



CORPORATE GOVERNANCE REGULATION FOR INSURANCE COMPANIES - 2022

DD CONSULTING LLC

14 December 2022

A low-angle photograph of a building's facade, showing a window and architectural lines. The image is overlaid with a gradient from blue on the left to orange on the right. The word "HIGHLIGHTS" is centered in white text.

HIGHLIGHTS

Introduction

- ❑ This presentation is prepared to cover the provisions stated in the CORPORATE GOVERNANCE REGULATION FOR INSURANCE COMPANIES drafted on 29 September 2022 (Circular No. 24/2022) for all insurance companies in the UAE. This is an attempt to simplify those provisions for convenient readability and understanding.
- ❑ The provisions presented here are mandates by the Central Bank (CBUAE) for Companies and/or their Board Members to adhere to the Regulation, and so are being directed to the Board of the Company, and/or Company itself.
- ❑ This Regulation and accompanying Standards were published in Official Gazette in both Arabic and English on 15 November 2022 and shall come into effect **1** month from date of publication.
- ❑ Care has been taken in preparation of this presentation to simplify the provisions without losing the details present in the Regulations. Please refer to the regulations issued by the Central Bank for official purposes as this **NOT** the alternative substitute for them.

Executive Summary

The Regulation urges the Board of respective companies involved in insurance activities to develop Corporate Governance Framework (CGF) as it would offer comprehensive management and oversight to their business(s). It proceeds to establish the responsibilities of the Board towards the Senior Management and draws on how Board Members must be managed. There are also provisions that mandate the companies to establish the business objectives and devise strategies to achieve them through appropriate corporate culture prescribed in the Regulation.

It sets out the structure of the Board, along with defining their duties. It states that the Board must be comprised of at least **7** members with maximum of **11**, each with maximum **3** year renewable term of membership, where at least **1/3** of them must be Independent, in addition to the requirement of Chairman and majority of members to be **UAE nationals**. Moreover, it is mandated that at least **20%** of candidates for consideration for the Board's membership must be **female**. Furthermore, the maximum tenure as member in same Company is **12** consecutive years. All the members must only have a **fixed** annual remuneration. It also confines the mobility of the members between different entities as well as discusses the inclusion of Government representatives in the Board. Similarly, roles, duties and compensation structure of Senior Management have also been defined.

The Regulation demands establishment of Risk Governance framework in similar manner as (CGF). The Regulation also dictates the compensation structure of the companies, with special focus to bonuses and incentive-based compensation mechanism.

The Financial Statements must be maintained according to **IFRS**. Emphasis have been put on publishing a comprehensive Corporate Governance statement (**CGS**) in the Company's **annual report**.

Separate provisions are made for the companies involved in Takaful operations, which urge compliance of CGF to mandates given by Higher Shari`ah Authority and Central Bank.

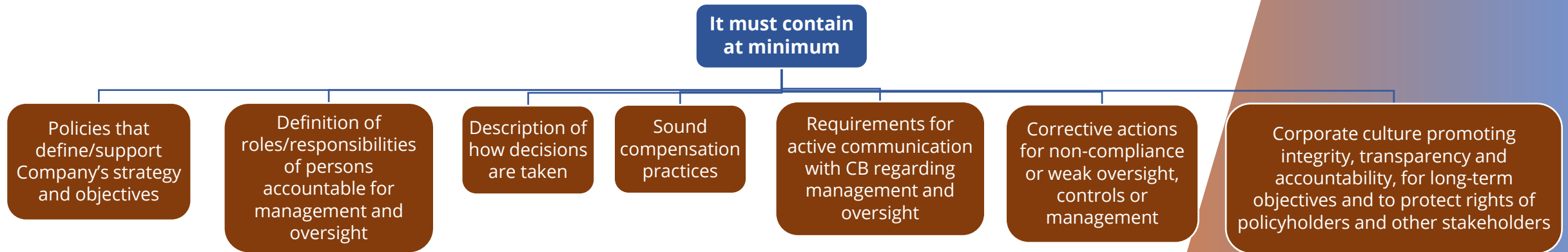
Aside from holding General Assembly compliant to the laws and Central Bank's requirements, the Regulation informs the companies that the Central Bank holds rights to intervene in GA if it deems important.

