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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.*

The basic structure of Finnish insurance market. Finland has two types of insurance companies: life insurance and non-life insurance. Insurance companies are either limited liability companies or mutual companies, and they usually belong to a financial group[1], which consists of, for example, banks and investment firms, as well as investment/common funds. There are a total of 12 life-insurance companies in Finland (of which 7 belongs to a financial group); and 18 non-life insurance companies[2] (of which 9 belongs to a financial group). Even though it seems the number insurance companies in Finland is moderate, the financial sector is very centralized. In the end of 2015 the market share of the largest three banking groups was in the terms of loans granted in Finland (excluding the financial sector), loans granted to households and deposits 73 %, 81 % and 79 % of the total market share. The market share of the three largest life insurance companies and non-life insurance companies at the same time in the terms of premium income was 80-81 % of the total market share. Additionally, the sector is connected to the Nordic market.

There are two types of limited liability companies in Finland: public and private. Public limited liability companies can have their shares publicly traded in a regulated market. There are approx. 200 public/listed companies in total in Finland of which approximately twenty operate in the financial sector (source: the Finnish Financial Supervisory Authority). There are no listed insurance companies in Finland, but a couple of insurance companies' parent companies are listed companies.

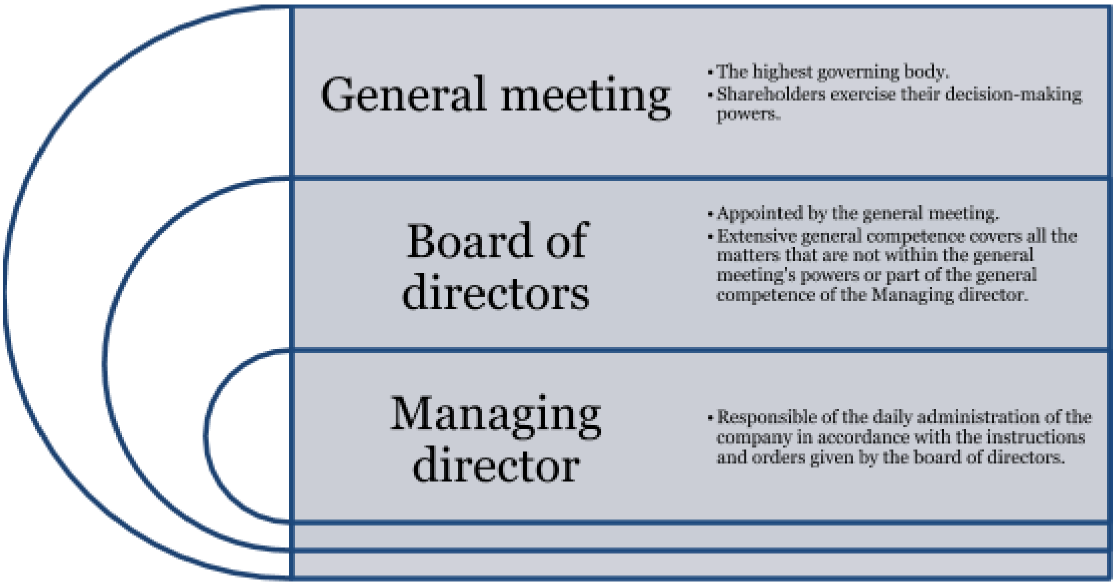
The basic structure of the management system in almost all Finnish financial sector companies is the unitary board structure in which the board of directors and the managing director, if any, is responsible for the company's administration (one-tier model). In the Nordic countries this is also called "the Nordic model" since it is usual that the managing director of the company is not a member of the board. Usually, in the one-tier model, the managing director is a member of the board of directors. The highest corporate body is the general meeting. Companies may also have a two-tier

[1] So-called 'Financial supermarkets' dominate the financial sector in Finland; a total of twelve bank groups operate there.

[2] One of these has twenty regional companies that are not counted in in this figure.

structure in which a supervisory board supervises the governance of the company vested in the board of directors and the managing director, but this model is not that common in Finland.

According to the Finnish Limited Liability Companies Act (624/2006, 'the Companies Act') a company shall have a board of directors. It may also have a managing director and a supervisory board. However, insurance companies shall have a board of directors *and* a managing director. Therefore, having a managing director is compulsory for an insurer.



The general meeting is the highest governing body of a company and an annual general meeting must be held once a year. The general meeting has the decision-making power in matters like the remuneration and appointment of directors and auditors, adoption of the company's financial statements, distribution of assets, amendments to the articles of association and decisions related to the company's shares or share capital. The general meeting does not have a general competence, but its competence is provided for in law or the articles of association.

The board of directors has an extensive general competence. The board of directors is responsible for ensuring that the company is duly organized. The general competence general competence covers all the matters that are not within the general meeting's powers or part of the general competence of the managing director. The board of directors' tasks include, among other things, appointing and discharging the managing director, defining the company's strategy and monitoring its implementation.

The managing director is responsible for the daily administration of the company, the executive management, in accordance with the instructions and orders given by the board of directors. S/he is responsible for supervising the accounting and financial matters of the company. The board of directors and the managing director represent the company externally.

