



Capital Market Authority

Sultanate of Oman

Code of Corporate Governance for Insurance Companies

To: Chairmen and members of the board,
Chief Executive Officers,
General Managers,
Managers .
Of Insurance companies

After complements,

Subject: Code of Corporate Governance for Insurance Companies

We have pleasure to attach herewith the Code of Corporate Governance for Insurance Companies, which aims at prescribing the minimum required standards of governance for insurance companies.

The code includes a set of governance and supervisory standards in accordance with the latest international management practices adapted to fit with the situation prevailing in the Sultanate of Oman and the requirements of the Insurance Companies Law promulgated by Royal Decree 12/79, the Regulations thereof and rules for insurance business. The code is complementary to the Code of Corporate Governance, Reinsurance Management Strategy and the Code of Conduct of Insurance Companies issued by CMA.

The code sets out the norms for the composition of the board of the directors of an insurance company and its role in approving the company policies and business plans and monitoring the implementation. It focuses on the significance of adopting the strategies for underwriting, reinsurance, investment and risk management.

The code stipulates the monitoring of strategy implementation and operational performance, systems of internal controls and identification and separation of responsibilities for the board and the management.

The code also regulates related party transactions, which should be on arm's-length basis. The board shall establish policies and procedures for such transactions, authorization limits, and monitoring of such transactions.

The code requires an insurer to provide an annual statement certified by the company auditor on the company's compliance with the code to be lodged with CMA within three months of the end of the financial year of the company.

The insurance community in the Sultanate was consulted on the draft of the code, and the experience of developed countries in the field of insurance supervision and regulation was also taken into account. The code also comes in line with the core principles of the regulation and supervision of insurance business issued by the International Association of Insurance Supervisors.

Finally, this code prescribes the minimum requirements to be complied with, subject to the instructions and rules issued by other competent regulators.

We are hopeful that the code would help the development of the existing standards of governance and upgrade them to the best international standards and practices to satisfy the needs of individuals and institutions and reflect on the overall economic activity in the Sultanate.

The insurance companies would be required to enforce the code from 1st January 2006. The boards of directors of insurance companies should provide compliance report for the financial year ending on 31 December 2006.

Your cooperation and compliance with the code would be appreciated.

Best Regards,

Yahya bin Said bin Abdullah Al Jabri
Executive President

Issued on: 1st August 2005

CODE OF CORPORATE GOVERNANCE FOR INSURANCE COMPANIES

General Definitions

Article 1:

Unless otherwise specified, the words and expressions used in this code shall have the same meaning as specified under Commercial Company law 1974, Capital Market Law 1998 and the Insurance Companies Law 1979. The following words and expressions shall carry the meanings as specified hereunder unless the context gives other meaning:

Independent Director

A director shall be independent if he, she, or any of his or her first degree has not occupied a senior position (such as the Chief Executive Officer, the General Manager or similar post) in the company for the last two years. Also, he or she has no other relationship with the insurance company (herein after referred to as “insurer”), its parent company or its affiliates or sister companies that could interfere, or be reasonably seen to interfere, with the exercise of his or her independent business judgment with regard to the interest of the insurer.

Non Executive Director

The member of the board who is not a whole time director (employee director) and/or does not draw any fixed monthly or annual salary from the insurance company.

Related Party

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. Related party transactions include transactions with, parent company, affiliates and director and director –related entities.

Director related entities include:-

- Companies that are majority- owned by the directors or their first degree.
- Companies in which the directors or their first degree control the composition of the board of directors.

Article 2:

- a) The provisions of this Code of Corporate Governance for Insurance Companies shall apply to all licensed insurance companies incorporated in the Sultanate of Oman and whose head offices are in Oman irrespective of whether they are General or Closed joint stock companies.
- b) General joint stock insurance companies listed on MSM shall also comply with all the provisions of the “Code of Corporate Governance for MSM Listed Companies,” which are not included in this Code.

- c) Branches of foreign companies licensed to conduct insurance business in Oman, shall satisfy the CMA that equivalent arrangements are in place at their head office level and these arrangements provide for effective high level controls over the insurance activities conducted by them in the Sultanate. In assessing compliance with this requirement, CMA will take into account regulatory requirements applicable to the parent company and control arrangements actually implemented by the parent company and applied to the Omani operations of its branch.