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Article (2): CORPORATE GOVERNANCE FRAMEWORK

Required for offering comprehensive management and oversight of the Company's business, protects the rights of policyholders.



- Establish transparent organizational structure, at the entity and Group-wide level
- Must establish and operate governance framework for the Group and all affiliates
- For Group, consider following factors:
 - Clear division of roles and responsibilities
 - Legal obligations, governance and risks associated at each level
 - Effective coordination and communication.
- Must exercise according to legal and governance responsibilities applying to individual entities.

Article (3): OVERSIGHT AND MANAGEMENT RESPONSIBILITIES

The Board must:

- Have Corporate Governance policies according to its risk profile, nature and scale of activity. Policies based on clear segregation between oversight function and management responsibilities.
- Allocate roles/responsibilities to Board, its committees, Senior Management (**SM**) and key persons, segregating duties. Supervise SM by transparent organizational structure for awareness of decision makers, accountability of SM towards Board and Board towards share and/or stakeholders.
- Oversee SM and their performance for consistency in Company's activities with business strategy, Risk Governance Framework, compensation and other Board approved policies.
- Establish Fit and Proper Process for selection and assessment of Members, SM, including key and other persons.
- Disclose financial status of Company to CB timely.
- Approve compensation policy applicable to all Staff, does not encourage excessive risk taking, aligned to Company's strategy and Risk Governance Framework.

If offering Takaful Insurance, must be fully compliant with Islamic Shari'ah rules, establish Shari`ah governance framework with key mechanisms and functionalities, as per CB and Higher Shari`ah Authority requirements.

Article (4): CORPORATE CULTURE, BUSINESS OBJECTIVES AND STRATEGIES

The Board must:

Set strategies and policies, supervise Senior Management in implementing business and risk strategy ensuring goals are met, leave daily function responsibilities to SM. Strategies must cover fair treatment of policyholders; Risk Appetite; choice of lines of insurance; introduction of new products; appointing competent persons with qualifications according to their roles/responsibilities; pricing underwriting; provision of reinsurance cover; investment; asset-liability management and the assessment of solvency requirements.

Establish, communicate and oversee implementation of corporate culture and values for responsible and ethical behavior as norm. Set the “tone from the top”, as it relates to ethical behavior expectations of Staff by approving policies covering **code of conduct**, conflict of interest, insider trading and whistleblowing.

- Must enter all transactions with Related Parties on arm’s length basis, monitor them, take steps to control or mitigate the risks to them according to Board’s policies.
- CB may set limits for exposures to Related Parties, deduct such exposures from capital, or require collateralization of such exposures.
- Allocation of responsibilities to Members to serve one of Board’s committees must consider whether that member exercises independence and objectivity to carry out functions of that committee. Oversight of executive functions be performed by **non-executive** Board members.

Article (5): STRUCTURE AND GOVERNANCE OF THE BOARD

1. Must be diverse in its composition. Collectively, must have knowledge of all significant businesses of Company and Group. Must have skills pertaining to lines of insurance underwritten by Company, actuarial and underwriting risks, investment analysis, role of control functions, finance, accounting and obligations related to fair treatment of customers.
- 2&3. Must be comprised of at least **7** members with maximum of **11**, each with maximum **3** year renewable term of membership. All members must be Non-Executive, of which at least **1/3** must be Independent. Chairman and majority of Members must be **UAE nationals**.
4. Maximum tenure as Member in same Company is **12** consecutive years. On **effective date** of this Regulation, calculation of **12** years **will** consider time already spent by Board member in directorship. Independence of Board member not affected solely based on being an employee of parent company or any of its subsidiaries if any of them is at least **75% Government** owned entity or any of its subsidiaries.
5. A. Chairman and Members must prevent or manage conflicts of interest, and **must not**:
 - Manage other Companies.
 - Compete with Company's operations or perform actions in a private or business capacity conflicting with its interests.
 - Carry out operations of an Insurance Agent/ Broker.
 - Receive any commission from any insurance operation.B. Member must have Board's **permission** before accepting nomination to serve on another board of a Public Joint Stock Company (PJSC) with no conflict of interest. This Article applies equally to persons appointed by a Government shareholder.
6. Member may hold membership in Board of only **1** company in **UAE**. They may hold memberships in boards of up to **5** PJSCs in UAE including Company's Board. Board memberships of PJSCs inside the Group are included within this limit.