The supervisory board is a voluntary corporate body which duty is supervise the governance of the company. The provisions regarding a supervisory board must be included in the company's articles of association. The supervisory board supervises the administration of the company, which is the responsibility of the board of directors and the managing director. It may be provided in the articles of association that the supervisory board appoints the board of directors. In other respects, duties may be assigned to the supervisory board only in so far as they fall within the general competence of the board of directors or have not been assigned by law to any other organ. The supervisory board shall not be given any right to represent the company. The board of directors, the members of the board of directors and the managing director shall supply the supervisory board and the members of the supervisory board with all information needed for the performance of the duties of the supervisory board. The supervisory board shall have at least three members. The managing director or a member of the board of directors shall not be a member of the supervisory board. A chairperson shall be elected for the supervisory board. The chairperson shall be elected by the supervisory board, unless it is otherwise decided upon the appointment of the supervisory board or it is otherwise provided in the articles of association.

The Board of Directors

Appointment. According to the Companies Act the general meeting shall appoint the members of the board of directors, unless it is provided in the articles of association that the supervisory board is to appoint the members. It may be provided in the articles of association that a minority of the board of directors is to be appointed according to some other procedure. However, if a member has not been elected according to the other procedure, the general meeting may appoint the member, unless it is otherwise provided in the articles of association. According to the Corporate Governance Code ('The Code') for listed insurers (see Section 2) it is recommended that the general meeting elects the board of directors.

Term*.* According to the Companies Act in a private company, the term of a member of the board of directors shall be indefinite. In a public company, the term shall end with the conclusion of the ordinary general meeting following the appointment of the member. Other provisions on the term may be included in the articles of association. The term shall end with the conclusion of the general meeting deciding on the appointment of a successor member, unless it is otherwise provided in the articles of association or decided when the successor member is appointed. The Code recommend that the board of directors shall be elected annually at the annual general meeting. In addition, according to the Code the company shall disclose the procedure applied in the preparation of the proposal for the composition of the board of directors, since the election of the board of directors is one of the most important decisions taken in the general meeting.

Resignation. According to the Companies Act a member of the board of directors may resign before the end of his or her term. The resignation shall take effect at the earliest when it has been notified to the board of directors. If the member of the board of directors has been appointed by someone else than the general meeting, the resignation shall be notified also to the appointing party. If the resigning member of the board of directors has reason to believe that the company no longer has any members of the board of directors, the resigning member shall see to it that a general meeting is convened to appoint a new board of directors.

Dismissal of members of the board of directors. A member of the board of directors may be dismissed ahead of term by the party who appointed the member. However, a member appointed by someone else than the general meeting may be dismissed by the general meeting, if the articles of association have been amended so that the special right of appointment no longer applies. The term of a dismissed member of the board of directors shall end with the conclusion of the general meeting deciding on the dismissal, unless the general meeting decides on some other point in time. The term of a member dismissed by someone else than the general meeting shall end immediately, unless some other point in time is indicated in the context of the dismissal.

Supplementing the board of directors. If there is a vacancy in the board of directors in mid-term or if a member of the board of directors loses the qualifications referred to in the law, a deputy member of the board of directors shall substitute for the member as provided in the articles of association or as decided upon the appointment of the deputy member. If there are no deputy members, the other members shall see to it that a successor member is appointed for the remainder of the term. If, however, the appointment of the member is a task for the general meeting and the board of directors, with deputy members, has a quorum, the appointment may take place in the next general meeting.

Duties. According to the Companies Act the board of directors shall see to the administration of the company and the appropriate organization of its operations (general competence). The board of directors shall be responsible for the appropriate arrangement of the control of the company accounts and finances. The board of directors or a member of the board of directors shall not comply with a decision of the general meeting, the supervisory board or the board of directors where it is invalid owing to being contrary to the Companies Act or the articles of association. The board of directors shall convene the general meeting. However, it may be provided in the articles of association that the supervisory board convenes the general meeting.

The board of directors appoints and discharges the managing director, approves the strategic objectives and the principles of risk management for the company, and ensures the proper operation and supervision of the management system. The board of directors also ensures that the company has established the corporate values applied to its operations. The duty of the board of directors is to promote the best interest of the company and all its shareholders. A director does not represent the interests of the parties who have proposed his or her election as a director. The boards of directors of Finnish listed companies mainly consist of non-executive directors. A non-executive director is a person with no employment or service contract with the company. In some companies, the managing director is a member of the board of directors.

It is recommended in the Code that the board of directors shall draw up a written charter for its work. The company shall ensure that all directors have access to sufficient information about the company's business operations, operating environment, and financial position, and that new directors are properly introduced to the operations of the company. The board of directors shall conduct an annual evaluation of its operations and working methods.

