

AIDA Questionnaire on the Corporate Governance of Insurers

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I. General

1. In your jurisdiction, what corporate governance models are available to insurance companies? In case multiple models are available, describe the main differences and the allocation of management and monitoring powers among the relevant bodies/committees and which model is generally or ideally adopted by insurance companies.

In Taiwan, the so-called Anglo-American model (also known as the Anglo-Saxon model) is generally adopted by insurance firms. Under this model, shareholders elect board members who then appoint managers to manage business. As far as I understand, there are no insurance companies in Taiwan employing the Japanese and German models.

2. What are the main sources of regulation addressing corporate governance of companies (and in particular of insurance companies)? *e.g.*, statutes, regulations, other rules/recommendations issued by national and supranational supervisors/regulators, self-regulation, codes of best practice, codes of ethics.

The main regulations regarding corporate governance include “Securities and Exchange Act”, “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies”, “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”, and “Corporate Social Responsibility Best Practice Principles for TWSE/GSTM Listed Companies”.

3. In your jurisdiction, are you aware of any insolvency or distress of an insurer directly attributable to poor corporate governance standards or practices or failure to adequately implement and apply such principles? If so, please identify the main triggers of the insolvency.

Yes, in our jurisdiction some insurers which are insolvent or financially distressed are due to poor corporate governance. The main triggers of insolvency or financial distress include, for instance, major shareholders’ embezzlement of company funds and poor asset allocations.

4. In your jurisdiction, is corporate governance regulation applied according to the nature, scale and complexity of an insurer’s business? If yes, please describe any significant differences and rationale for the differences.

No, the current corporate governance regulations are not applied differently due to an insurer's nature, scale and complexity. However, the competent authority has claimed that insurance firms will be regulated differently in terms of the nature, scale and complexity of an insurer's business.

5. Please provide specific examples of corporate governance structures and practices that are better implemented through self-regulation rather than through legal or supervisory requirements.

For instance, the regulations regarding ethical corporate management are better implemented through forms of self-regulation or code of best practice.

6. In case your jurisdiction was recently requested to implement domestically certain corporate governance principles set forth by supranational regulations, describe the main obstacles and problems (if any) that resulted from such process.

There are no obstacles or problems that arise from the implementation of corporate governance principles set forth by supranational regulations.

7. Are there any significant differences between general corporate governance rules and the specific rules governing insurance companies?

No, there are no major differences between general corporate governance rules and those for insurers.

II. Fitness and Propriety of Board Directors

1. Are there any laws or regulations already adopted or any proposals in your jurisdiction, relating to the qualification and composition of board directors in an insurance company? If so, please explain.

Yes. We do have relevant regulations such as "Regulations Governing Required Qualifications for Responsible Persons of Insurance Enterprises".

2. In your opinion, what factors, conditions, or incentives might weaken the independence of the board of directors or individual members of the board?

A number of factors may weaken the independence of the board or its members.

First of all, board members might be closely related to each other. In some cases, several board members even are of the same blood line. Second, some independent directors might be not sufficiently independent because they are not chosen or elected due to their expertise but relation to the chairman of the board. Third, independent directors may not know the business of their company well. Therefore, they cannot offer useful suggestions for or advices on business operations.

3. How does an insurance company ensure that individual board members and the board collectively have enough knowledge to monitor and oversee the activities of the insurer appropriately, particularly where specific expertise is needed?

There are two approaches which can be employed to ensure that board members have sufficient knowledge to monitor and oversee an insurer's activities well. First of all, the authority concerned may require board members to attend relevant courses. Second, the authority concerned may require that at least one of the board members must possess that specific expertise.

4. Are there significant differences in terms of requirements and duties between executive and non-executive members of the board of directors of an insurer?

No, there are no significant differences in terms of requirements and duties between executive and non-executive members of the board of directors of an insurer.

5. In your jurisdiction are there any black letter rules or general principles that enable directors to rely upon external opinions when addressing issues or aspects where specific expertise is needed?

Yes, in our jurisdiction directors, independent directors in particular, can solicit external opinions or advices. The associated expenses are on the company.

6. Describe the extent and scope of supervisors'/regulators' intervention with reference to the qualifications and to the activities of the board of an insurer.

In our country, there are regulations concerning the qualifications and activities of board members of an insurer. According to "Regulations Governing Required Qualifications for Responsible Persons of Insurance

Enterprises”, for instance, the competent authority have a legal power to order the insurer to replace directors who do not meet the qualifications set forth in the Regulations stated above.

As regards board members’ activities, these are mainly governed under the “Corporate Governance Best Practice Principles for Insurance Companies”. Although this is just best practice, supervisors/regulators still can resort to other regulations such as Company Act to intervene in the activities of board members.