Cont.

If Government owns **5%** or more of Company, it may appoint persons to represent it on the Board with same proportion to number of members. At least one member shall be appointed if percentage required for appointing a member exceeds that percentage.

At least **20%** of candidates for consideration for the Board's membership must be **female**

Must meet at least **6** times a year and maintain **minutes**. Must appoint secretary to the Board who is not a member and independent of Company's management

Non-objection of CB must be obtained **prior** to nomination, appointment, renewal or removal of any person for membership. Must immediately notify CB if aware of anything that negatively affects fit and proper assessment of a member.

Cont.

May delegate specific authority, but not responsibilities to specialized Board committees. Each committee created must have approved charter or other instrument setting out its membership, mandate, scope, working procedures.

Board's operational structure must include committees with responsibilities for audit, risk, nomination, investment and compensation. May also establish other specialized committees (e.g. ethics, assets and liabilities)

Companies may merge the nomination and compensation committees

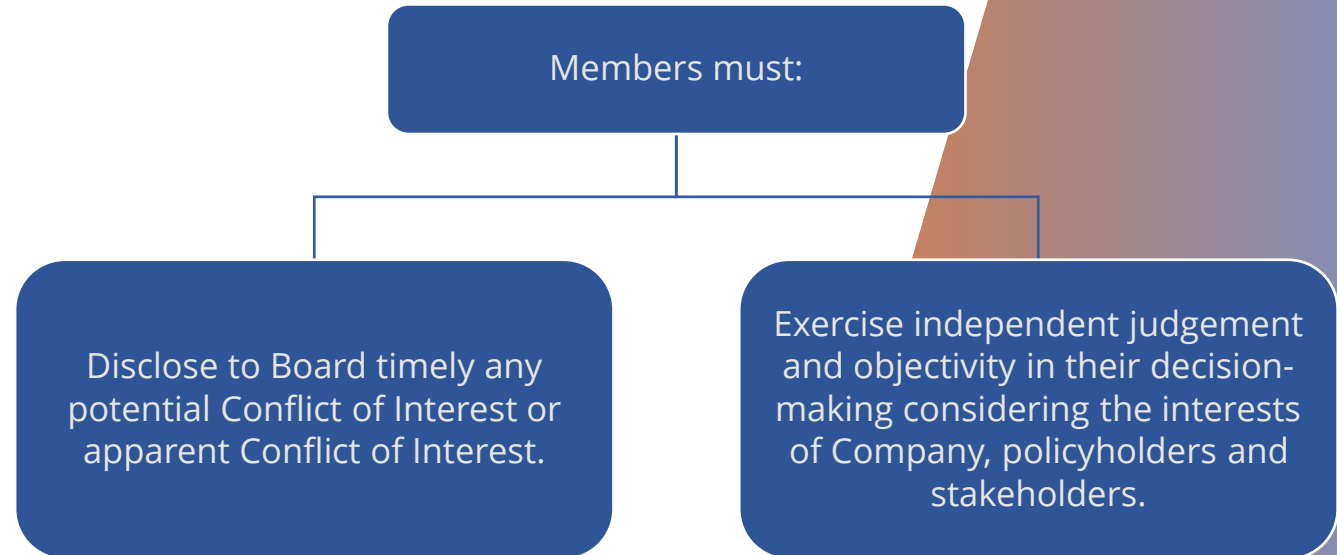
Board and committees may invite members of Company's staff and external independent experts to attend meetings. Experts include risk management consultants and actuarial and reinsurance professionals. Staff of CB may attend Board meetings

Audit and risk committees must **not** be merged with each other or any committee. Both committees' chairs must be Independent Members **not** chairing Board or other committees

Must carry out annual assessments of Board's functioning, its committees, and individual members, alone or with help of external experts

Article (6): DUTIES OF INDIVIDUAL BOARD MEMBERS

Members must act in good faith, honesty and integrity while exercising their Duty of Care, Confidentiality and Loyalty. They are responsible for ensuring effective control over Company.



