

Corporate Governance for Insurance Companies

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Corporate governance has been defined as “the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as

shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.” The first Code of Corporate Governance issued by the Securities and Exchange Commission (SEC) in 2002 defined corporate governance as “a system whereby shareholders, creditors and other stakeholders of a corporation ensure that management enhances the value of the corporation as it competes in an increasingly global market place.” On June 18, 2009, the SEC issued a revised Code of Corporate Governance. On November 2016, the SEC issued the *Code of Corporate Governance for Publicly-Listed Companies*, which took effect on January 1, 2017.

With the amendment of the Insurance Code in 2012, corporate governance has been expressly recognized in Section 193. It states the primordial objective of maintaining the quality of management of insurance companies and the protection of policyholders and the general public. Corporate governance is also consistent with the Insurance Core Principles (ICPs). Specifically, with ICP 5, the Suitability of Persons; ICP 7, Corporate Governance; and ICP 8, Risk Management and Internal Controls.

Following the Asian financial crisis in 1997, the SEC issued Memorandum Circular No. 2, s. of 2002, adopting the *Code of Corporate Governance*. Soon after, the Insurance Commission issued the very first rule on corporate governance, Circular Letter (CL) No. 13-2002 on July 12, 2002, adopting the *Code of Corporate Governance for Insurance Companies and Intermediaries*. This Circular mandated the filing of annual reports on Corporate Governance, as well as requiring the appointment of an independent director. Since then, the regulation of corporate governance has evolved progressively. CL No. 3-2004 required the *General Disclosure of Corporate Governance Practices* by insurance companies. This was amended by CL No. 21-2009. CL No. 31-2005 provided the qualifications of independent directors. CL No. 2014-49 introduced term limits for independent directors.

In CL No. 31-2005, the *Corporate Governance Principles and Leading Practices* was promulgated. CL No. 35-2006 enumerated the submission requirements, among them are: minutes of meetings of stockholders, the bio-data of members of the board, and list of independent directors and officers.

In 2004, CL No. 12-2004 required the attendance in a course on corporate governance for all directors and officers with the rank of Vice President and up.

The basis for determining the fitness and propriety of the directors and officers is the *Fit & Proper Rule* spelled out in CL No. 13-2004 and Department Order No. 54-2015.

Self-Assessment Questionnaire

CL No. 31-2005 introduced the Self-Assessment Questionnaire on *Corporate Governance Principles and Leading Practices* to be answered by companies and submitted at the end of every semester. CL No. 3-2008 amended this to become an annual submission. With the adoption, however, of the Corporate Governance Scorecard (CGS) in 2009, the Self-Assessment was discontinued by CL No. 5-2009.

Corporate Governance Scorecard

Pursuant to CL No. 1-2010, the first submission of Corporate Governance Scorecard (for Insurance Companies) was required to be made on or before May 15, 2010. The scorecard was developed in November 2008 by the Institute of Corporate Directors (ICD), a non-government organization committed to promoting corporate governance, together with compliance officers from both the life and non-life insurance companies and the officers of the Insurance Commission. The scorecard is a system of self-assessment and validation. It covered five main issues: rights of shareholders, equitable treatment of shareholders, roles of stakeholders, disclosure & transparency, and board responsibilities.

Subsequently, the ADB in partnership with the ASEAN Capital Markets Forum (ACMF) jointly developed the ASEAN Corporate Governance Scorecard, an assessment based on publicly available information and benchmarked against international best practices that encourage publicly listed companies to go beyond national legislative requirements. It was launched in 2011 as one of the initiatives in preparation for the ASEAN economic integration. The ASEAN corporate governance initiative comprising the ASEAN Corporate Governance Scorecard (Scorecard) and the ranking of corporate governance of ASEAN public-listed companies (PLCs) are among several regional initiatives under the ACMF. It started in early 2011 and is supported by the Asian Development Bank (ADB) through the “Promoting an Interlinked ASEAN Capital Market” regional technical assistance.

Although developed for publicly-listed companies, it was adopted for use by insurance companies. Following the adoption of the ASEAN Corporate Governance Scorecard (ACGS) on May 3, 2013, CL No. 14-2013 was issued. Under this revised system, ratings will be based on disclosures found in the respective company websites. The Insurance Commission directed the development of the companies’ websites by July 31, 2013 to facilitate compliance. CL No. 2015-23 was issued to provide guidelines on the compliance with the ACGS. Under this circular, companies were enjoined to

upload in their websites by June 15, 2015 the completed ACGS Response forms. The circular also enumerated the lists of “default” and “not applicable” items based on the nature of the corporate structure.

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