PART I - OVERVIEW 1

1. INTRODUCTION 1

PART II - DUTIES AND RESPONSIBILITIES 1

2. BOARD OF DIRECTORS 1
3. CHIEF EXECUTIVE OFFICERS (CEO) 5

PART III - APPOINTMENT OF DIRECTORS AND CEOS 6

4. REQUIREMENT FOR THE BANK'S APPROVAL 6
5. FIT AND PROPER REQUIREMENTS FOR BOARD MEMBERS AND SENIOR MANAGEMENT 9
6. RESTRICTIONS ON APPOINTMENT 11
7. ALTERNATE DIRECTORS 14

PART IV - MATTERS RELATED TO THE BOARD 14

8. BOARD COMPOSITION 14
9. INDEPENDENT DIRECTOR 16
10. BOARD COMMITTEES 18
11. MINIMUM QUALIFICATION STANDARD AND TRAINING REQUIREMENTS FOR DIRECTORS 25

PART V - DISCLOSURE REQUIREMENTS 28

12. REMUNERATION OF DIRECTORS/CEOS 28
13. BOARD COMMITTEES 29

PART VI - WITHDRAWAL OF GUIDELINES/CIRCULARS 30

PART I - OVERVIEW

1. INTRODUCTION

1.1 The board of directors and chief executive officer of an insurer are collectively responsible for the proper stewardship of the insurer by ensuring the achievement of its corporate objectives while inculcating sound corporate governance. The Guidelines set out the requirements and expectations of Bank Negara Malaysia (the Bank) in respect of the duties and responsibilities of the board and the chief executive officer, matters concerning their appointment, the board composition and structures as well as relevant disclosures. The requirements of the Guidelines should be read together with the principles outlined in BNM/RH/GL/003-2: Prudential Framework of Corporate Governance for Insurers, where applicable.

PART II - DUTIES AND RESPONSIBILITIES

2. BOARD OF DIRECTORS

2.1 As custodians of public funds, an insurer should be governed by an active and dedicated board of directors (the board) which is committed and responsive to the diverse interests of its shareholders and policyholders. Directors are placed in positions of trust by shareholders and the law places the responsibility for managing the affairs of insurers firmly on the board. In their pursuit for profit, directors should not lose sight of their basic responsibility as trustees of financial assets of members of the public. They may delegate daily routine conduct of insurance business to senior officers and employees, but **not** their responsibility for the consequences of unsound or imprudent policies and practices, whether these involve underwriting, claim processing, reinsurance, investment, management control or any other insurance activity. The interests of policyholders and shareholders would be safeguarded, to a large extent, by trustworthy, prudent, efficient and able administration.

2.2 For these purposes, the following major responsibilities are placed on the board of insurers:-

(a) to select and appoint senior executive officers who are qualified and competent to administer the insurance business effectively and soundly. The management team must be professional at all times in carrying out its duties, and the board must be alert to the effectiveness and competence of their staff. The performance of the senior officers will, to a large extent, determine the health of the insurer;

(b) to safeguard the integrity and credibility of the insurer. Directors must ensure that the management team and all employees conduct business with the highest level of moral behaviour and in a manner that instils public confidence;

(c) to establish an Audit Committee and Internal Audit Department in line with the minimum standards stipulated under BNM/RH/GL/003-22: Guidelines on Audit Committee and Internal Audit Department (Part A) and JPI/GPI 13 Guidelines on Audit Committee and Internal Audit Department (Revised 1997);

(d) to effectively supervise the affairs of the insurer to ensure sound management. As persons entrusted with the responsibility for investment of public funds, directors should demonstrate a high degree of wisdom, prudence, good business judgment and competence. Directors must also ensure, at all times, that the assets of the insurer are properly managed to meet its liabilities and in compliance with the relevant legal and regulatory requirements. Directors should be well informed of the affairs of the insurer by devoting sufficient time to monitoring and supervising the affairs of the insurer. Although directors may delegate certain authority to senior management officers, ultimate responsibility for the sound management and business operations of

the insurer rests with the board. Apart from retaining a record of the minutes of board meetings, a record of actions by directors in connection with their oversight functions should also be kept;