Article (7): DUTIES RELATED TO RISK MANAGEMENT AND INTERNAL CONTROLS

Must have Risk Governance Framework providing Company and Group-wide view of all material risks pursuant to Financial Regulation and Takaful Regulation. Company's risk management function **must be independent** of management and decision-making of the Company's risk-taking functions and have direct reporting line to Board and/or Board risk committee.

Design and implement effective risk management systems and internal controls, approve and oversee implementation of Company's Risk Governance Framework and alignment of its strategic objectives with its Risk Appetite.

Have strong internal control frameworks pursuant to the either Financial and Takaful Regulation, establish permanent, independent and effective compliance and internal audit functions, and if applicable, compliance with Islamic and internal Shari'ah audit. **Compliance**, and **Actuarial** function must have primary reporting obligations to **CEO** and a right of direct access to Board, its audit and risk committee. Internal audit function must report directly to Board or its audit committee.

Article (8): DUTIES RELATED TO COMPENSATION

Board-approved compensation system **required**

Compensation payout schedules must be sensitive to time horizon. Any arrangement conducted after **effective date** of this Regulation must take claw backs and deferrals into consideration

Members must be compensated only with annual **fixed** amount. **Bonus** or **incentive-based** mechanisms based on performance of Company must be **excluded**

Compensation of Staff in control functions of risk management, compliance and internal audit must be **fixed**. For meeting performance targets, **variable compensation** be provided. Provisions be **included** so compensation can be reduced or reversed before compensation vests

Annual individual bonus for Senior Management and Material Risk Takers must **not** exceed **100%** of fixed proportion of total compensation. A higher bonus of up to **150%** must be approved by Board. A bonus of up to **200%** requires approval by **general assembly** of Company

The annual total bonus for all Staff must **not** exceed **5%** of **net profit**. Higher bonus must be approved by **General Assembly** and all Board Members

Article (9): FINANCIAL REPORTING AND EXTERNAL AUDIT

Maintain records; prepare financial statements in accordance with **IFRS** frameworks as per CB instructions, Financial Regulations, and/or Takaful Regulation; and publish **annual** financial statements **bearing** opinion of CB approved external auditor. Governance requirements for financial reporting and external audit must be upheld according to accompanying Standards, Financial Regulations, and Insurance Authority's Broad of Directors' "Decision No. (19) of 2020 Concerning the Guidance Manual for Insurance Companies and Related Professions to Submitting the Data, Information and Supervisory Reports".

Article (10): COMMUNICATIONS

Publish a comprehensive Corporate Governance statement (**CGS**) clearly in its **annual report**. CGS refers to periodic, integrated report clarifying the relations between operational and functional units and resources they use or affect thereon.

Include in CGS at a minimum:

Clear, comprehensive and timely information about compensation practices for engagement with all stakeholders.

Details of transaction with Related Parties during reporting period and aggregate amount of all their exposures at end of reporting period.

Chair (or, if branch of foreign Company, Authorized Manager) signed attestation as detailed report, **confirming** all internal policies required to ensure compliance with CB's Regulations and Standards have been implemented and reviewed for adequacy by Board, within the last year (on Corporate Governance, risk management, internal controls, compliance, internal audit, financial reporting, external audit, outsourcing and, where applicable, Compliance with Islamic Sharia'ah and internal Sharia'ah audit). **Otherwise**, attestation must specify those requirements not met and date by which Company intends to comply fully.

Article (11): DUTIES OF SENIOR MANAGEMENT

Under Board's direction, SM must manage Company's activities according to business strategy, Risk Appetite, compensation and other policies approved by Board.

