, and human resource factors may affect the degree to which corporate governance can be implemented in order to meet international standards. The MENA region should be commended on its commitment to move forward in corporate governance.

The following sections set forth the Task Force's observations and recommendations in order to assist in meeting that goal.

Insurance is the business of covering risks for the economic, financial, and corporate endeavours of families and individuals. The normal risks associated with financial undertakings apply equally to an insurance undertaking. There are, however, additional risks that the particular nature of insurance brings forth. Insurance is characterized by the reversal of the production cycle -- revenue (premiums) is collected when the transaction (contract) is entered into, while the product (payment) will be delivered at some point in the future, and may never be delivered at all if no claim is made. Many sectors of the insurance industry are characterized by long-term commitments (liabilities). Even when there is certainty that a long-term claim will be made, for example in the case of a long-term savings plan, the present value of that claim may be difficult to calculate, and valuations easy to abuse.[3]

As a result, corporate governance in the insurance industry must provide for sound oversight of reserving for events that may occur within some range of magnitude at some unknown time. Underlying the reserving is the pricing of the product. Certain questions will become obvious during this process: what will be the costs associated with the claim? What will be the extent of the claim? How much time will the insurer have in order to earn a sufficient return on the premiums invested to pay the claim? In life insurance, the amount of the claim is known as it is fixed by contract, but when the claim will arise is unknown. These unique risks are referred to as technical risks generated by the actuarial and/or statistical calculations used in reserving, and are found on the liability side of the balance sheet in the insurance industry.

For both life and non-life insurance, the risks associated with investments take on different characteristics. Normal market, credit, and liquidity risks arising from the investment of premiums and financial operations apply to insurance. However, added to these risks is that of asset-liability mismatches that can have disastrous consequences for the solvency of a company.[4]
It is not surprising that in developed markets, insurance is more heavily regulated than most other financial sectors.

3 A customer who deposits $100 with a bank knows exactly how much the bank will pay back on withdrawal -- $100 plus any accrued interest, with such interest being a known figure. In contrast, the amount which will be returned on a long-term saving product is much less transparent – eventual returns are dependent on more complex variables and, as a result, it is more difficult for customers to know exactly how the return has been calculated, and whether the company is treating them fairly.

4 For example, in assessing the cost of an inflation-adjusted annuity, a company must make accurate predictions of life expectancy and future inflation rates. To determine its ability to maintain payments on that annuity, it needs to predict the returns which it will be able to achieve on premiums received on the annuity. Even a small miscalculation in the values of such long-term assets and liabilities can lead to a huge shortfall in the company's ability to meet its obligations.

MAIN ISSUES FOR REFORM IN MENA CORPORATE GOVERNANCE

Insurance companies within the MENA region are attempting to harmonize their understanding and implementation of corporate governance with the IAIS and other international standards. The responses from the AFIRC-HAWKAMAH questionnaire sent to selected insurance regulatory authorities and insurance companies reveal several corporate governance challenges faced by insurance markets in developing countries. While there is an acknowledgement of the importance of corporate governance, opinions differ on how corporate governance policies should be implemented and which regulatory authority should be responsible. The need for strong regulatory arrangements will be critical in effecting a rollout of a comprehensive and uniform framework for corporate governance.

Even respondents who indicated that there are corporate governance policies within commercial law or prudential handbooks were unclear as to which roles and processes should be covered by corporate governance. The only committee function that is mandated across a majority of MENA insurance markets according to the questionnaire is the audit function.

Two common themes for MENA insurance companies are ownership structure, which often favors family-owned/majority shareholders or state ownership, and the general need for board members to possess greater knowledge of the financial services industry. Weak corporate governance impacts all insurers regardless of ownership structure. Family-owned companies present challenges in implementing a corporate governance policy that addresses all pertinent constituencies, from policyholders to shareholders. It is particularly important for family-owned companies to provide transparency and to maintain strong corporate governance parameters in light of the increasing globalization of the business. In many countries, banks are major shareholders, and bank assurance has been growing as well. The role of the majority shareholder needs to be clearly defined, as should be the role of each of any participating family members. This may require shareholder agreements between family members as to roles and processes. Another critical area of weakness with family-owned companies is the lack of clarity regarding executive succession. In addition, disclosure requirements should be the same for both public and private companies, although public companies have additional requirements as set forth by local securities regulators.

The recruitment of qualified board members and management also remains a challenge in MENA insurance markets. Board members need to have an understanding of the key risks of the insurance industry, different accounting standards, and complex actuarial and investment issues. Educational requirements for insurance managers vary, with greater emphasis on the role of the actuary being promulgated for life insurers only. Actuarial services are needed for all insurance companies to determine all calculated reserves and assist in pricing products. Given that the MENA region has few registered actuaries, educational and economic incentives could help increase the actuarial pool from which companies could draw.

Corporate governance priorities in MENA often mirror those in other regions of the world, although the relatively underdeveloped nature of MENA insurance, and the rapid pace at which it is now evolving, do give prominence to particular issues. For example, the dearth of qualified actuaries places particular importance on the need for rigorous external evaluation of a company's internal valuations and assumptions. The dominance, in some countries, of state-owned companies, raises questions of management independence. Privatization will bring an additional set of issues as companies come under greater pressure to generate market-comparable returns.

The following areas for reform in corporate governance of the insurance industry are by no means an all-inclusive or final listing. They are based largely on information presented in the AFIRC-HAWKAMAH questionnaire. Further review of the laws and regulations of the respective countries might result in additional recommendations or a modification of these recommendations. It is acknowledged that the conduct of the insurance business, as with all other financial businesses, is subject to the laws of the country in which the business is conducted. These recommendations are also intended to be subject to those laws and are consistent with international best practices and guidance.

Commitment to good corporate governance practices is perhaps the single most important element of effective implementation and compliance. This includes a firm commitment on the part of lawmakers, regulators, companies, and stakeholders. Implementation cannot be unilateral; all parties must participate and support the concept. The corporate governance framework recognizes and protects the rights of all interested parties and contributes to economic growth. Laws should not be enacted that undermine the purpose of good corporate governance. Regulators should mandate and strictly enforce compliance with corporate governance. Company management should vigilantly monitor compliance and take appropriate action to correct any infractions. Finally, stakeholders should demand that proper corporate governance be in place and operative.

A uniform definition of what corporate governance entails must be agreed upon before corporate governance can be in place and operative throughout the MENA region. Presently, it appears this is not the case. Throughout the answers to the AFIRC-HAWKAMAH questionnaire, there are varying interpretations of insurance corporate governance. Insurance regulators in MENA countries should more clearly define the concept by following the guidance of the IAIS and incorporating other points appropriate to their countries as deemed prudent. This will not only greatly enhance cross-border regulation but will also enhance the international standing of the region. Furthermore, regulators have an inherent interest in sound corporate governance as it is an essential element in the prudent functioning of an insurer. The IAIS Core Principle - ICP 9 set forth in the 2003 Core Principles [5] could be suitable to the MENA region: "The corporate governance framework recognizes and protects the rights of all interested parties. The supervisory authority requires compliance with all applicable corporate governance standards."

Legal and regulatory systems must be brought into greater harmonization. Some governments have no insurance-specific regulations per se. Others have corporate governance guidelines embedded only within general corporate law that does not necessarily address concerns specific to insurance. MENA regulators should to the extent possible address both of these issues. In addition, International Financial Reporting Standards (IFRS) and AAOIFI standards for Shari'a compliant insurance are not mandatory within MENA but should be applied over some reasonable period of time. Ideally, separate laws governing the business of insurance should be enacted as in other jurisdictions worldwide. General corporate law, as a rule, does not address the uniqueness of the business of insurance, its corporate governance, or other important aspects of the industry.