Composition of Board of Directors

Article 3:

Subject to compliance of the provisions of the Commercial Companies Law, the following shall apply:

- 1- The board shall be comprised of a majority of non-executive directors.
- 2- The role of CEO/General Manger and the chairman shall not be combined.
- 3- A minimum of 1/3rd of the total strength of the board (subject to minimum of two) shall comprise of independent directors.
- 4- Non-executive directors and independent directors shall be identified in the annual report. If an independent director resigns or is removed from the office, the company shall notify CMA of the reasons.
- 5- The board shall ensure that collectively it has sufficient expertise to understand the important issues relating to the operations and control of the insurance companies and the board must periodically assess its composition and size and, where appropriate reconstitute itself and its committees by selecting new directors to refresh its membership.

Article 4:

The Board shall meet sufficiently often to enable it to discharge its responsibilities effectively, taking into account the insurers' size and complexity but in no case less than 4 times in a year with maximum time gap of 4 months between the two consecutive meetings.

Role and Responsibilities of the Board of Directors

Article 5:

5/1. Policy Formulation

- a) The board shall engage in policy formulation, based on corporate vision subject to on going review based on changing political, economic, social and environmental surroundings. In order to ensure effective management of an insurer, the board shall give the management clear set of policies that specify its long term strategic objectives and plans and means to achieve the objectives
- b) The objective of maximizing shareholders returns shall be subject to the overriding responsibility of ensuring that the insurers' financial resources are sufficient at all times to discharge obligations to the policyholders and they are fairly treated in accordance with the contractual arrangements applicable to them.
- c) The board shall encourage the line managements' suggestions which are to be based on field level operational experiences, towards policy formulations and shall examine those objectively to enhance and sharpen policy formulation.
- d) The board shall call from the management, in-depth study papers on subject of topical interest impacting the corporate entity, to serve as in-house resources for policy formulation.
- e) In the event of perceived need, the board shall draw on the external professionals selectively, to augment in-house resources for policy formulation.
- f) The board shall not be under undue influence from the management or other parties and shall exercise its collective mind independently on all policy matters and shall not get limited by the submissions and representations made to it. The Board shall call additional information and inputs from the management, if required.

5/2. Approving Corporate Business Plan

The board shall adopt and review at least annually the insurers' strategic corporate business plan. The corporate plan should address the insurers current and long-term (at least three years) business goals with respect to its position in market place, its size, products offered and other key objectives. The business plan must reflect the business lines, risk profile, and give details of projected business volumes and structure, premiums, business procurement cost, administrative and claim expenses, investment income, tax, reinsurance arrangements and solvency margins.

The board shall identify the significant risks that the insurer may face in achieving the objectives and strategy to achieve those objectives. The board shall review regularly, the progress made by the insurer as per the approved corporate plan.

5/3. Establishing Risk Assessment and Management Strategy

The board shall adopt and review at least annually the insurers 'Risk assessment and management strategy'. While formulating the strategy, the board shall ensure that:-

- a) Risk management policy and systems are capable of promptly identifying, measuring assessing, reporting, monitoring and controlling the risks on ongoing basis. Some risks are specific to the insurance sector, such as underwriting risks and risks related to the evaluation of the technical provisions. Other risks are similar to other financial institutions, for example market, operational, legal, organizational and conglomerate risk.
- b) The risk management policy and risk control systems are appropriate to the complexity, size and nature of insurers business, identify, and establish an appropriate tolerance level or risk limit for material sources of risks.
- c) The market environment in which the insurer operates is regularly reviewed in order to draw appropriate conclusions as to the risk posed and appropriate action is taken to manage adverse impact of environment on the insurers' business.
- d) Systems are established to control and monitor all material risks.

5/4. Approving Underwriting and Pricing Policy

The board shall establish and approve strategic underwriting and pricing policies of the insurer for all classes of business and review it at least annually. The policy shall address evaluation of risk underwritten by the insurer and establishing and maintaining a methodology to determine an adequate level of premiums using statistical, financial and wherever required actuarial techniques.