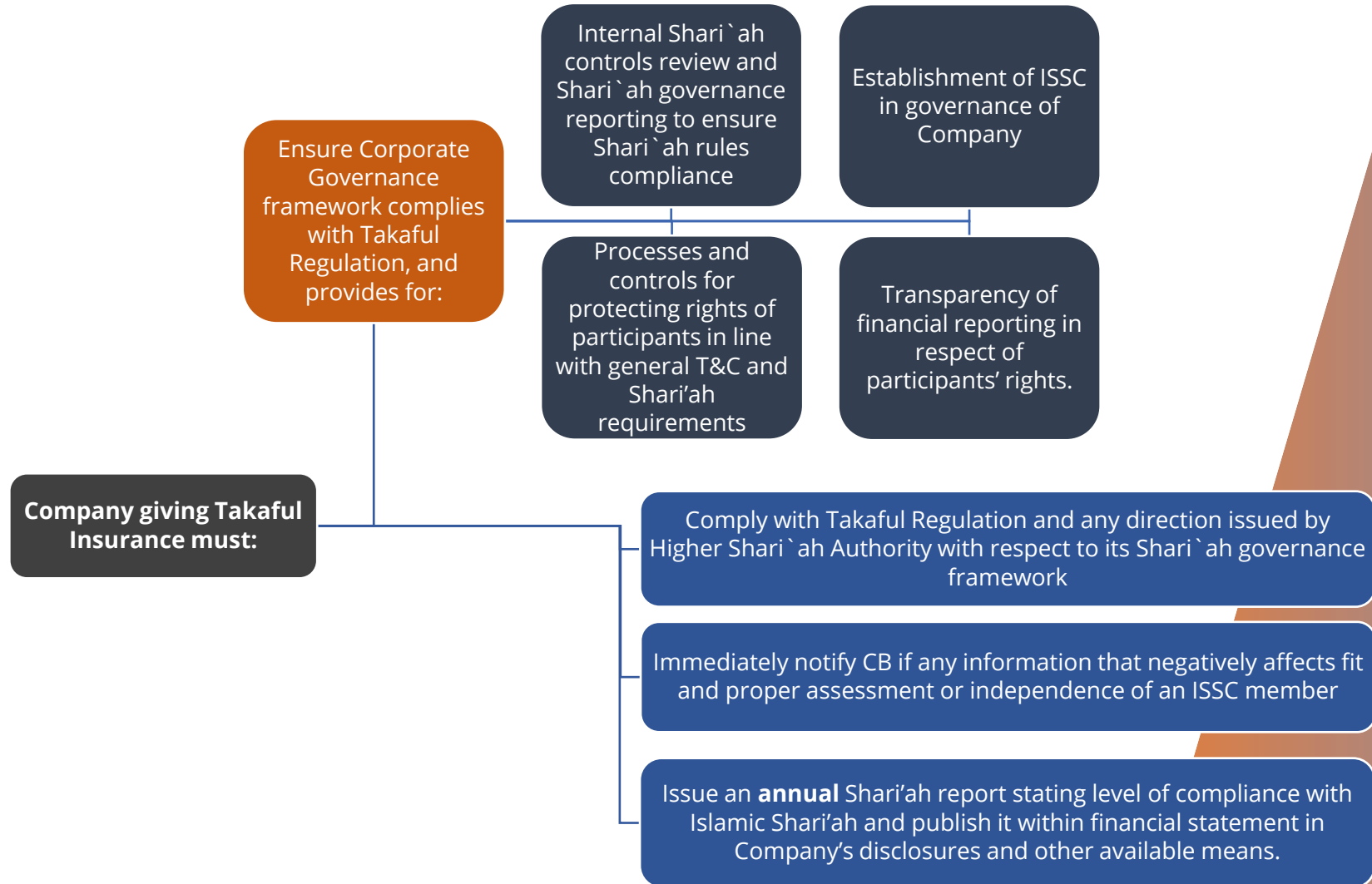
SM must report and take timely remedial action towards any breach of any applicable laws and Regulations or internal policies, and must maintain adequate records of Company.

Member of SM may **not** hold a Staff position in any other entity, neither inside nor outside of Group. SM member may hold memberships in boards of up to **2 non-insurance** entities outside of Group. Also, SM members, except chief risk officers and heads of compliance and internal audit functions, may hold memberships in boards of entities inside insurance Group. SM Member needs Board's approval before accepting nomination to serve on a board in any other entity; without any conflict of interest.