(e) to adopt and follow sound policies and objectives which have been fully deliberated. Directors must provide a clear framework of objectives and policies within which senior executive officers are to operate. These should cover all areas, including but not limited to solvency management, underwriting, claims management, reinsurance, investment, loans, risk management, financial planning and budgeting, and human resource management. Clear lines of authority (and limits to this authority) for all levels of staff should be set by the board;

(f) to act honestly for the benefit of the company and to avoid self-serving practices and conflicts of interest. Once their appointment takes effect, directors are fiduciaries and must display the utmost good faith towards the insurer in dealings with it or on its behalf. The Companies Act 1965 (Companies Act) and the Insurance Act 1996 (Act) subject directors to disclosure requirements in respect of outside business interests and prohibits lending to directors or director-interested firms and corporations. Directors and officers of the insurer should not retain a commission on policies sold;

(g) to be regularly informed of the financial condition, business performance and management policies of the insurer. Directors should ensure that they have adequate information to provide effective strategic direction to the insurer, and to apply immediate remedial measures should the need arise. The board should meet not less than once in every two months to deliberate on the policies and performance of the insurer, the direction of policies and to provide guidance for management. Individual directors must attend at least 75% of the board meetings held in each year

pursuant to Regulation 52(c) of the Insurance Regulations 1996 (Regulations). Board meetings may be held via teleconferencing & video conferencing provided that the meetings are legally constituted and minutes of the meetings are documented;

(h) to observe all laws, rules and regulations as part of their statutory duties. Directors must be familiar with relevant laws, related regulations, interpretative rulings and notices, and must exercise care to see that these are not violated. This includes laws pertaining to certain restrictions, prohibitions and liabilities of directors. Directors may be penalised for any non-compliance with legal requirements (in particular, the requirement for an insurer to maintain the minimum required margin of solvency at all times and ensure that its assets are in safe custody) and be removed from office if found to have acted against the interest of policyholders and/or the insurer concerned; and

(i) to ensure that the insurer has a beneficial influence on the national economy. Insurers provide risk and insurance management services for members of the public, and, therefore, play an important role in the national economy. Directors have a continuing responsibility to provide insurance services and facilities which are conducive for well-balanced economic growth and which are consistent with national objectives.

As best practice, directors should explicitly agree under their terms of appointment, to assume the above responsibilities as a member of the board.

2.3 The duty of directors to secure compliance with relevant legal requirements may involve a personal financial responsibility for losses arising out of illegal actions. Section 206 of the Act provides that where an offence under the Act is committed by any company or body corporate, penalties may be imposed on any person who fails to take reasonable steps to secure legal compliance by such company or body corporate. The Bank will not hesitate to impose fines on such persons pursuant to

the Bank's power to compound offences under the Act or any regulations made thereunder. Any person compounded is required by section 140(1) of the Companies Act to pay such fines **personally.** Except for liabilities incurred by such persons in successfully defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted, the insurer is prohibited from reimbursing compound fines paid by such persons.

3. CHIEF EXECUTIVE OFFICERS (CEO)

3.1 The sound operations of an insurer depend critically on the appointment of a suitable CEO. To avoid conflicts and ensure clear accountabilities, there should be a clear separation between management and board oversight. CEOs are charged with the responsibility of managing the overall affairs of insurers. The Bank holds CEOs directly responsible for the day-to-day operations of their insurers. CEOs should be familiar with their insurers' performance, the adequacy of internal controls and compliance with legal requirements as well as current matters and policies affecting the insurance industry in general.

3.2 CEOs must, therefore, have the necessary knowledge and professional competence in the conduct of insurance business. They must devote full attention and time to their duties and responsibilities and be able to direct and supervise insurers effectively and responsibly. They must at all times exercise professional skill, due care and diligence when performing their functions, exercising their powers or discharging their duties. It is imperative that CEOs are qualified and experienced in the insurance industry at senior management level. They must be persons of high professional calibre, and unquestionable integrity.

3.3 Since the Bank finds it necessary to consult CEOs of insurers regularly on matters of policy and day-to-day operations, it is important the Bank be informed of the person (hereafter referred to as the 'appointed representative') who will be directly responsible for the overall management of an insurer in the absence of its CEO. In this regard, insurers are required to inform the Bank of the appointed

representative in charge if the CEO is absent from the office for **three (3) days or more**.

3.4 Internally, within the insurer, there should be a clear delegation of power and responsibilities of the CEO to an appointed representative in the event of the CEO's absence. The appointed representative should be fully acquainted with the affairs of the insurer concerned. He should be able to act promptly and with authority on matters affecting the insurer.