The policy should also address systems to control expenses related to premiums and Claims including claims handling and administration expenses.

5/5. Approving Reinsurance Management Strategy

The board shall approve 'Reinsurance management strategy' for the insurer that is appropriate to the insurers' overall risk profile and its capital and free reserves and review it at least annually.

The strategy should address:-

- (a) Defining the limits of risk retained for each class of business;
- (b) Reinsurance arrangements appropriate to insurers' risk profile; and

- (c) Security of risk protection.

The board shall follow the detailed guidelines issued by the CMA in this regard by its Circular No. I/ 3/ 2004 dated 26th December, 2004.

5/6. Approving Investment Management Policy

Insurers shall manage their investments in a sound and prudent manner. An investment portfolio carries a range of investment related risks that might affect the coverage of technical provisions and the solvency margin. Insurers need to identify measure and control the main risks.

Subject to the provisions of the Insurance Law and the executive regulations, the board shall approve an overall strategic investment policy and review it at least annually. The policy shall address the following elements:-

- (a) risk profile of the insurer;
- (b) the determination of the asset allocation; limits or restrictions on the amount that may be held in particular type of financial instrument, property and receivables;
- (c) the establishment of limits for allocation of assets by geographical area, markets, sectors, counterparties and currency;
- (d) the extent to which holding of certain type of assets is restricted or disallowed;
- (e) the condition under which insurer can pledge or lend assets;
- (f) an overall policy on the use of financial derivatives and structured products that have the economic effect of derivatives;
- (g) accountability for all asset transactions and associated risks; and
- (h) management of risks associated with the investment activities that is:-
 - market risks(adverse movement in stocks, bonds and exchange rates);
 - credit risks (counter party failure); liquidity risk(inability to sell at any price near fair market value); and failure in safe keeping of assets including risk of inadequate custodial arrangement.

5/7. Establishing Management Structure and Responsibilities

- a) The board shall distinguish between the responsibilities and decision making of the board of directors, chairman, chief executive officer and senior management;
- b) the board shall adopt internal guidelines setting forth the matters which require the boards' approval;
- c) The board shall approve organizational and management structure of the insurer in a way that promotes the effective and prudent management of the insurer and the boards' oversight of the management;

- d) The board shall have effective policies and processes for appointing the Chief Executive Officer (CEO) and other senior managers and ensuring that they have necessary integrity, qualifications, technical and managerial competence and experience and they satisfy the 'fit and proper' criteria as per the Insurance Companies Law and its executive regulations. The executive management shall be appointed under contractual arrangement specifying the terms of appointment;
- e) The board shall decide the duties and responsibilities of the executive management and will establish decision making processes as per organizational manual approved by the board specifying the full gamut of roles and responsibilities.
- f) The board shall establish a division of responsibilities that will ensure a balance of power and authority, so that no one individual has unfettered power of decision making;
- g) The board shall approve a proper 'delegation of authority' to the managers at the different levels of managerial hierarchy, which in its opinion is best suited considering the nature and scale of the operations of the insurer. The delegation of authority shall cover entire range of functions like underwriting authority, claim settlement authority, financial and administrative authority, personnel authority etc; and
- h) The board shall have in place effective policy on succession planning and minimizing undue reliance on key individuals.

5/8. Establishing Standards of Customer Service and Fair Dealings

The board shall set out policies, approve procedures and issue necessary instructions to ensure that the 'Code of Practice for Conduct of Insurance Business' Issued by the CMA vide circular No. 2 /I/ 2005 dated: 21st February, 2005 is observed by all employees and agents of the insurer.

5/9. Approving Information Technology Systems

The board shall approve the policy for implementing information technology systems that are adequate for the nature and scale of business of the insurer. The information technology systems should address all the aspects of the insurer's operations, for example, underwriting, claims management, customer service, finance and accounts, statistics, creation and maintenance of data base, internal controls, personnel management and regulatory requirements.

