In order to foster more efficient management and supervision of insurers, in line with the core principles of insurance supervision promoted by the International Association of Insurance Supervisors (IAIS), the National Bank of Serbia has adopted this

GUIDANCE PAPER No. 2
ON CORPORATE GOVERNANCE IN INSURANCE COMPANIES

I. BASIC PROVISIONS

Addressees

This Guidance Paper is addressed to insurers.

Reasons for adoption of the Guidance Paper

In the process of direct and indirect supervision, the National Bank of Serbia has identified an unsatisfactory level of professionalism and engagement of bodies in certain insurance companies, i.e. inadequate corporate governance and inadequate management function in general. With a view to aligning the activities of insurers' bodies with the complexity, volume and level of risk to which insurers are exposed, the National Bank of Serbia adopted this Guidance Paper.

Objectives of the Guidance Paper

The objective of this Guidance Paper is to point insurers to the way in which their management and supervision activities should be organized and carried out for maximum efficiency of operations, rather than to impose specific arrangements. Insurers are thus not under an obligation to implement this Guidance Paper, but they are nevertheless expected to organize their corporate governance so that it does not affect adversely the overall risk exposure and risk profile in the long term and does not prevent or hamper the attainment of business goals, business strategy and operating plans. This Guidance Paper should be applied to the extent and in such a way that it does not compromise the interests and market competitiveness of the insurer concerned.

Insurers (particularly those with heterogeneous ownership structure) should adopt adequate corporate management policies and practices and publicize annual reports on corporate governance.

II. SHAREHOLDERS' RIGHTS

In the process of insurance company management and supervision, the highest responsibility lies with the shareholders. Accordingly, the National Bank of Serbia has established criteria to be met by shareholders (with qualified holding) in order to be able to exercise their right to participate in the process of insurance competition management and supervision.

Shareholders' basic rights include:

1) Safe methods for registration and transfer of ownership,
2) Timely and regular receipt of relevant information on the insurer,
3) Attendance and voting at shareholders' meetings,
4) Appointment and termination of office of board and supervisory committee members,
5) Share in insurer's profit.

In addition to observing shareholders' rights defined by the law and the basic rights set out above, with a view to ensuring shareholders' effective participation in the management and supervision of insurance companies' operations, insurance companies are expected to:

1) prevent any jeopardizing of interest of minority shareholders, i.e. prevent majority shareholders from taking control over the insurer's operations disproportionate to the risk they assume;
2) establish clear dividend payment policies and disclose such policies;
3) require the institutional investors, if any, to disclose their corporate governance policy;
4) establish rules and procedures for acquiring corporate control;
5) enable active participation of all shareholders in the shareholders' meeting and encourage their proactive behavior;
6) disclose equity structure and possible agreements between minority shareholders;
7) disclose their appointment and remuneration (regular and bonuses) policies for members of the board of directors and the supervisory committee and the manner in which these are linked both with the output of every individual member and with the performance of the insurance company, i.e. with the attainment of set business goals, business strategy and operating plan.

III. EQUAL TREATMENT OF SHAREHOLDERS

In order to ensure equal treatment of shareholders, insurance companies should prevent any possible obstruction, e.g. by minority shareholders. To that end, insurance companies are advised to provide for:

1) equal treatment of national and foreign shareholders, as well as internal and external shareholders;
2) disclosure of any conflict of interests;
3) passing of certain decisions with qualified, not simple, majority;
4) identical treatment of all shareholders holding the same type of shares (particularly as regards the level of information; in this context, insurance companies should establish adequate information channels);

5) a prohibition of insider trading;
6) such appointment and termination of office of independent members of the supervisory committee (where applicable) that will ensure the protection of minority shareholders;
7) active participation of independent members of the supervisory committee in the making of decision that might directly or indirectly jeopardize the rights of minority shareholders (e.g. transactions with affiliated entities, change of equity ownership structure, appointment of auditors);
8) access to information within and outside of insurance companies for supervisory committee members.

IV. THE ROLE OF STAKEHOLDERS

The growth and development of insurance companies must not be to the detriment of other stakeholders (primarily policyholders, beneficiaries, claimants and the State). In this regard, insurance companies should:

1) adopt and disclose policies governing stakeholders' rights, for the purpose of ensuring adequate information and communication;
2) respect shareholders' rights set out in the law or in mutual agreements;
3) advocate an active role of employees in insurance company management and, to that ed, ensure the employees (not only formally, but essentially) to report corporate frauds to the relevant department (e.g. internal audit) without any consequences;
4) grant stakeholders timely access to relevant information for the purpose of protecting their rights;
5) set up internal mechanisms for the exercise of stakeholders' rights and monitor their implementation.