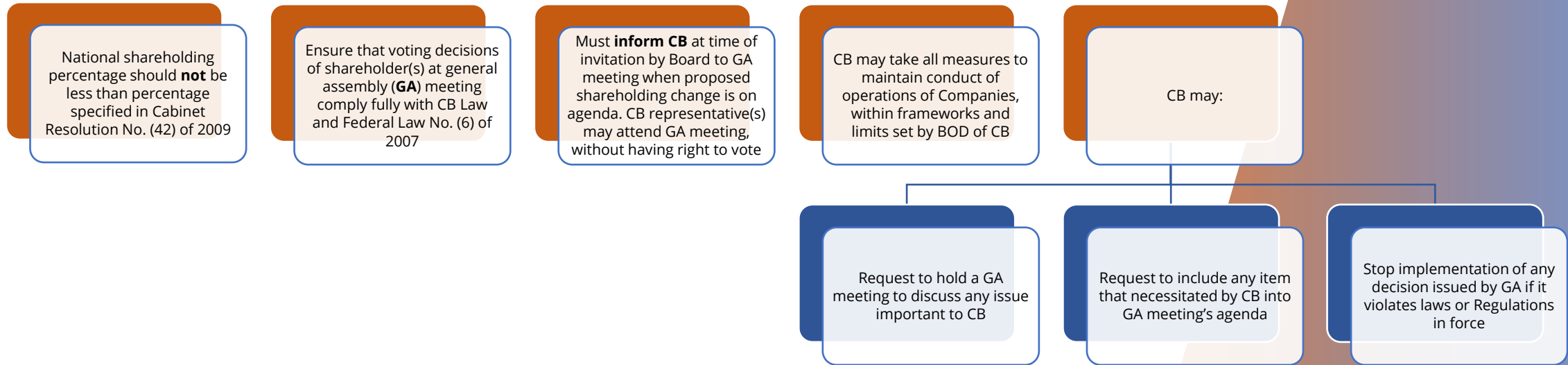
Non-objection of CB **needed** prior to appointment or renewal of employment contracts of any SM Member and other persons as CB determines time to time. Must immediately notify CB if aware of anything that negatively affects the fit and proper assessment of a SM member or any other CB determined person.

Staff, including SM, may not represent on the Board any of the shareholders.

Article (12): TAKAFUL INSURANCE



Article (13): THE GENERAL ASSEMBLY



Article (14): ENFORCEMENT AND SANCTIONS

Violation of this Regulation and Standards may be subject to supervisory action and sanctions by CB which, without prejudice to CB Law, include withdrawing, replacing or restricting the powers of SM or Board members, providing for interim management of Company, or barring individuals from UAE insurance sector.

Article (15): INTERPRETATION OF REGULATION

The Regulatory Development Division of the Central Bank shall be the reference for interpretation of the provisions of this Regulation.

Article (16): PUBLICATION AND APPLICATION

This Regulation and accompanying Standards shall be published in Official Gazette in Arabic and English and shall come into effect **1** month from date of publication.

On effective date, upon any lack of compliance with it and Standards, CB must be provided within **90** days detailed plan for coming into compliance. CB will decide on adequacy of proposed plan which should not exceed **3** years for full compliance.

The background features a low-angle shot of a building's exterior, showing a window frame and architectural lines. A semi-transparent gradient overlay transitions from a deep blue on the left to a bright orange on the right, creating a modern, professional aesthetic.

ABOUT OUR COMPANY

OUR SERVICES

Appointed Actuary



IFRS 17

Peer-Review Actuary



Business Planning, Solvency Projections & Stress Testing

Motor & Medial Pricing



Product Pricing for Individual Life products

**Actuarial Staff Secondment
(Short/Long term basis)**



Actuarial Expert for Audit Firms

A high-angle, close-up photograph of five people's hands stacked together in a circle on a dark wooden table. The hands are of various skin tones and are wearing different colored sleeves: brown, purple, black, grey, and tan. The tan sleeve has four white buttons. Scattered around the hands are several white papers with blue and red charts and graphs. A silver laptop is open on the right side of the frame, displaying a blue screen with a world map. The overall scene suggests a collaborative business meeting or a team huddle.

KEY TEAM MEMBERS

Our Key Team Members



HUSAIN FEROZ ALI

Founder & CEO

Fellow of Society of Actuaries, USA

Registered with CBUAE since 2011

Husain has worked for several markets including Malaysia, UAE, Saudi Arabia, Pakistan etc. His previous companies included an actuarial consulting firm, a European financial institution and a Life Insurance Corporation. His achievements includes working on a privatization project of a life insurance corporation, introducing risk based pricing structure for motor line of business and designing several innovative individual life insurance products. He has worked on several projects of actuarial valuations, product development, financing agreements, M&A deals etc.

He has presented in several conferences and takes keen interest in writing articles.

Our Key Team Members



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