There must be greater and more widespread levels of expertise in the insurance sector among different countries and within a given country. Region-wide training in select areas would be very beneficial. Formal training in insurance is offered at universities in many countries. The complex nature of the insurance industry makes specialized training essential.[6] Cross-disciplinary experience seldom works in a new or relatively young company. As is addressed later in this brief, actuarial training could be instituted in MENA universities. This investment in training will greatly add to the effectiveness of company management and produce consequent economic benefits for the companies and the region. Internships in international insurance companies should be explored as well.

Insurance ownership structures must have high levels of transparency and disclosure, as well as sufficient checks and balances to counter inappropriate activities or influences. Closely owned companies may be reluctant to comply fully with corporate governance requirements pertaining to the composition of the board, disclosure requirements, or restrictions on control, investments, dividends, and other matters. However, the reluctance to act in a transparent manner and to disclose relevant information is not limited to closely owned companies. Transparency does not involve disclosing proprietary information; rather, it is providing reliable and timely information to prospective and existing stakeholders. Effective regulation requires the disclosure of a great deal of information on a company's financial position, reserving, lines of business, reinsurance, etc. This is necessary to evaluate compliance with existing laws and regulations, the risks to which the company is exposed, and whether the company is utilizing sound business practices.

5 Other relevant IAIS Core Principles include ICP 10 (Internal Control), ICP 11 (Market Analysis) and ICP 26 (Information, disclosure, transparency towards the market).

6 For example, analyzing or managing an insurance company requires much greater mathematical expertise than analyzing or managing a bank.

MAIN ISSUES FOR REFORM IN MENA CORPORATE GOVERNANCE

Stakeholders should have information on who is managing the company, who are the members of the board of directors, whether the company is financially sound, and so forth. Knowledgeable investors look for transparency and disclosure. Effective companies are rewarded with larger market share and greater returns while ineffective markets suffer. In order to have consistent regulation, trust, and transparency, all legal ownership forms - including shareholder-owned, mutual societies, and Shari'a-compliant insurance - must adhere to the main elements of a corporate governance framework. This, of course, does not preclude other requirements specific to the form of the company or other regulatory influences specific to the country or region.

The role of the board of directors may vary from company to company but should be defined in terms of responsibilities, size, composition, qualifications, committees, and evaluation. The board is ultimately responsible and accountable for all the functions of the company. The responsibilities for various functions may be delegated but ultimate accountability cannot be. The size and composition of the board should be correlated with the size and diversity of the company and include at least some independent members. Members should have a thorough knowledge of applicable functions of the company and understand its operational structure. The members of the board should be "fit and proper" and have no conflicts of interest that would prevent them from the proper discharge of their duties. In many jurisdictions, regulators actively review the credentials of proposed members of the board to ensure they have appropriate qualifications. The board is responsible for establishing an appropriate committee structure but at a minimum should have a remuneration committee for establishing policy for salary and benefits and an audit committee for ensuring an effective, independent, and qualified internal audit function is in place and fully operative, as well as for recommending external auditors. The internal audit function may include the risk management function or that function may be under a separate committee. Finally, provisions should be in place to remove a board member for cause or nominate a new board member and to address ethical issues.

Effective internal controls and risk management should be ensured by qualified internal and external auditors. Internal and external auditors should report directly to the board of directors or the committee appointed by the board. They must have free access to all areas of operations, management, and decision-making. They should be hired and/or dismissed by the board only. Management must not be able to interfere with the conduct of their duties. Professional standards require that an external auditor must be independent. Assuring that they are so is the responsibility of the board. The same standards of independence for internal auditors are essential. All external auditors must have rigorous educational qualifications and appropriate experience. The standards may vary from country to country. Internal auditors should have the same educational qualifications, be experienced in their roles, and have a thorough understanding of the business of insurance. The internal auditor should work closely with the external auditor. Furthermore, the internal auditor should work with the regulator to resolve compliance and reporting issues that may arise.

A qualified and independent actuary must be utilized. The board is responsible for assuring that the actuary, whether assigned or appointed, reports to the board and to senior management. The actuary should be independent in order to avoid possible conflicts of interest, especially if they hold two positions in a company where a material conflict could occur. As in the case of independent (or external) auditors, an actuary should be subject to strict qualifications and ethical standards of the appropriate internationally recognized professional bodies.

The board must consider the needs and interests of all its stakeholders, including that specific group of stakeholders, the policyholders. Transparency is of prime importance to stockholders so that the performance of management can be judged in terms of the solvency of the company, its business practices, overall operations, and other matters. For example, it should be clear whether the company is being operated in such a way that it will make a reasonable return on capital. From the policyholders' point of view, it should be clear whether the company will be able to pay a claim if and when it comes due. It should also be clear whether the claim will be processed in a fair manner and in accordance with the policy terms.

The MENA region has addressed many of these matters. However, the question is whether they have been addressed uniformly within companies, within countries, and across the region. Formalized, uniform, consistent, transparent, operative corporate governance, enforced by regulators, is a huge step forward toward the growth of a robust economic sector for the benefit of all.

RECOMMENDATIONS FOR REGULATORY COMMISSIONS AND INSURANCE COMPANIES COMMITTED TO GOOD CORPORATE GOVERNANCE

As was noted above, the complex nature of the insurance industry typically leads to more intrusive regulation than is the case for other industries, such as banking. As a result, regulators will have a central role in the propagation and enforcement of good governance as the MENA insurance industry develops. For that reason, soliciting the views of insurance regulators, through the AFIRC-HAWKAMAH questionnaire, has been an essential part of this process.

Regulators must ensure that the board of directors is ultimately held responsible for maintaining solvency and addressing the fiduciary needs of the stakeholders. In addition to governance issues addressing financial matters, risks, stewardship, and the behaviour of all members of the company and its agents, the board must be satisfied that the company is complying with all applicable laws and regulations within its jurisdiction.

The corporate governance rules of general corporations also apply to insurance companies, though with particular considerations. Generally, regulators stipulate that additional principles be included in the standard rules and regularly review the company's records and performance for compliance. Lack of compliance may result in penalties and sanctions. The IAIS, for example, has developed essential criteria and advanced criteria for compliance with insurance core principles. Member-regulators require, evaluate, and otherwise monitor compliance with these core principles by boards of directors and ensure that proper corporate governance is observed. Similarly, the IFSB is developing guiding principles on corporate governance for Shari'a-compliant insurance undertakings.

Both regulators, in their roles of monitoring and enforcement, and insurance company boards of directors, in their role as implementers, should ensure themselves that the following recommendations are in effect

Commitment to Good Corporate Governance

1. **A written corporate governance policy approved by the board of directors is in place and adhered to at all times.** The corporate governance document should be an evolving document that is periodically reviewed and updated to reflect changing markets, technology, and other environmental matters. It should be published on the company's website and the company's annual report should include a section which evaluates the company's compliance with the code [AFIRC-HAWKAMAH questionnaire: 48.9% of respondents indicated the existence of a written policy.]

2. **Standards of business conduct and ethical behaviour for board members, senior management, and other personnel are in place and strictly enforced.** The company should draw up a code of business ethics. Issues specific to the business of insurance should be included. Every member of the company's staff should certify that they have read it, understood it, and are in compliance with it. In addition, self-assessment and cross-assessment practices should be in place to ensure adherence to such codes of conduct. [AFIRC-HAWKAMAH questionnaire: 57.4% of respondents indicated that their insurance firm has a code of ethics.]