There is some regulation based on the EU regulation (mainly on Solvency II –legislation) that creates certain special duties and responsibilities for the board of directors of insurance companies. According to the Insurance Companies Act (521/2008) an insurance company's board of directors and managing director shall lead the insurance company in a professional manner, in accordance with sound and prudent business principles and the principles of good corporate governance. The insurance company shall have a system of governance proportionate to the nature, scale and complexity of the operations of the insurance company. The organizational structure shall be with a clear allocation and appropriate segregation of responsibilities and an effective system for ensuring the transmission of information. Insurance companies shall have written policies accepted by the board of directors in relation to ensure the fulfilling of the requirements on persons who effectively run the company or have other key functions, risk management, remuneration, internal control, internal audit and, where relevant, outsourcing. Those written policies shall be kept up-to-date and reviewed at least annually. An insurance company shall ensure its continuity and reliability. For this purpose the company shall have a continuity plan. The board of directors shall define company's key functions. Insurance companies shall ensure that all persons who effectively run the company or have other key functions at all times fulfil the following requirements: their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit); and they are of good repute and integrity (proper).

Insurance companies shall provide for an effective internal audit function. The internal audit function shall include an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance. The internal audit function shall be objective and independent from the operational functions. Any findings and recommendations of the internal audit shall be reported to the administrative, management or supervisory body which shall determine what actions are to be taken with respect to each of the internal audit findings and recommendations and shall ensure that those actions are carried out.

The company's board of directors and the supervisory board, if any, shall at least once a year consult in its meeting an auditor on the financial position and internal control of the company, and on other matters raised in the audit procedure. The insurance company has to publish annually a report on solvency and financial condition that is accepted by the board of directors. The insurance company must pre-apply for the consent of the Finnish Financial Supervisory Authority to calculate the Solvency Capital Requirement fully or partially with the insurance company's internal model. The insurance company's board of directors must approve the application.

The board of directors shall be responsible for ensuring the ongoing appropriateness of the design and operations of the internal model, and that the internal model continues to appropriately reflect the risk profile of the insurance companies concerned. The board shall ensure that the insurance company takes into use systems that ensure the use of the internal model. The insurance company shall have documented criteria approved by the board of directors, which show the accumulated profits of surplus assets and how surplus funds may be used to cover losses.

The insurance company shall have documented criteria approved by the board of directors for distribution of accumulated profits that the insurance company shall publish on its website and in its financial statements. The insurer must publish on its website the annual financial statements and a statement of how the objectives have been achieved and, if necessary, the reasons why the objectives have not been achieved.

Meeting of the board of directors. According to the Companies Act the chairperson of the board of directors shall see to it that the board of directors meets when necessary. A meeting shall be convened if a member of the board of directors or the managing director so requests. If, notwithstanding a request, the chairperson does not call the meeting, the meeting may be called by a member, if at least one half of the members approve of the call, or by the managing director. The board of directors may decide that also a person other than a member of the board of directors may be present at a meeting. Provisions on who may be present at a meeting may also be included in the articles of association.

Minutes of the board of directors. According to the Companies Act minutes shall be kept of the meetings of the board of directors, to be signed by the person chairing the meeting and, if there are several members of the board of directors, at least by one member designated by the board. A member and the managing director shall have the right to have a dissent entered into the minutes. The minutes shall be numbered consecutively and archived in a reliable manner.

Decision-making by the board of directors. The opinion of the majority shall constitute the decision of the board of directors, unless a qualified majority is required in the articles of association. In the event of a tie, the chairperson of the board of directors shall have the casting vote. If there is a tie in the election for the chairperson, and no other provision has been made in the appointment of the board of directors or in the articles of association, the election shall be decided by drawing lots. The board of directors shall have a quorum when more than half the members of the board of directors are present, unless a larger proportion is required in the articles of association. The proportion shall be calculated on the basis of the number of members who have been appointed. When this proportion is being calculated, disqualified members shall be deemed to be absent. No decision shall be made, unless all members have been reserved the chance, as far as possible, to participate in the consideration of the matter. If a member is unavailable, this chance shall be reserved to the deputy member of the board of directors. If a decision is made without a meeting being held, the decision shall be written down, signed, numbered and archived as provided for the minutes of board meetings in the Companies Act.

Transfer of decision-making. In individual cases or in the event that it is so provided in the articles of association, the board of directors may make a decision in a matter falling within the general competence of the managing director also where the company has a managing director. The board of directors may submit a matter within the general competence of the board of directors or the managing director to be decided by the general meeting.

Board of directors and managing director as representatives. According to the Companies Act the board of directors shall represent the company. The managing director may represent the company in matters falling within the managing director's duties.

Other representatives. It may be provided in the articles of association that a member of the board of directors or the managing director has the right to represent the company or that the board of directors may grant a member of the board of directors, the managing director or some other designated person the right to represent the company. The board may revoke the right thus granted at any time.

Restrictions of the right to represent the company. The only restriction of the right to represent the company that may be entered in the Finnish Trade Register is one to the effect that two or more persons have this right only when acting together. A provision in the articles of association on the field of operation of the company shall constitute a restriction of the authority of a representative.

Binding effect of measures by a representative. A transaction entered into by a representative of the company, as referred to in the Companies Act, shall not be binding on the company if: the representative has violated a restriction of the representative's competence to represent the company, as referred to in the Companies Act; the representative has violated a restriction of the right to represent the company; or the representative has exceeded his or her authority and the other party to the transaction knew or should have known of the authority having been exceeded. The fact that the restrictions of the authority to represent the company have been registered shall not on its own be deemed adequate proof that the other party to the transaction knew or should have known of the authority having been exceeded.