7. Are there any special rules and regimes applicable to the governance of subsidiaries belonging to an insurance group, also in terms of information flows?

Yes, in our jurisdiction “Financial Holding Company Act” and “Corporate Governance Best Practice Principles for Financial Holding Companies” are two primary regulations concerning the governance of subsidiaries belonging to an insurance group.

III. Risk Management

1. In your opinion, what is the biggest risk challenge (e.g. regulation, capital standard, pricing, interest rate, cyber, terrorism, etc.) facing the insurance industry today in your jurisdiction?

In my opinion, the biggest risk in our jurisdiction is concerned with the stability of capital standard. In our country, the primary capital standard regime is based on the Risk-Based Capital (RBC) system. Compared with their banking counterparts, insurance companies are better able to lobby the competent authority to change how own funds or risk capital are calculated.

2. What specific laws or regulations, actual or pending in your jurisdiction, will present significant implementation risk challenge toward the insurance industry?

To my knowledge, there are no laws or regulations in our jurisdiction will present significant implementation risk challenge toward the insurance industry.

Ethics and Corporate Social Responsibility

1. Please provide any concrete examples where business ethical standards and/or corporate social responsibility standards have been applied and have changed the behaviors of the insurance company.

For instance, since the enactment of Corporate Social Responsibility Best Practice Principles for TWSE/GSTM Listed Companies in 2010, insurance

firms start to pay attention to CSR activities. In 2014, the Taiwan Stock Exchange issued “Taiwan Stock Exchange Corporation Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TWSE Listed Companies”. Under this regulation, all insurance companies in Taiwan have to prepare for and file their corporate social responsibility report from 2015 onwards. In order to comply with this regulation, all insurance companies now in Taiwan prepare for and file their corporate social responsibility report every year.

2. In your jurisdiction, are there any specific laws or regulations already adopted or any proposals, or any arrangements in place in the governance system, relating to the protection of policyholders’ and/or financial consumers’ interests?

Yes, we do have several laws or regulations protecting policyholders or financial consumers’ interests such as Consumers Protection Act and Personal Information Protection Act.

3. In your jurisdiction, is an insurance company required to produce an annual Corporate Social Responsibility (CSR) report or a Global Sustainability Initiative (GSI) report? If so, what context needed to be disclosed in these reports?

Yes. As stated above, insurance firms in our jurisdiction are required to produce CSR report based on the latest Sustainability Reporting Guidelines and Sector Guidance issued by the Global Reporting Initiative (GRI) and other applicable rules according to its sector features. In their CSR report, insurance firms have to disclose the major economic, environmental and social issues identified by the company. Moreover, their management guidelines, performance indicators and the measurement of these indicators should also be revealed.

IV. Disclosure

1. In your opinion, what mechanisms shall be in place or considered in an insurance company to ensure the transparency of its governance structure? (e.g., the articles of association, the organization chart, any existing committees, the major shareholders, the ethical standard, corporate social responsibility, etc.)

The transparency of an insurer’s governance structure is a critical issue. In order to ensure the transparency of insurance firms, the mechanism relating to protecting the interests of stakeholders such as shareholders and strengthening the functions of the board of directors, in particular independent directors.

2. Are there any governance practices that, in your opinion, can best be achieved through disclosure rather than through specific supervisory requirements? Which governance practices should be mandatory for an insurance company?

For instance, the practice concerning an insurer's corporate social responsibility activities is best achieved through public disclosure. However, corporate governance practices should be mandatory.

3. What is the interplay between market abuse regulations and other disclosure/transparency rules applicable to listed insurers and industry specific rules applicable only to insurance companies?

The main concept of market abuse includes insider trading and unlawful disclosure of inside information, while the primary idea of corporate transparency involves the clarity and accuracy of information disclosure. The market abuse regulation and corporate rules actually affect each other. The major interplay between these regulations and rules promotes the protection of shareholders.

VI. Outlook

In respect of the corporate governance of insurers, please describe your criticisms on the system in your jurisdiction, any recommendations for the future, and/or the main challenges which insurance undertakings encountered.

One of the major issues concerning corporate governance in our jurisdiction is the inadequacy of risk management, internal control and internal auditing. The relevant regulations or rules are in place, but their enforcement is not adequate. Taking risk management as an example, risk management is one of the indispensable aspects of corporate governance. We do have relevant rules such as 'Risk Management Best Practice Principles for Insurance Companies'. However, some insurance firms do not take the related rules very seriously. These firms may engage in risk management activities just for the purpose of complying with the rules. The results of risk management activities are never reflected in daily operations, let alone at the corporate level of strategy. I would suggest that the implementation of the so-called "Use Test" within the insurance sector. Under this test, insurance companies are required to demonstrate whether the results of their risk management activities affect company daily operations and corporate strategy and in what way.