Good Board of Directors Practices

3. **Procedures to assure that board members and senior management have appropriate knowledge, skills, experience, and integrity to oversee the insurance company are in place and operative.** In most jurisdictions, regulators have the authority to disallow board members or senior management that do not meet certain criteria, including that the individual is "fit and proper" and does not have an inappropriate financial or familial relationship with the company. There should also be a specific policy with regard to re-election of board members. Brief descriptions of the members of the Board of Directors, including the technical knowledge and professional experience which make them qualified to serve on the board, should be included in the company's Annual Report. The distinction between executive directors and non-executive directors should be clear. [AFIRC-HAWKAMAH questionnaire: 59.6% of respondents indicated that boards in their countries function properly; 66% indicated that senior management in their countries has the necessary skills to manage and oversee the operations of the insurance firms.]

4. **The board of directors should seek to fill as many positions with independent members as possible.** "Independent" in this case refers to non-executive board members that can make decisions and recommendations independent from the interests of management. [AFIRC-HAWKAMAH questionnaire: The majority of respondents indicated that boards in their countries consist of five members who tend to be major shareholders, with additional representation by family members of the owners. Only 29.8% of respondents indicated that there is a definition of independent director in their country's legal framework of corporate governance or in the statutory documents of their insurance firms.]

5. **Standards for remuneration policy are enforced.** The policy should not include incentives that could encourage imprudent or improper behaviour.

6. **Policies to address conflicts of interest, fair treatment of policyholders, and information-sharing with stakeholders are present and enforced.** The board of directors should set out policies that address conflicts of interest and review these policies regularly. A code of ethics should be developed and clearly communicated to all levels of employees. In addition, mechanisms should be established for employees to enable them to report any perceived improprieties in the functioning of both the internal auditor and the chairman of the audit committee.

7. **Members of the board of directors and senior management should not hold two positions in the same insurer where a material conflict could result.** Separation of the position of chairman of the board and chief executive officer is considered good practice.

8. **The Board of Directors should create specialized committees (such as the audit committee) to extend its oversight into particular areas of the company's operations and business.** The membership of these committees, the attendance record of its members, and a brief account of the work of the committee should be included in the company's annual report.

Adopting and Maintaining Minimum Levels of Transparency and Disclosure

9. **The board of directors should communicate on a regular basis with the chief regulator and the public and should participate, when invited, in the development of both the regulatory policy and regulations.** Boards of directors can and should be proactive in the development of laws and regulations through appropriate channels. The company's annual and interim reports should include detailed, accurate, and comprehensible information on the company's financial condition. The accounts should be prepared in line with IFRS and should include details of actuarial assumptions being used by the company and any material departures from those assumptions. Companies should use technology, such as the internet, to ensure wide distribution and easy access to the information they publish. [AFIRC-HAWKAMAH questionnaire: 89.4% of respondents indicated that regulators have access to firms' financial information; 74.5% indicated the existence of full compliance with IFRS.]

10. **The company's annual and interim reports should include detailed, accurate and comprehensible information on the company's financial condition.** The accounts should be prepared in line with International Financial Reporting Standards (IFRS) and/or AAOIFI standards for Shari'a compliant insurance, and should include details of actuarial assumptions being used by the company. Interim reports should detail any material departures from those assumptions [AFIRC-HAWKAMAH questionnaire: 89.4% of respondents indicated that regulators have access to firms' financial information; 74.5% indicated the existence of full compliance with IFRS.]

11. Companies should use technology, such as the internet, to ensure wide distribution and easy access to the information which it publishes.

Effective Control Environment

12. **Standards, policies, and procedures for organizing the structure of the company to promote effective and prudent management, oversight, and transparency are in place.** The board should establish accountability for the external audit function as a way of ensuring compliance with laws and regulations; proper evaluation of corporate risks, including by line of business; review of actuarial functions, whether internal or contractual (including certification by internationally recognized training bodies wherever possible); assessment of reinsurance treaties; assessment of procedural manuals and controls; and the separation of incompatible duties and responsibilities. However, it is critical that the board understands that final responsibility and decision-making authority remains with the board. The structure may be affected by the size of the company.

13. **Standards for compliance with all laws and regulations and responsibility for correction of any non-compliance are in place and operative.** Regulators should provide insurance companies with a specific timeframe to correct items of non-compliance and provide advice on the manner in which they may be addressed.

14. **Standards and procedures for appointing and dismissing senior management are in place and operative.** Actuaries, internal auditors, compliance officers, investment officers, and customer service officers are generally considered senior management in insurance companies.

15. **Policies and strategies, the means of attaining them, and procedures for monitoring and evaluating progress toward such goals are in place and operative.** Business plans, corporate goals, and social and economic plans are examples of the products to be developed and monitored on a regular basis.

16. **The board of directors is not subject to undue influence from management, and direct access to the board is available where appropriate.** The compliance officer and internal auditor, for example, should have direct access to the board of directors at all times without undue risk of career repercussions.

17. The internal or contracted actuary should hold qualifications from an internationally recognized actuarial training body. (The authors recognize that in the short term, this will be difficult to fulfil, but it should serve as an objective towards which all companies move.)

Protection of Policyholders and Shareholders Rights

18. **The board carries out its responsibilities in a manner to respect and support the role of shareholders and policyholders.** This requires qualified directors, compliance with the abovementioned recommendations, and a commitment to transparent operations.

OBSERVATIONS ON SHARI'A-COMPLIANT INSURANCE

The increasing use of Shari'a-compliant insurance raises the question of whether this type of insurance requires particular corporate governance provisions tailored to take account of its particular features.

The basic tenets of good governance apply equally to conventional and Shari'a-compliant insurance. For example, the importance of independent, knowledgeable and committed board members applies equally; as does the need to respect all shareholders and stakeholders, regardless of the size of their holdings.

However, there are important ways in which the structure and operations of Shari'a-compliant insurance companies differ from those of conventional insurance companies, and it is important to remain mindful of these in preparing good governance guidelines.

Both the IFSB and AAOIFI have published standards and guidelines specifically related to Shari'a-compliant institutions, including insurance companies. For example, in December 2008, the IFSB issued two "Exposure Drafts," one titled "Guiding Principles on Governance for Islamic Insurance (Takaful) Operations," and the other, "Guiding Principles on Shari'a Governance Systems." AAOIFI has published four Governance Standards and two Ethics Standards, in addition to a number of Auditing and Accounting Standards. AAOIFI has also issued an Exposure Draft related to Corporate Social Responsibility and Disclosure.

These publications by the IFSB and AAOIFI address many of the governance issues faced by Shari'a-compliant insurance. However, in the context of this policy brief, it is worth briefly highlighting distinct issues of governance which arise in Shari'a-compliant insurance companies.

The key difference, in terms of the governance of the company, lies in the existence of a Shari'a supervisory board. This board has considerable authority over the way in which a Shari'a-compliant company conducts itself. Its function is to ensure that all the company's operations adhere to the tenets of Islamic Shari'a. In simple terms, it approves the corporate structure of the company and the products which it sells, but at a deeper level, it ensures that the company's conduct as a whole conforms to the ethical precepts of Islam. The Shari'a board issues a report which is included as part of the company's full annual report.