Committees. According to the Code the preparation of matters within the competence of the board of directors may be made more efficient by the establishment of board committees allowing more extensive concentration on matters. Decisions on the establishment of board committees are taken by the board of directors, unless otherwise stipulated in the company's articles of association. The establishment of board committees may be necessary, in particular for the supervision of the company's reporting and control systems and the nomination of the executives, as well as for the development of the company's remuneration systems. The committees assist the board of directors by preparing matters falling within the competence of the board of directors. The board of directors remains responsible for the duties assigned to the committees. The committees have no autonomous decision-making power, and the decisions within its competence are taken collectively by the board of directors. Companies do not have an obligation under the Corporate Governance Code to establish committees or a shareholders' nomination board. As the establishment of the committees is not obligatory, the lack of committees is not deemed to be a departure from the code and therefore there is no need to report or explain it. Thus, the recommendations on board committees and shareholders' nomination board are only applicable to companies that have committees or a shareholders' nomination board. If a company establishes a committee or a shareholders' nomination board and departs from an individual recommendation regarding it, the company shall report the departure and give reasons for it. However, it is not considered a departure from the code if the company chooses to combine the duties of two committees into a single committee, provided that the recommendations pertaining to the committees in question are complied with, or if the duties of one or more committees are dealt with by the entire board of directors

It is recommended that the board of directors shall confirm the main duties and operating principles of each committee in a written charter. The committee shall regularly report on its work to the board of directors. The board of directors shall appoint from among itself the members and chairman of the committee. The committee must have at least three members. The members of the committee shall have the expertise and experience required for the duties of the committee.

Audit Committee. According to the Code the board of directors may establish an audit committee to deal with the preparation of matters relating to the company's financial reporting and control. A company shall establish an audit committee, if the extent of the company's business requires that the preparation of the matters pertaining to financial reporting and control be done by a body smaller than the entire board of directors. The majority of the members of an audit committee must be independent of the company and at least one member shall be independent of the company's significant shareholders. The members of the audit committee must have the expertise and experience required for the performance of the responsibilities of the audit committee.

Remuneration Committee. The board of directors may establish a remuneration committee to prepare matters pertaining to the remuneration and appointment of the managing director and the other executives as well as the remuneration principles observed by the company. The majority of the members of the remuneration committee shall be independent of the company. The managing director or the other executives of the company shall not be appointed to the remuneration committee.

Nomination Committee. The board of directors may establish a nomination committee to prepare matters pertaining to the appointment and remuneration of the board of directors. The majority of the members of the nomination committee shall be independent of the company. The managing director or the other executives of the company shall not be appointed to the nomination committee.

Shareholders' Nomination Board. The company's general meeting may establish a shareholders' nomination board to prepare matters pertaining to the appointment and remuneration of the board of directors. The shareholders' nomination board shall consist of the company's largest shareholders or persons appointed by the largest shareholders. The shareholders' nomination board may also include members of the board of directors.

Executive Management

Appointment, resignation and dismissal of the managing director. According to the Companies Act the board of directors shall appoint the managing director. The managing director shall have the right to resign from the post. The resignation shall take effect at the earliest upon notification to the board of directors. The board of directors may dismiss the managing director from the post. The dismissal shall take effect immediately, unless the Board of directors decides on a later point in time.

The Code recommends that the terms of the managing director's service shall be specified in writing in the managing director's service contract, which shall be approved by the board of directors. The managing director's service contract shall also specify the financial benefits of the service, including the managing director's severance package and any other compensation.

General duties of the managing director. According to the Companies Act the managing director shall see to the executive management of the company in accordance with the instructions and orders given by the board of directors (so-called general competence). The managing director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner. The managing director shall supply the board of directors and the members of the board of directors with the information necessary for the performance of the duties of the board of directors. The managing director may undertake measures that are unusual or extensive in view of the scope and nature of the activities of the company only if so authorized by the board of directors or if it is not possible to wait for a decision of the board of directors without causing essential harm to the business operations of the company. In the latter case, the board of directors shall be notified of the measures as soon as possible.

Presence of the managing director at the meetings of the board of directors. The managing director shall have the right to be present at the meetings of the board of directors and to speak there even if the managing director is not a member of the board of directors, in so far as the board of directors does not otherwise decide.

The Code states that the company shall specify the composition, duties, and areas of responsibility of the other executives. If the company does not have a designated management team, the company shall appoint the persons who, on the basis of their duties and responsibilities, are deemed to belong to the other executives of the company.

Remuneration

It is stated in the Code that the remuneration must be in proportion to the development and long-term enhancement of the value of the company. The fact that remuneration is linked to the performance and result criteria, and the fact that the materialization thereof is monitored, increases trust in the functioning of the remuneration. In addition to fixed salary, remuneration may consist of other fixed and variable salary and remuneration components, such as share-based remuneration schemes, pension schemes, and compensation payable due to the termination of an employment or a service contract. The variable salary and remuneration components also comprise various short-term and long-term remuneration schemes, which may be linked to the development of the company's result or share price. The transparency of the content of remuneration and the associated decision-making process allows the shareholders to evaluate the appropriateness of the company's remuneration policy and its effectiveness in achieving the set objectives. Transparent reporting also facilitates the comparison of remuneration policies.