5/10. *Overseeing Policy and Strategy Implementation and Operational Performance*

- (a) The board shall review at least annually, the insurers':
- Corporate plan
 - Risk management policy
 - Underwriting and pricing policy
 - Reinsurance management strategy
 - Investment management policy
 - Management structure and responsibilities
 - Standards of customer service
- (b) At each board meeting, the board shall review the insurers':
- Operational performance
 - Performance of its senior management in implementing the policy and strategic business plans approved by the board
 - Level of risk incurred by the insurer
 - Customer service parameters that is the progress of settlement of claims and disposal of customers' complaints
- (c) The board shall stipulate procedures for monitoring and periodic review of its policies as stated in sub-para (a) and progress report on the strategic objectives as stated in para (b).
- (d) The board shall decide on amendments, modifications, corrective measures, guidelines etc. in the light of the review findings.

5/11. *Establishing Systems for Internal Controls*

- (a) The board shall put in place appropriate internal control systems and stipulate the process and procedures to be adopted for the boards' review of the effectiveness of the internal controls. The internal control systems to address among others the following:
- Underwriting of insurance business
 - Valuation of technical reserves (policy liabilities)
 - Investment and liquidity
 - Risk management systems
 - Reinsurance management and reinsurance recoveries
 - Accounting procedures, reconciliation of accounts, control lists and information for management
 - Checks and balance, e.g. segregation of duties, crosschecking, dual control of assets, double signatures
 - Safeguarding of assets and investments including their physical control
 - Fair treatment to customers
 - Issues of organizational structure that is delegation of authority, duties and responsibilities, decision making procedures, separation of critical functions etc

- Outsourced functions, if any, as if these functions were performed internally
- (b) The board of directors shall receive regular reporting on the effectiveness of the internal controls which the board shall review and take remedial action, if required
- (c) The board shall ensure that the reports of the internal auditor, audit committee and external auditors in regard to deficiencies and inadequacies in the existing control system are presented to it in a timely manner and any deficiencies pointed out or any suggestions made for improvement are addressed promptly.
- (d) The board shall undertake an annual assessment of the effectiveness of the insurers' internal control systems, which shall form part of the annual report required by the article (12)

5/12. Establishing Internal Audit Function

The board shall appoint an internal auditor who may be reasonably qualified and experienced full time manager or a licensed firm of auditors who are not the statutory (external) auditors of the insurer. The functions duties and code of conduct of the internal auditor shall be as per annexure (1).

5/13. Establishing Code of Corporate Ethics

- (a) The board and its members shall act with honesty, integrity, due skill and care and in the best interest of the insurer, its shareholders and policyholders.
- (b) The Board shall establish and circulate to all the employees and agents of the insurer a corporate code of conduct and ethics. The code should establish standards or expectations of
- Honesty
 - Integrity
 - Leadership
 - Reliability and
 - Professionalism
- (c) The board shall establish and circulate to employees, policies and processes for identification, reporting, prevention or management of potential conflict of interests, including matters such as:
- Related party transactions
 - The misuse of the insurers' assets
 - The use of privileged information for personal advantage
- (d) The board shall ensure that policies and procedures are in place to insure that the necessary customer confidentiality is maintained.

5/14. *Approving and Implementing the Disclosure Policy.*

The board shall approve and implement the disclosure policy of the insurer in compliance with the regulatory requirements. (To be issued shortly by the CMA)

5/15. *Ensuring Compliance*

- (a) The board shall establish and maintain effective systems and controls for compliance with the Insurance Law, its executive regulations, circulars and guidelines issued by the CMA and Ministry of Commerce and Industry, and any other Law or regulations of the Sultanate applicable to the insurer.
- (b) The board shall designate a senior manager of appropriate standing, knowledge and experience as Compliance Officer. In addition, to the responsibilities and duties cast upon him by the other regulations /circulars of the CMA or the MOCI, the duties of the compliance officer shall include:
- Having responsibility and oversight of the insurers' compliance with the Insurance Law, executive regulations, circulars and guidelines issued by the CMA in regard to Insurance business
 - Reporting to the board in regard to this responsibility
 - Informing the management and staff regarding changes in the Law and regulations and conducting training programmes on regulatory issues.