A second important difference lies in the corporate structure of Shari'a-compliant insurance companies, and, specifically, in the separation of the policy holders' fund from the operating companies. There are a few different structures currently being used, but in its most simple form the basic premise is that policy holders are engaged in a mutual enterprise, whereby they pay premiums into a pool and money is paid out to whichever of them has need.[3] The policyholders' fund is administered by an operating company, owned by a separate set of shareholders, which, in the simplest corporate structure, receives a fee for managing the fund. More complex versions offer more subtle relationships between the policyholders' fund and the operating company, including, for example, obligations to provide financial support, and performance bonuses. There may also be segregation between different types of insurance within one policyholder fund.

Shari'a-compliant insurance companies need to explain clearly the relationship between the policyholders' fund and the operating company. In particular, shareholders need to know what their obligations will be to support the policyholders' fund in the event that the fund faces financial difficulties. Disclosure should focus on the legal relationship between the two entities, and also disclose any regulations to which the takaful firm is subject, which may affect the flow of funds between the two entities.

7 Premiums can either be seen as a contribution to a collective mutual savings scheme which will pay out to all contributors, at different times, when certain predefined events occur (a fire, a death); or premiums can be seen as voluntary donations (tabarru') made by participants in the scheme which will be used to benefit any of the participants on the occurrence of pre-defined events.

There are other aspects of Shari'a-compliant insurance which require heightened disclosure. For example, firms need to make extensive disclosure on segregation of funds. If a company is managing a family fund and a general fund, then the investment return and the ability to pay claims must be based on the performance of the particular fund and not of the aggregate performance of all funds. The firm's auditors should attest in the annual report that the firm is managing its business in this way. They also need to attest that financial flows between the policyholders' fund and the operating company are in line with the firm's articles of association (which in turn, are presumably in line with the shari'a).[8]

The concept of fairness always plays an important part in shari'a-compliant finance. This is not simply a result of its religious underpinnings. Co-mingling of funds and investment performance is far less tolerated in shari'a compliant finance than in western finance. For example, Shari'a-compliant banking is largely asset based, and returns to depositors or investors must reflect the performance of the assets which they have, implicitly, funded. In Shari'a compliant insurance firms, the money which is paid into the fund and the returns which are received on those funds clearly belong to those policyholders and to no one else[9] . It is hard to see how the western concept of an "orphan estate" could arise in Shari'a-compliant insurance. Two specific governance issues arise here. The first, already addressed above, is that policyholders must receive payouts which are commensurate with the investment returns on their specific funds; and, secondly, there can be no question of one set of policyholders gaining an advantage due to the timing of their claims or divestitures - so for example, in the case of a company which is facing financial difficulties, policyholders who get their money out early may have an advantage over those who remain in the fund longer. A Shari'a-compliant firm should ensure equitable treatment of all policyholders regardless of the timing of their claims and withdrawals.

The potential for conflicts of interest exists but in Shari'a-compliant firms this may be less severe than in conventional insurance companies, due to the split between policyholder funds and operating company. If the operating company is receiving a fixed fee for managing the fund, there is no incentive (or ability) for the managers to decapitalise the fund at the expense of the operating company. And if the operating company's fees are being determined by the investment performance of the policyholders' fund, again, they have no incentive or ability to decapitalise it.

8 Family funds roughly equate to property and casualty while general funds equate roughly to life insurance and pensions.

9 This is valid whether the payments are being viewed a contributions to a collective savings scheme or tabarru' donations.

NEXT STEPS IN IMPLEMENTATION OF THE POLICY BRIEF

The partners involved in the preparation and publication of this Policy Brief are committed to propagating its ideas, receiving new ideas from the MENA insurance industry, and helping companies and regulators use the Brief as a tool for enhancing standards of governance. The partners firmly believe that harmonization of governance standards will benefit all individuals in the region.

- The partners involved in the production of this Policy Brief should reach out directly to MENA insurance regulators and, using this Policy Brief to initiate discussion, agree on minimum requirements for acceptable corporate governance. A seminar or roundtable for regulators should be held

- Once agreement has been reached on minimum requirements, a series of seminars or roundtable discussions should be held for boards of directors of companies to articulate clearly the need for corporate governance and the resulting benefits to companies

- Regulators should develop informational and educational materials in Arabic to assist the boards of directors in implementing their own documents, internal training, and acceptance

- Meetings, hosted by the regulators, should be held to provide information to all interested parties, including stakeholders, independent actuaries, auditing firms, and other professional organizations. Again, informational and educational materials should be made available

- The regulatory authority must be thoroughly prepared to answer questions from company boards and interested parties

- Continued support of the recommendations laid out here will require ongoing capacity-building and training of the relevant regulators as well

- If legal authority exists for the regulatory body to promulgate regulations, these recommendations should be mandated for all companies engaged in the business of insurance. If the authority does not exist or is in conflict with implementing uniform corporate governance, regulators and market participants should create a strategy for altering relevant legislation. [AFIRC-HAWKAMAH questionnaire: 55.3% of respondents indicated the existence of national guidelines.]

- Regulators should fulfill the required procedures to adhere to the IAIS Memorandum of Understanding

- The work of AFIRC should be supported so that it will be ever more able to facilitate the harmonization of laws and regulations across the MENA region, and to encourage the exchange of ideas and experience among regional regulators

National bodies that bring together MENA insurance companies should be created, in countries where they do not currently exist, to represent the interests of the industry and provide a means of dissemination for regulators. Ultimately, the creation of a regional body should be considered

APPENDIX I - GLOSSARY OF TERMS

The following are terms used in this document and their meaning in the context used.

Actuary - a specialist in the mathematics of risk, especially as it relates to insurance calculations such as premiums, reserves, dividends, and annuity. They work for insurance companies to evaluate applications based on risk.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) - is an Islamic international autonomous non-for-profit corporate body that prepares accounting, auditing, governance, ethics and Shari'a standards for Islamic financial institutions and the industry.

Board of Directors - is a group of individuals elected by a company's shareholders to oversee the management of the corporation.

International Association of Insurance Supervisors (IAIS) - Established in 1994, the International Association of Insurance Supervisors (IAIS) represents insurance regulators and supervisors of some 190 jurisdictions in nearly 140 countries (www.iaisweb.org)

International Financial Reporting Standards (IFRS) - are standards and interpretations adopted by the International Accounting Standards Board (IASB). Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS)

The Islamic Financial Services Board (IFSB) - is an international standard-setting organization that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors.

Insurer - a term often used in place of insurance company. The meaning is the same.

Liquidation and Rehabilitation - the process of taking over an insurance company's assets by the regulator when an examination of the annual report reveals that the company is in substantial financial difficulty. The regulator will then operate the company in what is deemed to be the best interest of the policyholders and creditors. If the regulator believes it is possible to save the company, rehabilitation may be ordered. If the company cannot be saved, the regulator will liquidate it.

Long-Tail Risk - is a risk that may occur at some time in the future, usually the distant future.

Mudaraba Model - In a mudaraba model, the Takaful operator acts as a mudarib (entrepreneur) and the participants as rab ul mal (capital provider). The contract specifies how the investment profit and/or surplus from the Takaful operation is to be shared between the Takaful operator and participants. Losses are borne solely by the participants as the providers of capital on the condition that the operator is free from any misconduct and negligent actions, and in that case the mudarib is not entitled to receive any compensation for his efforts.

OECD - Organisation for Economic Co-operation and Development - is an international organization helping governments tackle the economic, social and governance challenges of a globalised economy (www.oecd.org)

Reinsurance - is a form of insurance that insurance companies buy to protect themselves. It is a sharing of risks. Often, law or regulations will dictate what percentage of a pool of risks a company may retain. The company selling the reinsurance is referred to as a reinsurance company and is in fact an insurer.

