

AIDA Questionnaire on the Corporate Governance of Insurers World Congress, Rio, 2018

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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 July 2013, in use of the powers of control of the insurance sector provided by law to the Central Bank of Uruguay (hereinafter the "Regulator"), the Regulator published the "Minimum Standards of Management for Insurance Companies" which stipulate management practices in matters of corporate governance (among other aspects) that the Regulator expects to find in insurers. Subsequently, the Regulator issued Circular No. 2237 of November 30, 2015, which incorporated into the Compilation of Insurance and Reinsurance Standards of the Central Bank of Uruguay certain requirements in terms of corporate governance provided for in the Minimum Standards (hereinafter the Minimum Standards and the Compilation and collectively, the "Regulation").

Corporate governance is the way in which institutions are organized to carry out their administration and the control of their management. It is composed of the institution's structures for administration (the Board), management (Senior Management, including the Compliance Officer and the actuarial function) and control (the Audit Committee and Internal and External Audit, among others) as well as the set of practices adopted to carry out the management, monitoring and daily control of the business.

The Regulation requires Uruguayan insurers to have an effective corporate governance system which involves, among other things, the following:

- the ethical and professional competence of the directors and senior managers;
- the establishment of an efficient strategy for the fulfillment of the insurer's objectives;
- a balanced organizational structure with a clear definition of roles and responsibilities;
- a control environment according to the nature, size and complexity of the insurer's operations and its risk profile;
- a suitable integrated risk management system;

- a competent actuarial function
- thorough and reliable accounting systems;
- timely and accurate disclosure of financial, management, ownership and governance information of the insurer;
- clear and transparent policies on the remuneration of directors and senior management;
- policies and procedures for assessing the moral and technical suitability of the insurer's senior staff;
- monitoring and management of potential conflicts of interest between shareholders, managers, senior management and other related parties; and
- the protection of the interests of policyholders, beneficiaries and other stakeholders.

The Board is the body that administers the institution. The Regulation provides for the Board to be responsible for the proper functioning of the integrated risk management system, with the following responsibilities:

- Understand the risks facing the insurer and the level of exposure to each type of risk, and monitor changes in them.
- Approve and review - at least annually - relevant strategies and policies with respect to risk management.
- Ensure that Senior Management takes the necessary actions to manage each risk consistently with said strategies and policies, and that it has the resources required for that purpose.
- Require information that allows it to supervise the performance of Senior Management.
- Allocate sufficient resources to Internal Audit and the Audit Committee, and seek, through those bodies and the External Audit, regular confirmations that processes, policies, procedures and controls are being monitored and that appropriate actions are taken against significant weaknesses or defects.
- Ensure a control environment according to the nature, size and complexity of the insurer's operations and its risk profile;

On the other hand, the Regulation imposes on Senior Management the responsibility to implement the necessary policies, processes and controls to manage the operations and risks in a prudent fashion to fulfill the strategic objectives set by the Board and to ensure that the Board receives relevant, complete and timely information that will allow it to evaluate the company's performance and analyze whether the responsibilities delegated to the Senior Management are being effectively fulfilled.

The Regulation imposes on the Compliance Officer the responsibility for the proper functioning of control policies and mechanisms to identify, measure and control the risk of money laundering and financing of terrorism. In turn, the person tasked with the Actuarial Function, according to the Regulation, is responsible for evaluating and providing advice on the insurance risk of the company, the subscription, reserve and

reinsurance policies, the current and future solvency position of the company, the pricing, the reinsurance contracts, the development and design of the products, etc.

The Audit Committee is a committee of the Board or an equivalent hierarchical authority and reports directly to it. The primary responsibility of the Audit Committee is to contribute to the implementation and operation of the insurer's integrated risk management system. It must ensure that the integrated risk management system is adequate and that the necessary actions are taken continuously for its maintenance. It is also tasked with acting as a liaison between the Board of Directors, the External Auditors, Internal Audit and Senior Management.

Internal Audit must evaluate the functioning of the integrated risk management system, identify and inform the Board of potential weaknesses and make recommendations to the Audit Committee.

Finally, insurers are required to retain the services of an External Auditor (or an external auditors' firm) and an independent professional (or independent professional firm) authorized to issue reports on money laundering prevention and terrorist financing. The External Audit must provide a faithful and independent view of the institution.

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 sources of regulation on corporate governance of insurers are the "Minimum Standards for Management of Insurance Companies" of July 2013 and the Compilation of Insurance and Reinsurance Standards of the Central Bank of Uruguay (BOOK II - STABILITY AND SOLVENCY , HEADING I - CORPORATE GOVERNANCE AND INTEGRATED RISK MANAGEMENT SYSTEM).

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.

No.