Audit Committee

Article 6:

The board shall set up an audit committee in accordance with the following guidelines:

- a. The committee shall comprise of at least three members (all being non-executive directors), a majority of them being independent.
- b. The chairman of the committee shall be an independent director.
- c. At least one member shall have finance and accounting expertise.
- d. The audit committee shall meet at least at least 4 times a year with majority of independent directors remaining present.
- e. The decision for setting up the committee shall also specify the terms of reference, place and quorum of the meeting and description of the method of discharge of the responsibilities.
- f. The board shall approve the working plan of the committee prepared by it in clear terms. The plan should specify objectives, membership, powers, date of meetings,

tenure, responsibilities, liabilities and remuneration of its members. The audit committee shall have the powers including the following:

- Seeking presence of the finance head and head of internal audit departments as invitees in the meetings of the audit committee.
 - Seeking information from any employee of the company.
 - Securing the advice and attendance of outsiders with relevant expertise if considered necessary.
- g. The audit committee shall hear the views of external auditors before forwarding the annual accounts to the board for approval.
- h. The audit committee shall hear the views of internal and external auditors separately, at least once every year, without the presence of the management. The role of the audit committee shall be as per annexure (2).

Audit

Article 7:

The annual general meeting shall appoint external auditors. The following shall apply:

- a. The board shall recommend the name of the auditor for election after considering the views of the audit committee.
- b. The auditor shall be appointed for one financial year. The same firm shall not be appointed auditor for more than 4 consecutive years. After completion of fourth consecutive term, the firm will be eligible for reappointment as external auditors only after a cooling off period of two years.
- c. The auditor shall not be allowed to provide non-audit services, which might affect their independence
- d. Frauds detected or suspected by the external auditors shall be reported to the board of the company. However, if the fraud is material, he shall report the fraud to the CMA.

The Board Meeting and the Role of the Secretary

Article 8:

- a. The board, immediately after its composition, shall appoint a secretary to the board.
- b. The secretary shall draw the minutes of each board meeting mentioning the subjects discussed, decisions reached, names of the members present and vote cast by each member. The minutes shall bear the serial number and date.

- c. The secretary of the board or any other person so authorized by the board shall make proper disclosure according to the provisions relating to disclosure under various laws and regulations.

Role and Responsibilities of the Senior Management

Article 9:

9/1. Rendering Assistance in Policy Formulation

Senior management is responsible and accountable for providing the board of directors with recommendations for boards' review and approval on objectives, corporate business plans and major policies and strategies as stated under the heading 'Role and Responsibilities of the Board of directors' in this 'Code of Corporate Governance'.

It is the responsibility of the management to volunteer to make timely submission to the board for policy initiation in all strategic areas and on matters having or likely to have material impact on the insurer.

9/2. Responsibility for Implementation

Senior management is responsible for overseeing the operation of the insurer and providing direction to it on day to day basis, subject to the objectives and policies approved by the board of directors.

Management shall have the responsibility for implementation of the board approved policies, plans and strategies by putting in place procedures, internal controls, risk management and performance measurement methodologies, management information systems and board reports to support the activities concerned.

9/3. Responsibility for Providing the Board Information and Feedback

Senior management is responsible for providing the board with comprehensive, relevant and timely information, reports and submissions that will enable it to review, the progress in achieving the business objectives, compliance with business strategies and policies, effectiveness of internal control systems and overall operational performance of the insurer and to hold senior management accountable for its performance.

Management shall provide the board with objective feedback on implementation experiences including suggestions for amendments to and/or for fine-tuning of the board approved existing policies and strategies.

9/4. *Compliance with the Laws and Regulations*

Senior management is responsible for compliance with the Insurance Companies Law, its executive regulations and circulars and guidelines issue by the CMA or any other regulatory authorities within the sultanate of Oman (If applicable to the insurer).

9/ 5. *Professionalism and Expertise*

Senior management shall manifest its professionalism and expertise in running insurance companies most efficiently in accordance with the board approved policies. It shall harness the required expertise for achieving the corporate goals.

9/6. *Nurturing Proper and Ethical behavior*

Senior management shall maintain through word and action code of conduct and ethics drawn from value based professional culture. It shall ensure that the aforesaid code and and the value based professional culture are practiced by the entire organization.