ReTakaful - is the Shari'a compliant reinsurance. It should adopt the same key principles such as separation of funds between policyholders and shareholder, the establishment of SSB, investments in Shari'a compliant products only and commitment to surplus distribution. The technical aspects of Retakaful is the same as reinsurance.

Reserves - liabilities on the insurer's balance sheet that represent the current value of the amount of money necessary to satisfy claims incurred but not reported or future claims. They are determined based on strict specifications on the minimum assumptions of the maximum interest rate that can be assumed and, in life insurance, on the mortality table. The specifications are set by law or regulation.

Shari'a Supervisory Board (SSB) - is an independent body of specialized jurists in fiqh almua'malat (Islamic commercial jurisprudence). The SSB is entrusted with the duty of directing, reviewing and supervising the activities of the Islamic financial institution in order to ensure that they are in compliance with Islamic Shari'a Rules and Principles.

Senior Management - Chief Executive Officer, Chief Financial Officer, and division heads who are responsible for overseeing the day-to-day management of the firm.

Solvency - the minimum standard of financial health for an insurance company, where assets exceed liabilities. In most developed countries, regulators are required by law to step in when the solvency of an insurer is threatened and proceed with rehabilitation or liquidation of the company.

Stakeholders - includes policyholders, shareholders, and other interested parties. In the hierarchy of claims against the assets of the company, policyholders rank first after the costs of liquidation.

Supervisor or Regulator - terms used in different jurisdictions to describe a person or entity responsible for the licensing, oversight, operations, and regulation of insurance companies or other persons or entities involved in the business of insurance.

Takaful - Takaful is a form of financial protection, similar to insurance, designed to be compliant with Islamic principles (Sharia') and which is based on the principle of solidarity and mutual guarantee. It is one of the forms of Shari'a compliant insurance.

Wakala Model- Under this model, the operator acts as agent for Takaful participants and takes a fee for performing this service. In this case, the operator takes no underwriting or investment risk and all profits as well as losses accrue to the participants only. The fee taken by the Takaful operator is known as the Wakala fee and is often set as a percentage of contributions paid.

APPENDIX II
INFORMATION ON THE RESPONDENTS TO THE HAWKAMAH/ AFIRC QUESTIONNAIRE

Table 1

Country	Insurance Companies	Regulatory Authorities
Bahrain	4	1
Egypt	0	1
Jordan	4	1
Saudi Arabia	4	1
Lebanon	10	1
Oman	3	1
Palestine	1	0
Sudan	0	1
United Arab Emirates	13	1
Totals	39	8

APPENDIX III
AFIRC-HAWKAMAH QUESTIONNAIRE ON CORPORATE GOVERNANCE

MENA Task Force on Corporate Governance for the Insurance Industry in the arab world

Following its meeting in Bahrain on 05 April 2007, the Hawkamah Institute for Corporate Governance (Hawkamah) and the Arab Forum of Insurance Regulatory Commissions (AFIRC) agreed to establish a Task Force on Corporate Governance of the Insurance and Re-Insurance Industry in the region. The ultimate goal of this Task Force is to undertake a corporate governance assessment of the insurance sector in participating Arab countries; develop an insurance corporate governance Policy Brief to include conventional insurance and "Takaful"; develop corporate governance guidelines for the insurance sector; and build the corporate governance capacity of the industry. The Task Force will be engaging in a discussion of this topic, electronically and at dedicated meetings, and will be producing a non-binding Policy Brief, outlining conclusions and options for reforms, by the end of 2008.

The present questionnaire is sent to selected insurance experts from selected Arab countries to include: Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, United Arab Emirates and Yemen in order to provide factual input for the preparation of the Policy Brief. The feedback to this questionnaire does not necessarily represent the views of the organisations to which the respondents belong. Please note that it will be treated as **your personal view.**

This questionnaire aims at collecting data and additional factual information, which will set the context and inform the discussions of the Task Force. Furthermore, it could be included as annex to the final Policy Brief for information purposes. While all the members of the Task Force have not been appointed yet, it is possible that your feedback, on an anonymous basis, could be shared with the members of the Task Force for further discussions.

This questionnaire consists of two parts. **Part I** should be answered by **all respondents (including Insurance Supervisors). Part II** is expected to be answered **by Insurance Supervisors only.**

Instructions:

- Where appropriate, please mark the Yes/No box with a "Y" or "N"
- With some questions, it might be easier or more effective to present responses in a table. If you choose to do so, please specify this in the "Response/Comments" section
- In the "Response/Comments" sections, please do not feel limited to the space provided
- The questionnaire includes a variety of questions. While some require only a simple "yes" or "no" answer, the others request explanatory comments. In terms of the latter type of questions, although we would welcome if you could kindly fill-in responses to all questions, we assume you may be more interested in providing more details, in particular, on issues within your main responsibility or expertise
- Where available, English translations of the legal and other measures referred to in your responses should also be sent by e-mail
- It would be appreciated if you could insert your **answers in this WORD document,** using **bold** fonts so that we can easily distinguish questions and **answers**
- The responses are to be sent **electronically to Miss Lara Arab** (lara.arab@hawkamah.org)
  Submissions are expected by **31 May 2007**, at the latest

Part 1

This part is to be answered by all respondents (including Insurance Supervisors)

A. CORPORATE GOVERNANCE ENVIRONMENT				
1. General Principles				
No.	**Question**	**Y/N**	**Response/Comments**	**Legal Reference or Source**
1.1	What are the most serious problems/ challenges, in your view, involving corporate governance (CG) of the insurance industry in your country? Please explain briefly.			
	Please provide examples (on anonymous basis, if appropriate) of:			
	a. Recent Failures on CG			
	b. Regulatory Initiatives on CG			
	c. Measures taken by insurance firms on CG			
1.2	Do you think corporate governance of the insurance industry needs **special attention** in comparison with other industries?			
	If yes, do you also think that corporate governance of insurance firms is **more important** than of other financial intermediaries (banks and collective financial investment companies)?			
	Please briefly explain your views			
1.3	Are there corporate governance codes, guidelines, or principles in your country that exclusively (or mainly) focus on the insurance industry?			
	Are there corporate governance principles that apply generally, including the insurance industry? (Please electronically attach the document (s) to your e-mail.)			
	Which entity, if any, monitors compliance with these principles?			
1.4	Do you think it is desirable for your country to develop corporate governance principles that exclusively (or mainly) focus on the insurance industry?			
	Please explain your standpoint.			

1.5	What is the actual / potential role of the supervisory authority in issuing guidance to insurance firms about corporate governance?			
	Is there a danger that instructions or regulations regarding corporate governance will result in “ticking the box” or pro-forma compliance?			
1.6	What is the organisational chart of the governing bodies and departments ensuring good corporate governance with their underlying responsibilities, lines of reporting and authority?			
1.7	To the best of your knowledge, are there any measures taken by insurance firms in your country to implement sound corporate governance practices?			
	Does your insurance firm have specific written procedures and policies with regards to corporate governance?			
	If yes, please briefly give a description thereof. If not, are there any planned steps to be taken in this regard?			