The general meeting shall decide on the remuneration payable for board and committee work as well as on the basis for its determination. The board of directors shall decide on the remuneration of the managing director as well as on the other compensation payable to him or her. The company shall specify the decision-making procedure for the remuneration of the other executives.

It is recommended that remuneration for board and committee work may be paid, either fully or in part, in the form of company shares. Remuneration of a non-executive director shall be arranged separately from the share-based remuneration scheme applicable to the company's managing director, other executives, or personnel. The objective of remuneration is to promote the long-term financial success and competitiveness of the company and the favorable development of shareholder value. Remuneration must be based on predetermined and measurable performance and result criteria.

As stated above, the board of directors decides on the financial benefits of the managing director. According to the Code the managing director's service contract shall also specify the financial benefits of the service, including the managing director's severance package and any other compensation. The board of directors also approves the financial benefits of the service, including the managing director's severance package and any other compensation. Compensation payable due to the termination of the managing director's service contract includes salary for the period of notice as well as all other compensation that is based on the termination of the service contract. The board of directors is responsible for ensuring that any financial benefits payable on the basis of the managing director's service are acceptable from the company's perspective. With regard to compensation payable due to the termination of the managing director's service contract, it is rarely justified for the aggregate amount to exceed the fixed salary and benefits in kind from a two year period. Remuneration and benefits that have been agreed upon at the beginning or during the managing director's service and that are based on the managing director's work contribution prior to the end of the service are not considered to constitute compensation payable due to the termination of the service contract unless the payment of such compensation is expressly contingent on the termination of the service contract. Thus, for example, pension benefits agreed upon before the termination of the service contract are not included in compensation payable due to the termination of the service contract. Financial benefits pursuant to the managing director's service contract shall be disclosed in the Remuneration Statement.

Liability for damages

According to the Companies Act and the Insurance Companies Act a member of the board of directors, a member of the supervisory board and the managing director shall be liable in damages for the loss that he or she, in violation of the duty of care has in office deliberately or negligently caused to the company. A member of the board of directors, a member of the supervisory board and the managing director shall likewise be liable in damages for the loss that he or she, in violation of other provisions of the Companies Act (or regarding insurance companies, the Insurance Companies Act) or the articles of association, has in office deliberately or negligently caused to the company, a shareholder or a third party. If the loss has been caused by a violation of the Companies Act other than a violation merely of the main principles of the Companies Act, or if the loss has been caused by a breach of the provisions of the articles of association, it shall be deemed to have been caused negligently, in so far as the person liable does not prove that he or she has acted with due care. The same provision applies to loss that has been caused by an act to the benefit of a related party.

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 corporate governance of insurance business is regulated by various laws in Finland. The management of insurance companies is mainly regulated by the Insurance Companies Act. The Limited Liability Companies Act, which is already mentioned above, regulates also insurance companies if it is not stated otherwise in the Insurance Companies Act. The Limited Liability Companies Act is the general act that regulates all limited liability companies in Finland unless otherwise stated in the regulation. The Limited Liability Companies Act applies both to public and private companies. The Companies Act regulates the general meeting, in addition to the board of directors and the managing director and their rights, duties and responsibilities.

In addition, the Finnish Financial Supervisory Authority (the FFSA) has given regulations and guidelines regarding financial sector's corporate governance. The FFSA gives both binding regulation and recommendations. Insurance companies have to obey, for example, *Regulations and guidelines 6/2015: the starting up and administration of life and non-life insurance company*.[3]

[3] For more information, see http://www.finanssivalvonta.fi/en/Regulation/Legislation/Finnish/Pages/Default.aspx and

If the insurance company is a public company, it is also regulated by the Companies Act and the Securities Markets Act (746/2012) as well as other norms. Certain sections of the Companies Act regulate only public companies, but the differences in the Companies Act regulation concerning public and private companies are rather small. Finnish listed companies are also bound by the Rules of the Helsinki Stock Exchange, including the Corporate Governance Code ('the Code'), which is issued by the Board of the Finnish Securities Market Association and governed by the Helsinki Stock Exchange. The Corporate Governance Code is applicable to all the companies that are listed on Nasdaq Helsinki Ltd (Helsinki Stock Exchange), and it is applied in accordance with the 'comply or explain' principle. The Corporate Governance Code is a collection of recommendations and good corporate governance principles for listed companies. Even though the Code is not mandatory for private companies, many non-listed companies apply it.[4]

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.*

The last two cases of insolvency/distress of an insurer has been over 25 years ago in Finland. It is probable that at least the other one of these was due to poor corporate governance practices but since this event took place many years ago, and since the regulation on corporate governance issues has increased tremendously, it is not necessary to identify the causes or triggers more carefully today.

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.*

Basically the same regulation is applied to every insurance company no matter what the nature, scale or complexity of the business is. However, if the company is a listed company, additional rules apply to that company.

Additionally, there are some exceptions regarding smaller insurers in the Insurance Company Act. These exceptions come from the Solvency II legislation of the European Union.

