



Corporate Governance Requirements

The insurance regulations outline that three (3) board committees must be established and carry out prescribed functions. These committees are the Investment and Loan Committee, the Conduct Review Committee and the Audit Committee. Their roles are **summarized** below.

Investment and Loan Committee

Regulation 75 requires the directors of an insurance company, at their first meeting following the company's Annual General Meeting, to establish an Investment and Loan Committee with at least three members. At least one member of the committee must be an officer of the company, but the majority of committee members must not be company officers or employees.

Regulation 104 requires the Investment and Loan Committee to develop and recommend to the Board of Directors a written Investment and Lending Policy for the company and its subsidiaries. The policy is to be reviewed on an annual basis and is required to be filed with the FSC.

Regulation 104 also outlines a number of specific requirements that must be addressed in each company's investment and lending policy.

- The policy must comprehensively deal with the management and diversification of the investment portfolio.
- The policy must contain everything necessary to ensure it is consistent with prudent standards.
- The policy must specify the powers and duties of any committee or officers to which the power to make investments is delegated and the scope of the delegation.
- The policy must specify the upper limit on the amount of funds the company will invest in various types of investments and with various counter parties.
- The policy must specify an upper limit on loan to value ratios on mortgage loans.

As previously indicated, Regulation 104 requires an insurance company to file its Investment and Lending Policy with the FSC on an annual basis. Regulation 105

indicates that the FSC may order the Directors of the insurance company to review the policy taking into account the matters specified if the FSC believes the policy:

- Is inconsistent with prudent standards;
- Is not comprehensive; or,
- Does not comply with the regulations.

Clearly, in order to comply with the regulations, an Investment and Lending policy must not permit investments that contravene Part VII of the regulations. Moreover, the policy must include the requirements outlined in Regulation 104.

In order to be consistent with prudent standards, an Investment and Lending policy must take into account the specific characteristics of the insurance company. For example, an Investment and Lending Policy might contain a portfolio investment limit for real property of 30% of assets.

In order to be comprehensive, an investment and lending policy must deal with the major investment risks facing the company and outline the appropriate steps for managing credit risk, interest rate risk, exchange rate risk and liquidity risk.

Conduct Review Committee

The Insurance Regulation 74 mandates insurers to establish **the Conduct Review Committee**. This committee is to be comprised of at least three directors. The Regulation does not specify the affiliation of the directors to the company and so legally a company is entitled to select at least three directors regardless of their affiliation. The FSC (the Commission) recommends that wherever and whenever possible companies appoint persons to this committee who are not shareholders nor affiliated in any other way with the company.

The job of the Conduct Review Committee is very important in protecting the interest of the policyholders. Its corporate governance role cannot be over emphasised. A summary of the duties and responsibilities of the Committee follows:

- The Committee must be aware of the persons and entities that are related parties to the insurance company. In addition it is the duty of the Committee to ensure that the directors and senior management are also aware;
- The Committee must monitor the company's fiduciary functions to ensure that there are no self dealings;
- The Conduct Review Committee at least once per year must provide a written report to the directors of the company on securities that were issued during the year by the company or by a related party of it and also in respect of securities held in trust or estate by the company as a fiduciary during the immediately preceding financial year;
- The Committee must monitor all related party transactions to ensure that transactions are appropriate and in the best interest of policyholders.

- The Committee in exercising its authority to approve transactions must be certain that the transactions are of the type that it can approve. It must also ensure that all approvals are reported to the directors and are recorded in the minutes; and
- The Committee is to ensure that all related parties, including those who are not directors, disclose their interest in transactions involving the insurance company. It must further ensure that directors with conflicts of interest do not attend and vote at meetings where the transactions are to be discussed or exert any influence on the voting on the resolution in respect of the transaction.

Audit Committee

The Insurance Regulation 73 mandates insurers to establish **the Audit Committee**. The directors of a registered insurer shall, at their first meeting following each annual general meeting, appoint an audit committee comprised of not less than three persons, the majority of members of which shall not be officers or employees of the registered insurer or an associated company.

An audit committee shall regulate their own procedure and hold office until the next general meeting.

Without prejudice to the relevant provisions of the Companies Act, the audit committee shall review –

- (a) returns that the registered insurer is required to file with the Commission;
- (b) reports made by the auditor under the Companies Act and the Insurance Act.
- (c) such other reports, transactions or matters as may be prescribed.

Where under the Companies Act a financial statement or return is required to be approved by the directors of a registered insurer, that approval shall not be given until --

- (a) the audit committee has reviewed and reported on the statement or return; and
- (b) that report has been received by the directors.

A meeting of the audit committee shall be convened on the request of the auditor, a member of the audit committee or any director, as the case may be, to consider any matters which the auditor, member or director believes should be brought to the registered insurer's directors or members.

Insurance Division
 Financial Services Commission
 39-43 Barbados Avenue
 P.O. Box 325
 Kingston 5, Jamaica, W.I.
 Telephone (876) 906-3010