B. INTERNAL ISSUES

1. Management (i.e. the management board and other senior management)

No.	Question	Y/N	Response/Comments	Legal Reference or Source
1.1	Please summarise the key points of the mandatory requirements on the composition of the board and the executives of insurance firms in your country (e.g. mandatory outside directors, mandatory committees, mandatory separation of the chairman and CEO, one-tier/two-tier system, fit-and-proper person requirements), as well as the functions of board members:			
1.2	Please indicate which of the following committees are mandatory committees of insurance firms required by laws/regulations in your country:			
a.	Compensation Committee			
b.	Audit Committee			
c.	Risk Management Committee			
d.	Remuneration Committee			
e.	Nomination Committee			
f.	Takaful / Re-Takaful Committee			
g.	Others (please specify)			
	If they are requested by voluntary codes/rules, please list them, too.			
	What are the board committees of your insurance firm?			
	What are the most frequent board committees typical for the insurance firms in your country?			
1.3	What is the usual size of the board of directors of the insurance firms in your country?			
	What is the typical composition of insurance firms' boards of directors in your country, in terms of profile (qualifications), number of independent directors, relations to the firm's shareholders, etc.?			
	Please specify the requirements in these respects and their source (legislation, specific regulations or by-laws)			

1.4	Is there a definition of independent director in your country legal framework of corporate governance, in a national code or in the statutory documents of your insurance firm? If yes, please describe:			
	How are directors appointed?			
	Are the independent directors identified as such in the annual report of the insurance firm?			
1.5	What is the procedure for appointing new directors in your insurance firm?			
	Is this a formal and transparent procedure?			
	Is it functioning properly?			
	Do nomination committees exist in the majority of insurance firms?			
	On what grounds are board members removed?			
	What is the overall practice in your country?			
1.6	Do insurance firms' boards of directors in your country function properly, in your view?			
	Please list the main functions of the board.			
	How often does the board meet?			
	Do directors dedicate enough time to their duties?			
	Do directors perform well their function of overseeing management or do they get involved in the day-to-day management of the business?			
	Are directors accountable and responsible for the performance and conduct of the insurance firm?			
	Do directors set any strategies or policies for the insurance firm? Please specify which.			
	If yes, how does the board ensure that these strategies are implemented?			
1.7	Are the opinions of board members accurately reflected in the minutes of board meetings?			
	Do directors have access to the information necessary for fulfilling their duties?			

1.8	Do insurance firms arrange insurance cover in respect of legal action against directors, in your country?			
	What are the practices in your insurance firm?			
1.9	Do insurance firms' boards undertake formal annual evaluation of their own performance?			
	And that of their committees and individual directors?			
	What are the practices in your insurance firm?			
1.10	Does the function of the "board secretary" exist?			
	If yes, please specify duties and functions.			
1.11	Does your insurance firm have codes of ethics?			
1.12	What processes or procedures ensure that the board monitors compliance with the applicable laws (e.g. tax, competition, labor, environmental, equal opportunity, and health and safety laws)?			

2. Risk Management Systems, Internal Audit and Internal Controls

No.	Question	Y/N	Response/Comments	Legal Reference or Source
2.1	Does your insurance firm have reliable risk management systems to identify, measure monitor and control all business risks?			
	Please explain.			
2.2	If your answer to 2.1 is yes, then are the risk management systems subject to regular internal reviews?			
	Are the risk management systems also reviewed by independent experts to ensure that they are appropriate for the nature of the business activities and risks?			
2.3	Are there effective internal controls in your insurance firms?			
2.4	For composites (i.e. companies offering both life and non-life insurance), are assets covering life insurance liabilities completely segregated from all other assets and first applied to meet life insurance policyholders' entitlements in the event of a liquidation or portfolio transfer?			
2.5	Is there a risk management function in your insurance firm?			

	Is there a risk management committee in your insurance firm?			
2.6	Is there an accepted standard for internal audit?			
	What are the practices and requirements in terms of auditor's qualifications, remuneration, and training?			
	How are auditors appointed and by whom?			
2.7	Can the head of internal audit attend audit committees?			
	To whom do the internal auditors report?		(e.g. The board, CEO/ General Manager, CFO, largest shareholder, the audit committee and/or other)	
	How do the internal auditors relate with board and shareholders?			
2.8	Are audit committees common and well-functioning governing bodies of your country's insurance firms?			
	What is their mandate?			
	Are members of audit committees generally well qualified to perform their duties?			
	Do audit committees meet independently with the auditors?			
2.9	Please briefly explain major problems (if any) regarding internal audit function of insurance firms in your country.			
3. The Responsible (or appointed) Actuary				
No.	**Question**	**Y/N**	**Response/Comments**	**Legal Reference or Source**
3.1	Does your insurance have a responsible (or appointed) actuary?			
	If yes, please indicate to which lines of the business (i.e. life, general insurance, health, etc.)			
	Who does the actuary report to?			
	Please explain briefly the main duties of the actuary.			
3.2	Is the actuary in your insurance firm professionally certified?			
	Is the actuary subject to best practice actuarial standards, continuous development, appropriate ethics standards and disciplinary proceedings?			

	Please explain.			
3.3	Does the management in your insurance firm recommend the levels of technical and mathematical reserves for the purposes of published and statutory reporting?			
	Is this process reviewed and approved by the Board?			
	Is the actuary in your insurance firm independent of management in determining the assumptions underlying his recommendations regarding the levels of technical and mathematical reserves?			
	Are the reports on reserving prepared by the responsible actuary available to the full supervising board?			
	Are the reports available to the insurance supervising body?			
3.4	Is the work of the responsible actuary involved in setting reserves for published accounts or regulator returns subject to an independent peer review process?			
	How effective is the independent peer review process is? Please explain.			
4. Oversight of Management by the Board				
No.	**Question**	**Y/N**	**Response/Comments**	**Legal Reference or Source**
4.1	Do you think most (if not all) senior management of the insurance firms in your country have the necessary skills to manage and oversee the operations of the insurance firms and, provide direction to it, as per the objectives and polices set out by the board of directors? If not, please briefly explain.			
4.2	Please provide a brief description of the role and responsibilities of senior management of insurance firms in your country with respect to the board of directors.			
	Are there any rules to avoid conflicts of interest?			

APPENDIX III
AFIRC-HAWKAMAH QUESTIONNAIRE ON CORPORATE GOVERNANCE

C. EXTERNAL FACTORS

1. The Insurance Supervisory Authority

No.	Question	Y/N	Response/Comments	Legal Reference or Source
1.1	Does the supervisory authority in your country impose any corporate governance requirements on the insurance firms in your country?			
	If yes, please provide examples.			
1.2	How does the supervisory authority assess that the supervising board, senior managers and other significant shareholders have the level of competence for their roles? Please state the criteria.			
1.3	What kind of measures does the supervisory authority take to control the supervising board, senior managers, and other significant shareholders?			
1.4	Does the supervisory authority play any role in approving/denying the portfolio transfer or merger of insurance business? Please elaborate.			
1.5	In case of portfolio transfer or merge of insurance business with another firm, are there any laws that protect the interests of the policyholder and ensure that that his benefit expectations and existing policy values will not be lessened or changed? Please explain.			

2. Public Disclosure, Transparency and Market Discipline

No.	Question	Y/N	Response/Comments	Legal Reference or Source
2.1	What are the reporting standards for insurance firms in your country?			
	Is there a full compliance with International Financial Reporting Standards (IFRS)?			

	Are there specific difficulties encountered by insurance firms in this respect? (Please provide examples)			
2.2	Does the supervisory authority have access to information about the financial position of the insurance firm and the risks to which they are subject? If yes, is this information:			
	a. Relevant to decisions taken by market participants?			
	b. Timely so as to be available and up-to-date at the time those decisions are made?			
	c. Accessible without undue expense or delay by the market participants?			
	d. Comprehensive and meaningful so as to enable market participants to form a well-rounded view of the insurance firm?			
	e. Reliable as a basis upon which to make decisions?			
	f. Comparable between different insurance firms?			
2.3	What are the requirements for public disclosure of information by insurance firms in your country?			
	What are the most frequent problems with public disclosure of information by insurance firms in your country?			
2.4	Is the board remuneration policy disclosed?			
	What are the requirements regarding disclosure of the remuneration of members of the board and key executives?			
2.5	Does the supervisory authority monitor the information disclosed by the insurance firms?			

