

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

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I. General

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

In accordance with art 6. “Insurers” of Russian Insurance Law (adopted on 27 Nov 1992 – Federal Law “On Insurance activity” – further on Insurance Law) Insurer can be established in any legal form in accordance with the general Russian legislation, or in the special form of the insurance mutual.

Establishment of the legal entities, including open and closed joint-stock companies, is regulated by general law, including Civil Code of Russian Federation, Law on the joint-stock companies dated 24 Nov 1995. There are no any special functions of the Board of the Directors for the insurance entities in addition stipulated in the Insurance Law.

In addition to the general governing models of the legal entities the Insurance Law (art. 28.1 and 28.2) requires that Insurer should establish Internal Control System and Internal Audit Department.

Internal Control System incorporates: management bodies, control committee, chief accountant, special person in charge of the compliance procedures, actuary and others. Main purposes of the Internal Control System are fulfilment of internal compliance rules, including accounting, reporting, risk management, ethic rules, and efficiency of the insurance activity.

Internal Control System is subject of the supervision by the Internal Audit. Internal Auditor is appointed and reporting to the Board of Directors and should be independent from any other functions in the management. Board adopts the plan of the internal audit actions and receives quarterly special reports. If Internal audit detects substantial violation of the rules and regulation of the insurance and other regulations, internal rules and compliance processes,- it should immediately (within 15 days) in written report to the Board and to the main shareholders.

These reports can be required by the State Supervisory authority (Central

Bank of Russia).

Internal Auditor (art.32.1 of Insurance Law) should have high economic, financial or legal degree, and not less than 2 years' experience in the insurance, reinsurance or any other financial or audit organization in Russian Federation or in the function of the state control in Russian Federation. There are certain limitations for the candidates in accordance with para 4 of this article to ensure their personal and legal independence fulfilling his duties.

Basic rule for the establishment and management **of the Mutuals** are settled in the Law on Mutual insurance, adopted on 29 Nov 2017. In accordance with art 5 of the Mutual insurance Law – Mutual is considered as a form of consumer cooperative. Insurance specifics are regulated by the above mentioned law.

Insurance mutual can have not less than 5 and not more than 2000 physical persons and/or not less than 3 and more than 500 legal persons. Law limits allowed insurance activity only to the insurance property and liability lines of business.

Main governing model should be adopted in the By-Law of the Insurance Mutual, which should not be in the contradiction to the other governing laws (as Insurance Law and Civil Code). In accordance with art.6 of the management model, structure of the management bodies, as well as competencies of the management bodies and controlling bodies should be stipulated in the By-Law. At the same time art.9 says that management model should include:

- General meeting of the members
- Board of the Mutual
- Director of the Mutual.

Controlling body should include internal audit department.

Art.13 Board of the Mutual between the General meetings is responsible for:

- preliminary approval of the business plan for the next year, and the results of the current year;
- appointment of the internal auditor;
- consideration of the Director reports;
- accept of the new members and their withdrawal;
- call for the General meeting;

- investment decisions;
- decision on the external audit and selection of the external auditor;
- control on the fulfilment of the insurance rules of the Mutual;
- approval of the accounts and financial reports.

Members of the Board are elected among the members by the General meeting for the term established in the By-Law. No qualified requirements are stipulated in the Law. General meeting can stop the authorities of any Board member and its Chairmen at any time.

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.

Insurance Law, Mutual Insurance Law, Civil Code (for the general aspects), Law on the joint-stock companies, Rules established by the Insurance Supervisory Office (Central Bank of Russia)

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.

In fact all insolvencies are result of the poor corporate governance and violation of the risk management principles. But not in any known case it was addressed in any court decisions or in the Supervisory actions.

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

No, it is standard for all insurance entities.

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.

There are no such examples of self-regulation

6. In case your jurisdiction was recently requested to implement

domestically certain corporate governance principles set forth by supranational regulations, describe the main obstacles and problems (if any) that resulted from such process.

There are no such implementations

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

See above in p.1

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.

No

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

Interdependence with the other duties/functions in the management, incompetence, lack of experience, limited impact on the day-to-day activity, limited information and reporting on the financial soundness and compliance risks, poor risk-management system in the company.

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?

No legal requirements to the competence of the Board members. Only in accordance with the By-Law of the entity.

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?

See above p.1

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

See above p.1

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.

See above p.1

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?

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?

Speed of the changes in the insurance regulation; pricing in some lines of business; low profitability and limited interest from the investors, state regulation in CMTPL, which increases its inefficiency, which is the trigger for the deterioration of the Insurers results; overregulation; illogical consumer protection regulation; limited options for the mediation and ombudsman dispute institutions

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

Solvency II like risk model regulation, next phase of IAIS

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.

There are no such examples

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?

Law on consumer rights protection N2300-1 adopted on 7 Feb 1992, fully applicable to the insurance services since 2013; Law on the protection of the personal data N152 dated 8 July 2006; Insurance Law;

Law on compulsory health insurance N326 dated 19 Nov 2010.

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

No

V. Disclosure

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

By-Law; disclosure of the group and/or main shareholders (more than 5%); Internal Audit; legal requirements to the min qualification and experience to the Board members

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?

Statutory legal requirements to the min qualification and experience to the Board members

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?

Sorry, question and mean are not clear...

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.

See p.1 in part Y.