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.*

It is a matter of taste and jurisdiction if it is better to implement corporate governance rules through soft law or hard law. The trend is, however, very clear: at least in the European Union the corporate governance regulation regarding financial markets and its actors is implemented through hard law. However, there are still

http://www.finanssivalvonta.fi/en/Regulation/Regulations/New/Pages/sections.aspx.

[4] The Code can be found here http://cgfinland.fi/files/2015/10/hallinnointikoodi-2015eng.pdf.

some elements which are not compulsory in Finland. For example, the Corporate Governance Code (regarding listed companies) is to be applied in accordance with the 'comply or explain' principle. Thus, the starting point is that the company shall comply with all recommendations of the Corporate Governance Code. The company may, however, depart from the specific recommendations, provided that it has good reasons for doing so. In these cases, the company shall, in accordance with the 'comply or explain' principle, report which recommendations it is departing from and why, as well as how the decision to depart from the recommendations was made. In other words, the company is deemed to be in compliance with the Corporate Governance Code even if it departs from individual recommendations, provided that the departures are reported and explained.

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*.

As a member state of the European Union, Finland has recently implemented the Solvency II legislation domestically. As it is very well known, Solvency II is an enormous legislative project, which has required a lot of work of implementation in the insurance companies. The regulation regarding companies has increased a lot, and it has been – and still is – especially for smaller companies challenging to be aware of all the duties and obligations rising from the new legislation as well as obey them.

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

The basic structure of the corporate governance regulation is based on general Finnish company laws. However, there are also some specific regulation regarding different financial institutions in the specific financial regulations. Especially the above mentioned EU based Solvency II –regulation regarding insurance companies and their administrative systems have brought a lot of new managerial regulation to the Finnish system.

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.*

According to the Insurance Companies Act a member of the board of directors in an insurance company cannot be a legal person, under aged person or a person who is bankrupt, subject to a business prohibition and whose capacity has been otherwise restricted. Moreover, a member of the board of directors of the insurance company shall be reputable and shall have adequate and versatile knowledge and experience relative to its tasks on the business activities and related risks of the insurance company. At least one of the members of its board of directors as well as company's managing director shall be permanently resident in the European Economic Area unless the Finnish Financial Supervision Authority grants an exemption therefrom. The exemption may be granted if it does not endanger the efficient supervision of the insurance company and the management of the insurance company in accordance with sound and prudent business principles.

In addition, according to the Insurance Companies Act the board of directors of an insurance company shall comprise at least three members. Moreover, the board of directors of an insurance company shall have a chairman. The board of directors of an insurance company shall elect a chairman unless otherwise provided for in the bylaws or unless otherwise decided upon in the election of the board of directors. The managing director of the company or the responsible actuary of the company cannot be the chairman of the board of directors.

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

Independence of the board of directors is an important aspect. Based on research, *Hermalin* and *Weisback*[5] point out that board of directors is an endogenously arisen institution. The shareholders, the owners, of the company choose board of directors to a company to pursue their interests. However, the authors point out that there is no formal theory regarding the boards of directors. The general meeting, the owners, select a board of directors to represent and monitor themselves in the company. Moreover, the board of directors select the managing director to the company to run the daily errands of the firm. Thus, the major conflict in regard of boards of directors, is between the managing director and the boards of directors. The managing director might have own incentives and interests regarding his own position and benefits in the company. Therefore, the managing director might be interested in and try to influence the working of the board of directors. Since the board of directors is a representative of the shareholders, the directors want to choose a well-performing managing director who will manage the company in accordance with its purpose. To be able to monitor and evaluate the performance of the managing director, the board of directors must be independent and detached from the managing director. Therefore, one of the interests of the board of directors is to be independent (Van den Berghe & Levrau 2004)[6].

The composition of the board, as measured by the insider-outsider ratio (how many of the directors are employed by the company and how many of them come from outside the company), does not have effect on the performance of the company according to Hermalin & Weisback and their referred studies (2003). Thus, it does not seem to matter if the board of directors consists of directors outside the firm or directors inside the firm. However, there are some theories suggesting that outsider directors build up a more independent board of directors than those who are inside the firm and thus they are better at monitoring the managing director of the company (Hermalin & Weisback 2003). On the other hand, according to Van den

[5] Hermalin, Benjamin E. & Weisback, Michael S., 2003: *Board of Directors as an Endogenously Determined Institution: A Survey of the Economic Literature.*
[6] Van den Berghe, L. & Levrau, A., 2004: *Evaluating Boards of Directors: what constitutes a good corporate board?*

Berghe & Levrau (2004) the studies show that the composition of insider and outsider directors in the board might matter to some extent. However, the results are contradictory (Van den Berghe & Levrau 2004).

According to a survey regarding board performance made to Belgian listed companies, over 27 % of the respondents thought that the composition of the board of directors is one of the key elements in a well-performing board. According to the study, diversity and complementarity are the most important features in the composition of a board (Van den Berghe & Levrau 2004). There should be different knowledge and expertise in a board. Additionally, the proportion between inside and outside directors should be balanced as well as the general expertise level should be taken into account when choosing directors according to the respondents (Van den Berghe & Levrau 2004).