V. DISCLOSURE AND TRANSPARENCY

In order to bring their operations in compliance with the international corporate governance principles, to determine the accurate market value of insurance companies and to prevent any decisions that might jeopardize their solvency, insurance companies should disclose the following:

1) financial statements required by the International Accounting Standards and the International Standards of Financial Reporting;
2) objectives of the insurance company for the forthcoming period;
3) significant anticipatable risks to which the insurance company is or will be exposed and the system for monitoring and managing those risks;
4) policies applied by the insurance company in its operations;
5) qualifying holdings, exercise of voting rights and any changes thereof (information should be provided not only for nominal owners, but for real owners as well);
6) policies and practices applicable to the appointment and remuneration, provisions on contract termination and information on the retirement of members of the board of directors and the supervisory committee and of key managers, their qualifications, selection process, their serving on boards of other companies and information whether they serve as independent

measures (with the applicable criteria governing the determination of the foregoing);

7) transactions with affiliated entities (particularly where such transactions are not carried out under market conditions);
8) possible conflicts of interest in connection with the board members, the CEO and other managers (particularly persons responsible for independent functions, e.g. internal audit), so as to prevent situations in which shareholders might be misled by the opinions of those persons;
9) any change in ownership structure with material effects on the attained level of control over the insurance company;
10) anticipatable risk factors;
11) the content of all corporate governance rules and policies and their application;
12) any major issues for the employees and other stakeholders;
13) issues of relevance for independent internal and external audit, formulation of independent actuarial opinion and possible conflicts of interest;
14) analyses commissioned from analysts, brokers, rating agencies or other external sources.

When disclosing information, insurance companies should take due care not to compromise their competitive position.

VI. BOARD OF DIRECTORS

Members of the board of directors are appointed by the shareholders' meeting, which also vests them with powers for managing the insurance company concerned. Preferably, powers should be divided between the members of the board of directors in such a way as to ensure that every member is responsible for one or more material fields for which he/she has adequate skills and professional experience.

The board of directors is expected to carry out the following activities in order to perform its function properly:

1) to meet its obligations under the law;
2) to set up the organizational structure of the insurance company;
3) to approve and evaluate (in terms of their compliance with the business goals and strategy) human resources policies and policies and practices in connection with remuneration, including those relating to plans for new appointment or replacement of persons in key positions (except for the board of directors and the supervisory committee) – at least once a year;
4) to review and set objectives, strategies and operating plans and to supervise their implementation on a regular basis (at least once a year);
5) to review financial statements and other relevant reports;
6) to review policies and plans in connection with liquidity management, investment, financing and equity and to verify compliance with the approved policies and plans – at least once a year;
7) to appoint the chief executive officer, to determine that person's powers, to supervise and evaluate his/her work output and to approve his/her remuneration;

8) to approve the appointment of appropriately qualified persons to the positions of organizational unit managers reporting directly to the CEO, to supervise and evaluate their work output and to approve their remuneration;
9) to evaluate and approve key risk management policies and practices and to monitor their implementation (at least once a year);
10) to regularly examine the appropriateness and proper functioning of the company's risk management, environment control, management and information systems;
11) to establish clear decision-making lines and lines of responsibility, to define the decision-making process in close detail and to set sanctions for incompliance;
12) to supervise the operations of subsidiaries in cooperation with the supervisory committee, to the extent that these can affect the operations of the insurance company;
13) to obtain the approval of the shareholders' meeting and the supervisory committee for transactions that can jeopardize the operations of the insurance company (capital transactions);
14) to provide timely and reliable information to all shareholders;
15) to approve the practices of communication and disclosure in connection with the operations of the insurance company;
16) to ensure the implementation of a system which will enable the company's operations to be carried out in compliance with the applicable laws, regulations and instructions issued by the relevant regulatory body;
17) to approve policies and practices in connection with the conflict of interest;
18) to set the standards of ethically correct behavior and to supervise their implementation.

VII. SUPERVISORY COMMITTEE

The main role of the supervisory committee is to perform the function of supervising the overall business operations, delegated to this body by the shareholders' meeting, in a professional and qualified manner.

Apart from its responsibility toward the shareholders, the supervisory committee, as a body of insurance companies, depending always on its actual composition and manner of functioning, is characterized by strong independence and social responsibility, i.e. responsibility toward the stakeholders, primarily the policyholders, beneficiaries and claimants.

The supervisory committee is expected to carry out the following activities in order to perform its function properly:

1) to meet its obligations under the law;
2) to define the work process in close detail and to set sanctions for incompliance;
3) to approve transactions with affiliated entities, where these have direct impact on the insurance company, subject always to the consent of independent members;
4) to regularly supervise the operations of the board of directors;

5) to regularly, fully and timely inform the shareholders' meeting of activities taken and results achieved in its supervisory function, with a view to attaining business goals, the company's business strategy and operating plans;
6) to monitor and evaluate the operations of internal audit;
7) to disclose cases of conflict of interest and incompliance with the established standards of ethically correct behavior;
8) to prevent any preferential treatment of affiliated entities or other favored parties;
9) to ensure equal treatment of all shareholders, preventing possible obstructions from minority shareholders;
10) to supervise the operations of subsidiaries in cooperation with the board of directors, to the extent that these can affect the operations of the insurance company;
11) to actively participate in the making of capital decisions of the company;
12) to actively cooperate with the board of directors, especially in connection with strategic objectives, business development and management of risks to which the insurance company is exposed;
13) in cooperation with the shareholders' meeting, to review policies and practices governing the operations of the board of directors and the supervisory committee;
14) to periodically evaluate its performance.

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Responsible, transparent and market-oriented insurers of good business repute which operate in a competitive and modern market are the aim pursued by the National Bank of Serbia in the field of insurance supervision. Such insurers and market will give our citizens access to higher-quality insurance services in connection with various risks, while at the same time enabling them to lucratively invest their free assets with absolute certainty that their interests will be safeguarded.

The National Bank of Serbia, as a supervisory body, will not enforce this Guideline in insurers, but the implementation and proper understanding of the Guideline will, however, result in improvements in other fields under direct and indirect supervision and prevent situations in which insurers might be subjected to specific supervision measures.