	What necessary actions does the supervisory authority take to ensure the compliance of this information with disclosure requirements?			
3. External Audit				
No.	**Question**	**Y/N**	**Response/Comments**	**Legal Reference or Source**
3.1	Does your insurance firm have independent external auditor (s)?			
	What steps have been taken to ensure independence of auditors?			
3.2	How often is the financial information of the insurance firm audited?			
3.3	Are there any provisions or well established practices regarding the external auditors of the insurance firm?			
	Please briefly explain major problems (if any) regarding external audit function of insurance firms in your country.			
	Is there effective implementation of high quality audit standards?			
	Which ones?			
3.4	Is the audit firm in your insurance firm sufficiently independent of the audited entity?			
	Do insurance audit partners rotate on a periodic basis?			
	Is there an appropriate separation between audit and non-audit services?			
3.5	Is their a requirement of external auditors to inform, shareholders and/or the board of directors about any involvement of board members or senior management in illegal activities, fraud or insider abuse?			

3.6	Do auditors in your firm have the legal obligation to report to the supervising board and the supervisory authority any concerns they might have in relation to a client insurer?			
4. Policyholders & Stakeholders				
No.	**Question**	**Y/N**	**Response/Comments**	**Legal Reference or Source**
4.1	What measures are taken by the supervising board in your insurance firm in order to protect the interests of the policy-holders and ensure that the insurers' obligations towards them are met and paid at all times?			
4.2	What are the policy-holders guarantee schemes in your insurance firm?			
4.3	Succession Planning: how transparent is the process to investors and to the external public?			

D. Other Items

No.	Question	Y/N	Response/Comments	Legal Reference or Source
1.1	Please state the different products offered by your insurance firm for:			
	a. The individual consumer			
	b. Businesses			
1.2	Please fill in the number of employees in your insurance firm.			
1.3	**Please feel free to comment any views on corporate governance of insurance firms other than above.**			

PART II

This part is to be answered by Insurance Supervisors only

1. No. of Insurance Firms				
No.	**Question**	**Y/N**	**Response/ Comments**	**Legal Reference or Source**
1.1	Please fill in the number of insurance firms currently operating in your country:			
	Domestic insurance firms			
	Foreign affiliated insurance firms			
	Please also fill in the numbers of five years ago (2002)			
	Domestic insurance firms			
	Foreign affiliated insurance firms			
1.2	Please list the number of Takaful industries in your country.			
1.3	Please list the number of insurance firms in your country that are listed on the stock exchange.			
1.4	Insurance density: Please fill in the total insurance premiums in your country for the following:			
	Life Insurance			
	Non-Life Insurance			
	Please also fill in the premiums of five years ago (2002)			
	Life Insurance			
	Non-Life Insurance			
1.5	Insurance penetration: Please fill in the penetration rate in your country for the following:			
	Life Insurance			
	Non-Life Insurance			
	Please also fill in the penetration rate of five years ago (2002)			
	Life Insurance			
	Non-Life Insurance			

2. Takaful Related Issues				
No.	**Question**	**Y/N**	**Response/ Comments**	**Legal Reference or Source**
2.1	How many Takaful /Re- Takaful operators (insurance firms) are there in your country?			
	How has this number increased over the past 10 years?			
2.2	Under which model do they mainly operate?			
	a. “Wakala”* Model			
	b. “Mudaraba”* Model			
2.3	What are the various Takaful products offered by these operators?			
2.4	Is there a wide range of products available within each of these Takaful operators?			
	Does the participant need to “shop around” for other insurance products?			
2.5	Are Takaful products competitively priced in your country?			

APPENDIX IV
INFORMATION ON HAWKAMAH, AFIRC, AND FSVC.

THE ARAB FORUM OF INSURANCE REGULATORY COMMISSIONS (AFIRC), & FINANCIAL SERVICES VOLUNTEERS CORP (FSVC)

Hawkamah, the Institute for Corporate Governance, constitutes a groundbreaking initiative that aims to promote institution building, corporate sector reform, sound banking and financial sector development, good governance, sustainable economic development, and growth in the region. Hawkamah's mission is to assist the countries and companies of the region to develop sound and globally well-integrated corporate governance frameworks.

Hawkamah is an international association that seeks to efficiently coordinate and sequence the designing, planning, and implementation of corporate governance reforms as well as the monitoring of corporate governance policies in the private sector. Being in and devoted to the region, Hawkamah's strengths are its proximity to the countries and companies of the Gulf and the Middle East and its strong partnerships with international and regional organizations such as the International Finance Corporation, the Organization for Economic Cooperation and Development, the International Institute of Finance, Financial Services Volunteer Corps, the Global Corporate Governance Forum, the Center for International Private Enterprise, the Union of Arab Banks, and the Dubai International Financial Centre, among others.

Arab Forum of Insurance Regulatory Commissions (AFIRC): AFIRC came about as a prompt response to the accelerating developments in the insurance industry in the different Arab insurance markets.

AFIRC was established in September 2006 to support cooperation between Arab Insurance Commissions, exchange information, expertise, and conduct joint programs to provide technical assistance and train the staff of these commissions, and finally to cooperate with relevant international and regional organizations, in particular the International Association of Insurance Supervisors (IAIS) and its role in setting standards for insurance supervision. Members of AFIRC include 16 Arab countries; Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Mauritania, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates and Yemen. The Forum is currently chaired by Jordan.

Financial Services Volunteer Corps (FSVC) is a not-for-profit, public-private partnership whose mission is to help build sound banking and financial systems in developing and transitioning countries. Founded in 1990 at the initiative of President George Bush Sr., FSVC currently operates programs in Russia, Southeast Europe, the Middle East, India, and Indonesia. FSVC recruits leading financial professionals – from banks, regulators, and law firms – to deliver its technical assistance. These experts serve as unpaid volunteers who provide results-oriented advice that is based on their practical experience. Furthermore, because FSVC's volunteers have no agenda other than to share their knowledge and experience with their counterparts, the advice they give is, and is seen to be, independent.

Experts are recruited from pre-eminent financial services organizations such as Bank of America, Citigroup, JPMorgan Chase, Wells Fargo, and Wachovia. Experienced regulators are recruited from top U.S. regulatory bodies, such as the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Securities and Exchange Commission. Regulators from several other developed markets also serve as volunteers. FSVC's core work is strengthening commercial banking systems, developing central bank capabilities, and building capital markets. Particular focus is given to ways in which commercial banks can expand the range of services they provide to small and medium-sized enterprises and to the legal framework within which payments systems and commercial banks operate.

Since FSVC's inception, approximately 8,000 expert Volunteers have executed more than 1,400 missions, reaching nearly 30,000 counterparts in nearly 50 developing and transitioning countries. It currently has eight overseas offices.FSVC was founded in 1990 by the late Cyrus Vance, former U.S. Secretary of State, and John Whitehead, former Co-Chairman of Goldman Sachs and former U.S. Deputy Secretary of State. FSVC's board is currently chaired by Mr. Whitehead. Paul Volcker, former Chairman of the Board of Governors of the U.S. Federal Reserve System, serves as Honorary Chairman of the Board. John Walker, a partner at Simpson Thacher & Bartlett and a leading international lawyer, serves as the Vice Chairman of the Board. FSVC's President and CEO is Andrew Spindler.