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?*

Transparency and access to information are key elements in getting enough knowledge to monitor and oversee the activities of the insurer. The expertise of the board is based on the diversity of the board members; an insurer has to have a combined expertise of actuary, regulation and business. The board members should have trainings for example on new regulation and requirements.

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 not. In Finland, most of the board members are outsiders. According to the Corporate Governance Code, it is recommended that the board of directors shall evaluate the independence of the directors. The majority of the directors shall be independent of the company. At least two directors who are independent of the company shall also be independent of the significant shareholders of the company.

According to the Code the composition of the company's board of directors shall reflect the requirements set by the company's operations and development stage. A person elected as a director must have the competence required by the position and the possibility to devote a sufficient amount of time to attending to the duties. The number of directors and the composition of the board of directors shall be such that they enable the board of directors to see to its duties efficiently. Both genders shall be represented in the board of directors. Additionally, it is recommended that the company shall establish principles concerning the diversity of the board of directors and the board of directors shall evaluate the independence of the directors. The majority of the directors shall be independent of the company. At least two directors who are independent of the company shall also be independent of the significant shareholders of the company.[7]

[7] A director is not independent of the company if

According to the Corporate Governance Code, it is recommended that the managing director shall not be elected chairman of the board of directors as it is the duty of the board of directors to supervise the managing director. It is recommended in the Code that a company shall establish principles concerning the diversity of the board of directors, since diversity of the board of directors supports the company's business operations and development. Diversity of the knowhow, experience, and opinions of the directors promotes the ability to have an open-minded approach to innovative ideas and also the ability to support and challenge the company's operative management. Adequate diversity promotes open discussion and independent decision-making. Diversity also promotes good corporate governance, efficient supervision of the company's directors and executives, as well as succession planning.

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 in needed?*

No, there are not.

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a) the director has an employment relationship or service contract with the company;
b) the director has had an employment relationship or service contract with the company in the last three years, and such employment relationship or service contract has not been temporary;
c) the director receives, or has received during the past year, not insignificant remuneration for services not connected to the duties of a director, e.g. consulting assignments, from the company or members of the company's operative management;
d) the director belongs to the operative management of another corporation which has or has had during the past year a customer, supplier or cooperation relationship with the company, and such relationship is or has been significant to the other corporation;
e) the director is, or has been in the past three years, the auditor of the company, a partner or an employee of the present auditor, or a partner or an employee in an audit firm that has been the company's auditor in the past three years; or
f) the director belongs to the operative management of another company whose director is a member of the operative management of the company (interlocking control relationship).
A significant shareholder is a shareholder who holds at least 10% of all company shares or the votes carried by all the shares, or who has the right or obligation to acquire the corresponding number of already issued shares.
A director is not independent of a significant shareholder if
g) the director is a significant shareholder of the company or a director of a significant shareholder, or has a relationship such as referred to in sub-sections a) - b) above with a significant shareholder; or
h) the director exercises direct or indirect control in a significant shareholder or is a director of a significant shareholder, or the director has a relationship such as referred to in sub-sections a) - b) above with a party who exercises direct or indirect control in a significant shareholder.
In addition to the above-mentioned criteria, the board of directors may, based on an overall evaluation, determine that a director is not independent of the company or a significant shareholder. The following factors, inter alia, shall be taken into account when conducting the overall evaluation of independence:
i) the director participates in the same performance-related or share-based remuneration scheme as the operative management of the company, which may be of substantial financial significance to the director;
j) the director has served as a director for more than 10 consecutive years;
k) a member of the director's family or a private or legal person closely related to the director is subject to circumstances such as described in this recommendation; or
l) the company is aware of other factors that may compromise the independence of the director and the director's ability to represent all shareholders.

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.*

According to the Act on Financial Supervisory Authority (878/2008) the Financial Supervisory Authority may, for a maximum of five years, prohibit a person from acting as member or deputy member of the board of directors, managing director or deputy managing director or any other senior management staff member of an authorized supervised entity, like insurance company, where:

1) he or she has shown obvious incompetence or carelessness in the performance of duties (lack of fitness and propriety) and it is apparent that his or her participation may seriously jeopardize the achievement of the objectives for financial supervision laid down in the law; or

2) he or she fails to fulfil the requirements for professional competence and trustworthiness separately provided for in law.

Moreover, according to the Act, the Financial Supervisory Authority may, for a maximum of three years, prohibit a person acting as a member of an administrative body (for example board of directors) or as a managing director if the person is a member of the administrative body or the managing director has seriously breached or neglected certain sections of the Act on Auditing (1141/2015).

Moreover, according to the Act, the Financial Supervisory Authority may appoint an attorney to supervise the activities of an authorized supervised entity if there is evidence of incompetence, carelessness or misuse in the management of its affairs or if there is some other specific reason for such an appointment. The Financial Supervisory Authority may also appoint an attorney to supervise the winding up of the assets of an authorized supervised entity where the supervised entity is subjected to winding-up proceedings or declared bankrupt.

Moreover, a representative of the Financial Supervisory Authority shall have the right to attend the meetings of the decision-making and administrative bodies of authorized supervised entities and to convene such bodies when necessary. A representative of the Financial Supervisory Authority shall have the right to be heard at such meetings and to have entered into the minutes any remarks that he or she considers pertinent.

