Publication: Finance Dublin
Date: Monday, May 31, 2010
Page: 15
Extract: 1 of 2
Circulation: 5.000
Author:
Headline: Solvency II will change boardroom code for insurance firms

Solvency II will change boardroom code for insurance firms

MAURA QUINN, chief executive of the Institute of Directors, looks at the range of new corporate governance requirements for the insurance industry in Solvency II, the role of the non-executive director and the steps that should be taken by re/insurers to ensure new board appointments develop 'strong and robust corporate governance standards.'

The introduction of the new regulatory regime for the insurance industry, Solvency II, will see changes relating to corporate governance and board composition as early as June.

In addition to new capital measures, the Solvency II Framework Directive sets out a range of corporate governance requirements for the insurance industry, with the onus being on each firm to demonstrate that they have sufficient and appropriate mechanisms in place to deliver a robust corporate governance framework for their organisation.

Solvency II will see many companies in the insurance industry operating to a higher standard of corporate governance, with the requirement to establish a range of specific management functions from risk management to internal audit to compliance.

Financial Regulator guidelines for the reinsurance sector locally also stipulate the need for all third party reinsurers to have a minimum of two independent non executive directors (NED) in place on their board by the end of June 2010. Indeed, it is anticipated that this particular requirement will be formally applied across all areas of the insurance industry when wider guidelines are published.

Selecting a non executive director

Having non executive directors in place on a board is central to good corporate governance. What every non executive director should bring to the boardroom is independence.

Assessing the independence of a non executive director will be an important step in meeting the emerging regulatory requirements and should take into account everything from previous, and where relevant, current employment, to business relationships and directorships, to objectivity. Ensuring that there is no potential for conflict of interest and putting in place a robust structure for reporting possible conflicts, will be crucial elements of the selection process.

Third party reinsurers will need to ensure the best and most appropriately qualified and expert people are appointed as non executive directors, by putting in place a transparent recruitment, selection and appointment process.

While it is not a regulatory requirement for the non executive director to have reinsurance experience, they should have relevant boardroom and management experience, e.g in other areas of financial services and importantly they need to be able to commit the necessary time and effort to fulfil their responsibilities.

Non executive directors should be chosen on the basis of their skill, experience and expertise, to be complemented by knowledge and understanding of what their role and responsibilities will entail. This is a standard to which all insurance companies should adhere to so as to build solid corporate governance foundations throughout the industry.

Dermot Gorman, an independent director active in the reinsurance sector, says; 'Solvency II will expand the range of issues that insurance boards have to explicitly own and oversee in future. When combined with a greater focus on the role of the board in financial institutions generally, it means the standards and skills expected of all directors in the sector will continue to rise over the coming years.'

The role of the non executive director

The key attribute which every non executive director should bring to the board is the ability to provide an independent and external perspective and to ensure that their primary responsibility is to the company as a whole and not to each other. They must exercise sound and objective judgement and provide entrepreneurial leadership within a framework of prudent and effective controls, thus enabling all potential risks to be assessed and properly managed. This is particularly important for sectors such as insurance, where the risks may be substantial.

The non executive director, as part of the board of directors, must have the ability to constructively challenge management and to work as part of a cohesive board. The non executive director, as with all board members, has a supervisory responsibility and must have a full and thorough understanding of their role within the overall organisation.

Meeting Solvency II requirements

With the end of June deadline fast approaching, there is a real risk of third party reinsurers concentrating their efforts solely on meeting the regulatory requirements without properly considering the most suitable non executive director for their business. It is paramount to prevent this situation occurring and to ensure that by appointing the most appropriately qualified and suitable non executive directors, reinsurers can develop strong and robust corporate governance standards.

Tom Barry, former managing director of Canada Life and former president of the Irish Insurance Federation, now a non executive director in financial services says; 'The insurance sector has fared significantly better than banks due to better risk management. With the help of the IoD a new wave of ethical, experienced directors can help enhance Ireland's position as a world financial services hub.'

Maura Quinn is chief executive of the Institute of Directors in Ireland.

The Boardroom Centre

Companies in the sector should consider seeking support from the Institute of Directors' Boardroom Centre. The Boardroom Centre has a panel of highly experienced, senior non executive directors suitable for appointment within the insurance sector, many of whom have a thorough understanding and knowledge of Solvency II and its implications for the industry. By providing a shortlist of candidates, the Boardroom Centre offers companies throughout the sector access to some of the most senior and highly qualified business people in Ireland.

Publication: Finance Dublin
Date: Monday, May 31, 2010
Page: 15
Extract: 2 of 2
Circulation: 5.000
Author:
Headline: Solvency II will change boardroom code for insurance firms

Maura Quinn