9/7. *Responsibility for Complete and Authentic Reporting to the Board*

While the management is entitled to operate with full professional freedom within the board delegated authority, it has an obligation to observe and display transparency and authenticity in its complete and comprehensive reporting on all aspects of the operations of the insurer to the board.

9/ 8. *Responsibility for Corporate Image.*

Management has the direct responsibility for creating and maintaining fair corporate image of the insurer. The responsibility assumes added significance in the context of managements' proximity with the clientele and having been charged with the responsibility for the operations of the insurer.

Article 10

Committees of the Board

The board is competent to set up committees in order to achieve its corporate objectives
The board shall follow the following guidelines:-

1 .Committees to comprise some of the board members with appropriate experience, expertise and initiative to discharge responsibility for deciding:

- (a) Specific policy matters requiring in-depth study and prolonged deliberations.

- (b) Micro matters of business beyond the powers of the management but less important to receive the attention of the full board.
 - (c) Any other matter considered appropriate for delegation.
- 2. For all committees of the board, there should be self explanatory and comprehensive terms of reference, specifying purpose, tenure, responsibility, authority, accountability etc.
- 3. Committees established by the board on which individual other than board members are nominated shall not enjoy the powers of the board and shall be advisory in nature.
- 4. Minutes of every meeting of the board committee shall be included in the agenda for the first full board meeting scheduled to be held after the committee meeting.
- 5. Delegating authority to board committees does not in any way mitigate or dissipate the discharge by the board of directors its duties and responsibilities.

Rules of Related Party Transactions

Article 11:

- (a) The board shall ensure that related party transactions with the insurer are made on an arm's length basis.
- (b) The board shall establish policies and procedures on related party transactions. The policies and procedures shall include the definition of relatedness, limits applied, terms of transaction and the authorities and procedures for approving and monitoring these transactions.
- (c) Directors and management shall not seek to override the established control processes and systems of the insurer to accommodate the related parties. The audit committee shall review all related party transactions and keep the board informed of such transactions.

Report on Corporate Governance

Article 12:

- (a) There shall be a separate chapter on corporate governance in the annual report of the insurer highlighting the non-compliance with any requirement and action plan and time scale for correction.
- (b) The items detailed in annexure-(3) shall be included in the report on corporate governance.

- (c) The insurer shall obtain a certificate from the auditors of the company regarding report on corporate governance being free from any material representation. The certificate from the auditors shall be annexed to the report.
- (d) A closed joint stock company (SAOC), may either comply with the para (c) above, or, submit to the CMA a written certification of the review of the corporate governance process by the board as per annexure-(4), signed by all the directors. The board shall report any material deficiencies identified during the review, along with an action plan and timescale for correction.
- (e) The report of the auditors as per para (c), or, the certification by the board as per para (d) above shall be submitted within three months of the end of the financial year.

Functions and Duties of Internal Auditor

1 : The internal auditor shall have the following functions and duties:

- (1) To review and / or examine the procedures and the internal controls of the company as established to ensure company's compliance with the legal requirements and the requirements of the Article 5 (11) of the Code of Corporate Governance for Insurance Companies and to recommend measures for removal of weaknesses identified ;
- (2) To review operations, including the areas *inter alia* of underwriting, claims settlements, provisioning for technical reserves, reinsurance, solvency margin and investment of funds in order to provide assurance that the major business areas are being managed appropriately as per prescribed standards and/or as per legal requirements and the insurer is maintaining solvency margin as required by the Insurance Companies Law and regulations;
- (3) To provide assurance to the Board of Directors/ Management of the company about the adequacy and effectiveness of the system of internal administrative, accounting, and financial controls and to report on the quality of operating performance with reference to established standards;
- (4) To review the adequacy of the systems which are in place for assessment, management and control of risks as per Article 5 (3) of the Code of Corporate Governance for Insurance Companies and to provide assurance that the risk management and internal control framework which is in place to eliminate, reduce or transfer those risks is operating effectively and to recommend measures for removal of weaknesses, wherever observed;
- (5) To review the adequacy of the system which is in place to safeguard the assets of the company;
- (6) To review the adequacy and effectiveness of internal administrative and accounting controls, both manual and automated, from the viewpoints of providing checks and balances, safeguarding of resources and ensuring compliance with laws and regulations;
- (7) To review all operational areas for their stewardship of resources and compliance with established policies, procedures and internal regulations;
- (8) To establish and maintain a quality assurance program to evaluate the operations of the internal audit department so as to provide reasonable assurance that the audit work conforms to the International Standards for the