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 there are not.

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?*

The insurance sector, as well as the financial sector in general, is changing rapidly. It is difficult to define only one major risk to the insurance industry. Technology, Insurtech or Fintech, is changing the way of doing business. New technology, for example the use of artificial intelligence, block chain as well as big data, brings new risks, like cyber terrorism, to the insurance sector, but also great new ways and possibilities of doing business. New regulation including capital standards are challenging especially for smaller insurers and might affect the competition of insurance sector. In addition, low interest rates in Europe cause problems especially for the life-insurance sector.

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

None can be mentioned.

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.*

Increasing regulation on corporate governance issues has in general changed the behaviors of insurance companies. No specific company can be mentioned.

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?*

Based on the Solvency II regulation, and according to the Insurance Companies Act, insurance and reinsurance undertakings shall disclose publicly, on an annual basis, a report on their solvency and financial condition. That report shall contain the following information:

(a) a description of the business and the performance of the undertaking;
(b) a description of the system of governance and an assessment of its adequacy for the risk profile of the undertaking;
(c) a description, separately for each category of risk, of the risk exposure, concentration, mitigation and sensitivity;
(d) a description, separately for assets, technical provisions, and other liabilities, of the bases and methods used for their valuation, together with an explanation of any major differences in the bases and methods used for their valuation in financial statements;
(e) a description of the capital management, including at least the following:

(i) the structure and amount of own funds, and their quality;
(ii) the amounts of the solvency capital requirement and of the minimum capital

requirement;

(iii) information allowing a proper understanding of the main differences between the underlying assumptions of the standard formula and those of any internal model used by the undertaking for the calculation of its solvency capital requirement;

(iv) the amount of any non-compliance with the minimum capital requirement or any significant non-compliance with the solvency capital requirement during the reporting period, even if subsequently resolved, with an explanation of its origin and consequences as well as any remedial measures taken.

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?*

Due to the new EU directive[8], and according to the Finnish Act on Accounting (1336/1997) based on the above mentioned directive, a large insurance company which has over 500 employees, shall publish a report on non-financial information.

According to the Act, the insurer is required the following disclosure, on a “comply or explain” basis, to enable users to understand the performance and impact of the reporting entity’s activities on at least the above environmental and social matters:

- a brief description of the entity’s business model;
- its policies in relation to those matters, including related due diligence processes implemented, and their outcomes;
- the principal risks related to those matters linked to a reporting entity’s operations (e.g., its business relationships, products or services likely to cause adverse impacts in those areas) and how they are managed, and
- relevant non-financial KPIs.

In addition to these requirements, the report must include at least the information on how the insurer takes into consideration:

1) environmental issues;

2) social and personnel matters;

3) respect for human rights;

4) combating corruption and corruption.

EU Member States are required to bring the Directive into force for financial years starting on or after January 1, 2017.

V. Disclosure

[8] Directive of the European Parliament and of the Council amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups

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.)*

In my opinion, everything counts. The basic structure, principles on good corporate governance and ethical standards have to be obeyed. Binding norms are important, but of course not everything has to be regulated by binding norms, but soft law instruments might work too. "Comply or explain" –principle based norms have been quite effective.

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?*

Finland as well as other Nordic countries have quite strong corporate governance practices, which, in my opinion, work very well. Disclosure duties as well as supervision is required. Disclosure and supervision are tight together, since if we have disclosure duties, someone has to monitor and supervise the compliance of the rules.

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?*

If an insurer is a listed company, it should obey all the provisions of the Securities Markets Act as well as other norms by the Finnish Financial Supervisory Authority. Listed companies must obey a lot more regulations than private companies, however insurance companies are in general so regulated at the moment in Finland that the difference regards mainly disclosure duties. For public companies disclosure duties are quite extensive. A listed insurer has to obey the rules on prospectuses, IFRS standards, notification on major shareholdings, insider's info and general disclosure. A listed company has to disclosure periodic information, which refers to the issuer's obligation to provide information on its financial performance on a regular basis. This involves the disclosure of half-yearly reports, financial statements and management reports. In addition to disclosure of periodic information, issuers are subject to the ongoing disclosure obligation. The ongoing disclosure obligation is geared to ensure that all investors have equal, equitable and simultaneous access information. The ongoing disclosure obligation refers above all to the disclosure of inside information. Issuers must inform the public as soon as possible of inside information. Inside information refers to information of a precise nature, which has not been made public, relating, directly or indirectly, to the issuer, and which, if it were made public, would be likely to have a significant effect on the price of a security.

However, as mentioned above, there are no listed insurers in Finland at the moment.

For further information on listed companies' disclosure duties, see http://www.finanssivalvonta.fi/en/Listed_companies/Pages/Default.aspx.

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.

In my opinion, not much of criticism can be put on the Finnish corporate governance system for insurers. However, a lot of regulation based on the legislation has come into force during the last years and more is coming. For smaller insurers this is quite challenging since there is a lot of administrative work. This might even result for smaller insurers to leaving the insurance market in some countries, which affects the competition in the insurance market and position of insurance takers in the end.