

# Corporate Governance and Insurance Supervision

27 November 2008

**Maarten Hage**

De Nederlandsche Bank N.V.



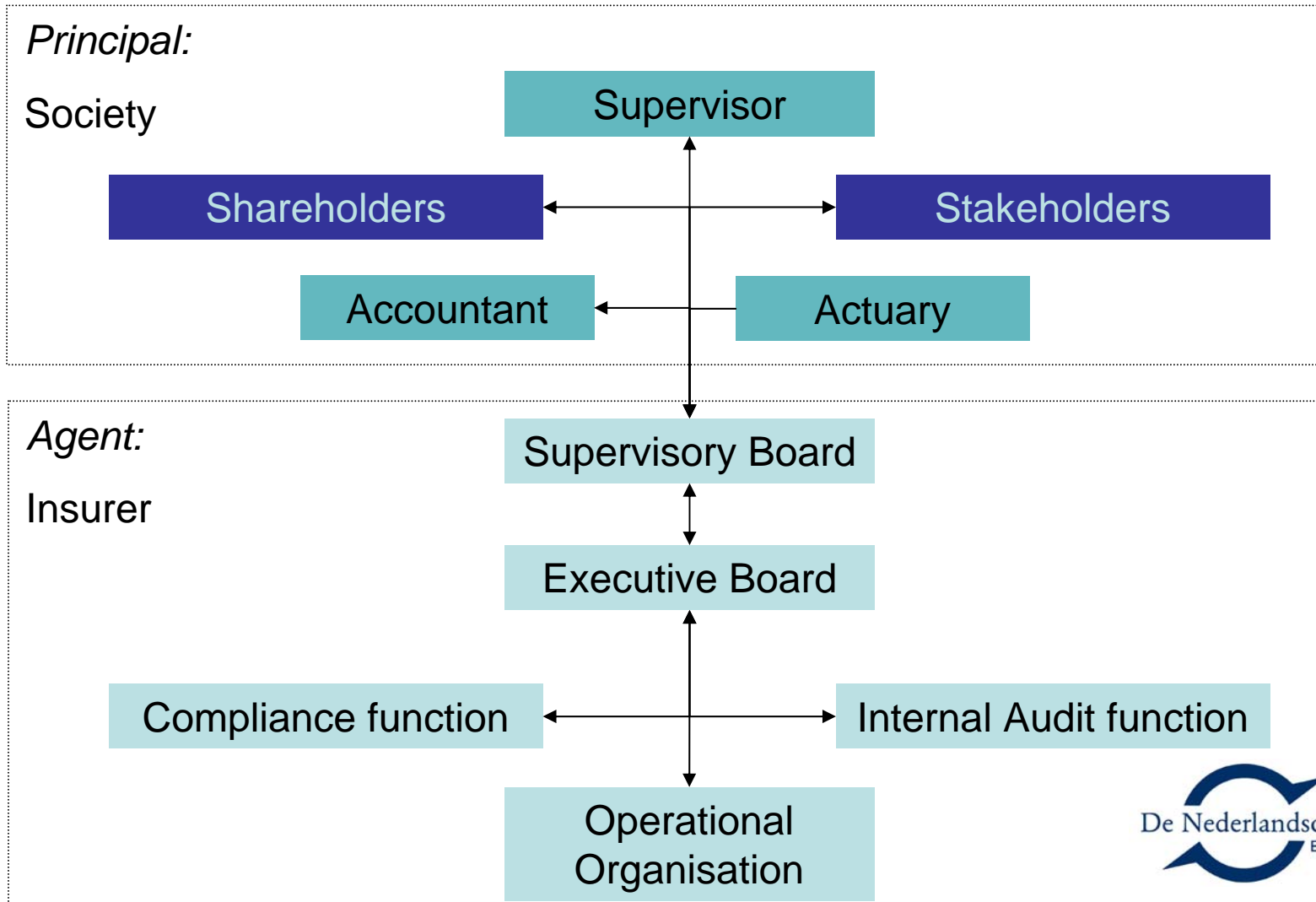
# Agenda

## Topics we will address today

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

# Corporate governance in an insurer

## The Dutch situation



# Relevance to the Supervisor

We are concerned with this subject because:

- Supervisors need to approach a conglomerate systematically both top down and bottom up
- Supervisors are interested in effective control of financial conglomerates
- Risk based supervision is the only way to approach modern complex organisations
- Therefore effective management is the logical starting point for supervisors

# Market turbulence

We have learned at least four important lessons:

- People matter more than structures
- Remuneration and adverse incentives
- The importance of independent control functions
- Impact of governance on valuation processes

# Knowledgeable senior management

## People matter more than structures:

- Fit and proper criteria
- Required knowledge
- Senior management attitude

# Remuneration

## A very political hot topic:

- Compensation schemes encouraged disproportionate risk-taking with insufficient regard to longer-term risks.
- The financial industry should align compensation models with long-term, firm-wide profitability.
- Regulators and supervisors should work with market participants to mitigate the risks arising from inappropriate incentive structures.

# Governance of the valuation process

## Impact of fair value accounting:

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

# IAIS

## Governance and Compliance Subcommittee

- Carry out a survey into industry practice in the area of corporate governance and report on the findings with the OECD.
- Promote the effective and efficient application of the principles and guidance issued
- Provide input to the revision of the ICPs specifically on those elements relating to corporate governance
- Develop training material regarding corporate governance specifically for insurance supervisors.
- Consider and, if warranted, develop proposals for work on compliance.

# If you were to remember only one thing... ...it should be that people matter most