Professional Practice of Internal Auditing (a quality assurance program includes training, supervision, internal reviews, and external reviews);

- (9) To participate as an advisor on internal controls in the designing of manual and automated systems;
- (10) To review the adequacy and effectiveness of general controls for assets safeguarding in the Electronic Data Processing Division and user departments utilizing computers;
- (11) To review the adequacy and effectiveness of controls in the IT system for ensuring reliability and integrity of information and to review system's efficiency and effectiveness in timely generation of reports and financial statements for submission to management and regulatory authorities;
- (12) To promote the awareness of risk management issues and to ensure that the members of the Board and the employees of the company have been adequately informed about the legal requirements, CMA guidelines on Code of Practice for Conduct of Insurance Business, Code of Corporate Ethics, internal regulations, and any changes thereon from time to time;
- (13) To audit capital projects;
- (14) To prepare written reports on the results of all audit engagements including any recommendations for improvement;
- (15) To review the adequacy and effectiveness of the system in place for customer service and fair dealings and addressing the complaints or recommendations from various stakeholders, viz. employees, suppliers, customers, shareholders, etc; and
- (16) To carry out any other function as decided by the audit committee / Board of the company.

2:

- (a) The scheduled plan of internal audits for the year shall be prepared by the internal auditor, before the commencement of the year, and shall be approved by the audit committee/ board of directors. The plan shall include an allocation of time for all assignments. In cases where the function of internal audit is out sourced, the contract of service shall state clearly the scope of work assigned to the internal auditor and such contract together with the scope of work shall be approved by the audit committee/ board of directors.
- (b) During the course of the year, the amendments to the plan may be made, after approval by the audit committee/ board of the insurer. Special audits not included in the plan may be conducted after being initiated / recommended by the audit committee.

3 :

- (a) The internal auditor shall have the right of full, free and unrestricted access to all property, personnel and records of the insurer.
- (b) The internal auditor should have a high degree of independence and shall not be assigned duties or engaged in activities that he or she would normally be expected to review or appraise.

4:

The internal auditor shall submit the internal audit reports to the general manager/CEO of the insurer (With copies to marked to the audit committee/ board of the company) at least twice every year. Both the reports shall be submitted before the statutory audit of the insurer.

5:

- (a) The internal auditor shall be responsible for written reporting on audit findings. Upon completion of audit, a preliminary report shall be prepared and reviewed with the audit department. The purpose of this review shall be resolve differences on questions of facts and to ensure mutual understanding of the findings and recommendations.
- (b) Following the preliminary audit report review, a final report for each audited function shall be prepared and submitted to the general manager/ CEO with copies marked to audit committee/ board of directors.

6:

The code of conduct, as stated hereunder, shall apply to the internal auditors:

1. Integrity

- 1.1. Shall perform work with honesty, diligence and responsibility.
- 1.2. Shall observe the law and make disclosures, in their report, expected by the law and the profession.
- 1.3. Shall not be knowingly a party to illegal activity, or engage in acts that are discreditable to the profession or the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgment

2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

3.1. Shall be prudent in protection of the information acquired in the course of their duties.

3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

4.1. Shall engage only in those services for which they have necessary knowledge, skills and experience.

4.2 Shall perform internal auditing services in accordance with the Standards for the Professional Practice of International Internal Auditing.