APPENDIX V
BACKGROUND ON HAWKAMAH TEAM

DR. NASSER H. SAIDI

He is the Executive Director of the Hawkamah Institute of Corporate Governance and the Chief Economist at the Dubai International Financial Centre. A former Minister of Economy and Trade and Minister of Industry of Lebanon (1998-2000), Dr. Saidi was also the First Vice-Governor of the Central Bank of Lebanon for two mandates, 1993-1998 and 1998-2003. In 2000, he was appointed by United Nations Secretary General Kofi Annan in his personal capacity as a Member of the UN Committee for Development Policy (UNCDP) for two terms, over 2000-2006. He previously advised the United Arab Emirates Minister of State for Finance and Industry. He established the Lebanon Corporate Governance Task Force (LCGTF), and he is the Co-Chair with the OECD of the MENA Corporate Governance Forum. He has a recent book and a number of publications addressing Corporate Governance in the region. Prior to his public career, Dr. Saidi was a bank director, an advisor to governments and Central Banks in the Middle East, Africa, and Central and Latin America, and an academic. He taught economics at the University of Chicago, the Institut Universitaire de Hautes Etudes Internationales, and the Université de Genève and was a lecturer at the American University of Beirut and the Université St. Joseph in Beirut. He holds a Ph.D. and an M.A. in Economics from the University of Rochester in the United States, a M.Sc. from University College, London University, and a B.A. from the American University of Beirut.

NICK NADAL

He is a Director at the Hawkamah Institute for Corporate Governance, responsible for developing programs for state-owned enterprises, family-owned enterprises, non-listed companies, banks and financial institutions, capital markets, media, and academia on corporate governance. Prior to joining Hawkamah, he was the Director for Middle East and North Africa programs at the Center for International Private Enterprise, a non-profit affiliate of the U.S. Chamber of Commerce, building linkages with and supporting regional business associations, developing and conducting training programs on association governance, and developing programs to advance entrepreneurship, economic journalism, and corporate governance in the region. With over 10 years of experience in international private-sector development, he has assessed, advised, and trained business associations and the private sector on the larger role that corporations play in society. He holds a degree in political science from the University of Maryland in the United States.

LARA ARAB

She is the Program Manager for the Hawkamah Institute for Corporate Governance, developing and managing banks, insurance and family businesses programs, as well as Hawkamah's capacity building programs. Lara also heads the regional insurance Task Force on corporate governance. Prior to joining Hawkamah, Lara worked as a Business Development Manager for CMCS, Primavera Sys. Inc.'s representative in the Middle East. Lara holds a Bachelor of Arts in Economics from the American University of Beirut, and has hand-on experience in Corporate Governance, Finance and Project Management.

APPENDIX VI
BACKGROUND ON FSVC EXPERTS

ANDREW CUNNINGHAM: MANAGING DIRECTOR – HEAD OF MIDDLE EAST AND BALKAN PROGRAMS.

Andrew joined FSVC in 2004 as FSVC's first Country Director in Egypt and as Director of FSVC's Middle East Regional Programs. In September 2005 he assumed responsibility for all of FSVC's Middle East Programs and in 2006 transferred to New York and was given additional responsibility for FSVC's program in the Balkans. Prior to joining FSVC, Andrew was a Senior Vice President in the banking team of Moody's Investors Service. He has written extensively on Middle East financial markets and is currently an advisor to the Technical Committee of the Islamic Financial Standards Board. He speaks Arabic, French, Greek, and basic Farsi.

FRANK LACKNER: PRESIDENT OF LACKNER ADVISORS, LLC.

Frank has served in the senior management ranks of several high-profile firms offering advisory services on insurance and investment banking, including Fox-Pitt Kelton Cochran Caronia Waller, Torsiello Securities Inc., and Insurance Partners Advisors, L.P. Earlier, he served as Assistant Underwriter at Centre Reinsurance Company of NY and as Investment Banking Analyst at Donaldson, Lufkin & Jenrette Securities Corp. He is currently a board member of Greenlight Capital Re Holdings and American Safety Insurance Holdings. He speaks German and Spanish.

MARIANNE BURKE: INTERNATIONAL FINANCIAL CONSULTANT.

Marianne was previously the Director of Insurance for the State of Alaska. Earlier, she served as Vice President of Finance at NANA Regional Corporation and as Senior Manager at Price Waterhouse. She has consulted on insurance supervision and corporate governance issues in Saudi Arabia, the Balkans, India, and Peru. These activities have encompassed assessing the development of the insurance sector; reviewing the effectiveness of insurance supervision; teaching IAIS Core Principles; training bank supervisors in the use of reporting forms by companies

ANNA IACUCCI: INDEPENDENT FINANCIAL CONSULTANT.

Anna has served in senior management positions at Banc of America, Goldman Sachs, and General Re. Throughout her career she has focused on the rating and risk assessment of insurance companies for purposes of risk management and strategic advising. Earlier, she served as Senior Analyst for Insurance Groups at Moody's Investor Service and as Assistant Vice President for Corporate Assets at Citicorp. She has previously worked and resided in London, United Kingdom, and speaks Italian.

LEAH FENWICK: DIRECTOR OF PROJECT DEVELOPMENT.

Leah joined FSVC in 2006 as a Senior Program Officer and was promoted in 2008 to Director of Project Development for financial sector supervision and regulation, anti-money laundering, capital markets, and non-bank financial services. In addition, she organizes FSVC symposia bringing together U.S., Russian, and Chinese experts to discuss global finance, energy, and security issues. Prior to joining FSVC, she was a Foreign Service Political Officer with the U.S. State Department, having served in Moscow, Sao Paulo, and Washington, DC. She speaks Russian, Portuguese, Spanish, and Mandarin.

APPENDIX VII
AFIRC-HAWKAMAH INSURANCE TASK FORCE MEMBERS

Ms. Amna Ali Mohammed	Insurance Supervisory Authority - Sudan
Mr. Khaled Al-Thieb	Saudi Arabian Monetary Agency - KSA
Ms. Lara Arab	Hawkamah Institute for Corporate Governance
Mr. Steven Drake	PriceWaterhouseCoopers (PWC)
Mr. Mohamed El-Dishish	Takaful-Re Limited
Mr. Walid Genadry	Ministry of Economy and Trade - Lebanon
Ms. Leah Fenwick	Financial Services Volunteer Corps (FSVC)
Mr. William Foster	Mudara IOD
Dr. Bassel Hindawi	Arab Forum of Insurance Regulatory Commissions (AFIRC)
Mrs. Lisa Kelaart-Courtney	Insurance and CG Consultant
Mr. Alan Mcintyre	PriceWaterhouseCoopers (PWC)
Mrs. Anna Iacucci	Financial Services Volunteer Corps (FSVC)
Mrs. Lubna Humoud	Insurance Commission of Jordan - Jordan
Mr. Maher Hammoud	Shuaa Partners
Mr. Mujib Khan	AIG MEMSA
Mr. Waddah Khateeb	Palestine Capital Market Authority - Palestine
Mr. Frank Lackner	Lackner Capital Advisors LLC
Mr. Nick Nadal	Hawkamah Institute for Corporate Governance
Mr. George Oommen	Dubai International Financial Centre (DIFC)
Mr. Lawrence Paramasivam	Dubai Financial Services Authority (DFSA)
Dr. Nasser Saidi	Hawkamah Institute for Corporate Governance

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