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.

Yes. The Regulation establishes that insurers must adopt suitable structures for their management, taking into account the nature, size and complexity of their operations and their risk profile. Additionally, the Regulation establishes that the Regulator must carry out its monitoring and evaluation procedures taking into account said elements.

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.

We have no knowledge about this situation.

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.

No.

However, we note that the Regulation is in line with good international practices.

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

Yes, there is specific regulation on corporate governance of the insurance sector that is not general. On the other hand, we note that a few years ago, the regulation of insurance companies and the financial sector in general (banks) were harmonized, including corporate governance.

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.

The Regulation establishes requirements regarding both the qualifications of the Directors and the composition of the Board of Directors.

Insurers must notify the Regulator of the appointment of new directors and the designated persons are not allowed to take office until the Controller notifies that they do not object to the appointment. In order to grant the no-objection, the Regulator assesses the personal and professional background of the candidates (for this purpose, sworn statements on personal and property status as well as experience, in addition to proof of clean criminal records, must be submitted to the Regulator, in compliance with formal legalization/apostille requirements and translation if necessary). Although there is no specific deadline established in the regulation, in practice this process usually takes approximately 3 months from the submission to the Regulator of all the required background information on the proposed candidate.

In addition, to grant their no objection, the Regulator considers the composition of the Board. The Regulation establishes that the Board must maintain an appropriate structure that allows an independent view free from the influence of Senior Management. In this regard, the Regulator controls whether the Board of Directors has a majority of Non-Executive Directors and therefore that the Executive Directors do not exercise a dominant influence on the Board as a whole (although there is no established legal concept of a Non-Executive Director, it is understood as a Director who does not perform any executive functions).

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

Executive Directors who do not have an independent view free from the influence of Senior Management and Non-Executive Directors not effectively involved with

management.

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?

The Board receives information, as required by the Regulation, from different corporate governance bodies, such as management committees including the Audit Committee, Senior Management, etc. On the other hand, the Regulation establishes the obligation of certain roles -for example, Internal Auditor, Compliance Officer, Head of the Actuarial Function, etc. - to prepare reports on a regular basis.

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.

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, based on general principles, for example in the case of the actuarial function.

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.

Regarding the qualifications, as mentioned in II.1, new directors must receive the no-objection of the Regulator before taking office. The high standards used by the Regulator to grant the no-objection must be maintained during the time the director holds the position. The Regulation requires insurers to communicate to the Regulator -as soon as it is known- of any circumstance that may affect such standards. If any fact is found to affect the suitability of a person to continue to occupy the position of director, the Regulator may instruct the insurer to take the necessary actions to correct the detected situation.

As regards the board's activities, this is one of several aspects that the Regulator evaluates in the context of the insurer supervision process. The Regulator makes its evaluation of each insurer using remote procedures but also mainly through a series of on-site procedures. The Regulator seeks evidence that processes and procedures in general are suitable for given the characteristics of the entity, and that the different corporate governance structures (including the Board of Directors) adequately fulfill their roles and responsibilities.

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?

No.

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?

This is a very subjective opinion and varies a lot depending on the insurer, its group, etc., so it exceeds what we can contribute from the academic point of view.

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

None. Although a bill that will regulate insurance contracts is being discussed in Parliament, the insurance sector does not perceive that it could pose a significant implementation challenge for the insurance industry.

IV. 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.

We have no knowledge of this situation.

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?

In addition to Consumer Protection Law No. 17,250 of broad application, the Compilation of Insurance and Reinsurance Standards contains a specific section (Book IV - Protection of Financial Services Users) which establishes the general principles that the insurers must respect in relation to customer relations. This regulation also requires insurers to adopt a Code of Good Practices establishing the general principles and standards of behavior expected of all the insurer's personnel (including senior staff) in their relations with the customers. The Code should stipulate the information that must be provided at the different stages of the contractual relation, the commitments assumed by the institution in relation to the proper functioning of its products and services and mechanisms for the resolution of possible disagreements with customers.

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?

No.

V. 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.)

Starting in 2017, the Regulation requires insurers to prepare, on an annual basis and related to the closing of the fiscal year, a corporate governance report, with a certain minimum content (on ownership structure, administration and control structure, comprehensive risk management system and external audit), which must be

approved by the Board and posted in the insurer's website.

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?

In our country, the best practices in corporate governance of the insurance sector are contained in the Minimum Standards of Management, and are aligned with international experience.

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?

N/A.

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.

The challenge of the local insurance sector concerning corporate governance is to continue to advance in and consolidate the adoption of the best practices that were communicated in 2013, initially as an aspiration of the Regulator in the framework of a transition process, and which since late 2015 have been included in the regulation itself, thus becoming mandatory.