4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

Annexure-2

The Role of the Audit Committee

1. Considering the name of the statutory auditor in context of their independence (particularly with reference to any other non-audit services), fees and terms of engagement and recommending its name to the board for putting before AGM for appointment.
2. Reviewing audit plan and results of the audit and as to whether auditors have full access to all relevant documents.
3. Checking financial fraud particularly fictitious and fraudulent portions of the financial statements. They should put in place an appropriate system to ensure adoption of appropriate accounting policies and principles leading to fairness in financial statements.
4. Oversight of internal audit functions in general and with particular reference to reviewing of scope of internal audit plan for the year. Reviewing the report of internal auditors pertaining to critical areas like underwriting, settlement of claims, provisions of technical reserves (liabilities of policy holders) reinsurance management, solvency margin, investments etc. Reviewing the efficacy of internal auditing and reviewing whether internal auditors have full access to all relevant documents
5. Oversight of the adequacy of internal control systems as required by the Article 5(11) of the Code for Corporate Governance, through the regular reports of the internal and external auditors. They may appoint external consultants if the need arose.
6. Oversight and review of the annual financial statements, returns and solvency margin computation required to be submitted to the CMA and prepared in accordance with the Insurance Companies Law and its regulations. The audit committee shall review the regulatory returns before submission to the CMA.
7. Review of the annual and quarterly accounts before issue, review of qualifications in the draft financial statements and discussion of accounting principles. In particular, change in accounting policies, principles and accounting estimates in comparison to previous year, any adoption of new accounting policy and departure from international Accounting Standards (IAS) and non compliance with disclosure requirements prescribed by the CMA should be critically reviewed.
8. Serving as channel of communication between external auditors and the board. And also the internal auditors and the board.
9. Reviewing risk management policies of the insurer as required by the article 5 (3) of the Code for Corporate Governance of Insurance Companies.
10. Reviewing proposed specific transactions with the related parties for making suitable recommendations to the board.

Suggested List of items to be covered in the Report on Corporate Governance

1 Insurers' Philosophy

Insurers' philosophy on code of governance and how the insurer has applied the principles of corporate governance established by the Code of Corporate Governance for Insurance Companies.

2. Areas of non-compliance

Specific areas of non-compliance with the provisions of the Code of Corporate Governance and reasons for inability to comply.

3. Action plan

Action Plan and time scale for compliance for each provision not complied with.

4. Board of Directors

4.1. Composition and category of directors for example executive, non-executive, independent and nominee director (with institution represented as lender or as equity investor)

4.2 Attendance of each director at the board meetings and the last AGM.

4.3 Number of other boards or board committees he/ she is a member or chairperson.

4.4 Number of board meetings held and dates of the meetings.

5. Audit Committees and other committees

5.1. Brief description of terms of reference

5.2 Composition, names of members and chairperson

5.3. Meetings and attendance during the year

6. Process of the nomination of directors

7. Remuneration matters

7.1. Details of remuneration of all directors and top 5 officers individually including salary, benefits, perquisites, bonuses, stock options, gratuity and pensions etc

7.2. Details of fixed component and performance linked incentives along with the performance criteria

7.3 Service contracts, notice period and severance fees

8. Professional profile of the statutory auditor

9. Any other important aspect

Annexure-4

REVIEW OF THE CORPORATE GOVERNANCE PROCESS BY THE BOARD

The board's review shall cover the following matters:

- (a) The board has assessed the insurers' objectives and plans, and has reviewed the insurers' strategic corporate business plan document;
 - (b) The board has reassessed the insurer's overall risk profile, and its assessment and control. The board must comment whether risk control systems remain effective and appropriate;
 - (c) The board has reviewed and reassessed:
 - Underwriting and pricing policy
 - Reinsurance management strategy
 - Strategic investment policy and verified adherence to these.
 - (d) That the board has reviewed and made an assessment of the effectiveness of the insurer's internal controls after due and careful enquiry and has taken necessary remedial action, if required.
 - (e) That the board has verified whether adherence to the approved internal limits of operational, financial and administrative authority and control systems was continuously monitored;
 - (f) That the board has reviewed whether the insurers' internal controls (such as internal audit and financial controls) have provided the reasonable assurance of the integrity and reliability of its financial records;
 - (g) That the board has verified that management and staff have complied with the insurer's corporate code of conduct and ethics;
 - (h) That the board has verified all new (or material changes) to significant policies, procedures and products introduced by the insurer since the last boards' certification were appropriately reviewed and approved by the board; and
 - (i) The board has received and reviewed the reports of internal audit, audit committee and external auditors and senior management's comments on these reports and necessary action has been taken.
2. The board shall record any material deficiencies identified during the review along with the remedial action proposed and time limit for the correction of deficiencies.