3.5 The submission of returns, reports or any other documents pursuant to the Act or a directive by the Bank should be signed by the CEO. However, during the CEO's absence, the documents may be signed by the appointed representative subject to the documents being ratified by the CEO and resubmitted with the CEO's signature upon his return to office.

PART III - APPOINTMENT OF DIRECTORS AND CEOS

4. REQUIREMENT FOR THE BANK'S APPROVAL

4.1 Section 70(1) of the Act provides that no insurer and no controller of an insurer, shall appoint a person as its director/CEO without the prior written approval of the Bank. For this purpose, the appointment of a person includes his reappointment which shall also be subject to the prior written approval of the Bank. Any approval given by the Bank under section 70(1) for the appointment/reappointment of a director/CEO of an insurer will be subject to a term not exceeding two years from the effective date of appointment/reappointment1.

[1] With effect from 12 November 2003.

4.2 Section 70(3) of the Act provides that the Bank may specify the particulars and information to be submitted by an insurer in relation to an application for appointment of a director/CEO. In this connection, all applications for appointment/reappointment of director/CEO by insurers must be made using the application forms specified under **Appendix I(A), I(B), I(C)** and **I(D)**.

4.3 An insurer shall not appoint an active politician as its director/CEO. For this purpose, an active politician includes a:-

(a) member of Parliament (Dewan Rakyat and Dewan Negara);

(b) State Assemblyman;

(c) Supreme Council member; and

(d) person holding a position at divisional level in a political party.

4.4 Directors should ensure that the Memorandum and Articles of Associations (M&A) of the insurer provide for:-

(a) a director to be dismissed from office by written resolution of at least 75% of the board members;

(b) a director to be dismissed from office for failure to comply with section 70(2) of the Act[2]; and

(c) the retirement of directors by rotation in line with the Fourth Schedule of the Companies Act which provides that at the annual general meeting (AGM) of a company, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire by rotation from office and shall be eligible for re-election[3].

4.5 Pursuant to section 70(1) of the Act, the prior approval of the Bank is required before a director who is retiring in compliance with the provision of the insurer's

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[2] Section 70(2) provides that no licensee shall appoint as its director, a person who is disqualified under the Act, who fails to fulfil the minimum criteria of a 'fit and proper person' prescribed, or other than a non-executive director representing a foreign shareholder of a licensee, who does not reside in Malaysia throughout his period of appointment.

[3] With effect from 21 October 2003.

M&A, or by age limit pursuant to section 129(6) of the Companies Act, may be re-elected to the board. For directors whose term of appointment as approved by the Bank has not expired at the time of the AGM, but who are required to retire by rotation from office and are eligible for re-election, the Bank's approval is not required to re-elect the directors concerned at the AGM. However, insurers are required **to inform** the Bank within two weeks from the date of the AGM, of the directors' names, tenure of appointment and date of AGM at which they were re-elected.

4.6 Applications for the **reappointment** of a director/CEO must be supported by **a written assessment** by the nominating committee of the board[4] in respect of nominees proposed for **reappointment**. The written assessment should be prepared in accordance with **Appendix II**. Such applications, together with the nominating committee's assessment, shall be submitted to the Bank within the following deadlines:-

(a) applications for reappointment of a director/CEO must be submitted to the Bank for approval at least three months before the expiry of his current term of appointment; and

(b) applications to re-elect a director who is not subject to a limited term of appointment under the Bank's approval for his appointment and who is to retire by rotation at the company's AGM, must be submitted to the Bank for approval at least six months prior to the date of the AGM at which the directors will offer themselves for re-election. Thereafter, subsequent applications for the director's reappointment should be submitted within the deadline stipulated under paragraph 4.6(a) above.

[4] With effect from 29 April 2004. Also see paragraph 10.2(b)(ii).

5. FIT AND PROPER REQUIREMENTS FOR BOARD MEMBERS AND SENIOR MANAGEMENT

5.1 Pursuant to section 70(2) of the Act, Part XII of the Regulations prescribes the minimum criteria of a 'fit and proper person', which include, among others, regard to a person's probity, competence and soundness of judgement for fulfilling the responsibilities of a position, the diligence with which the person is fulfilling or likely to fulfil those responsibilities and whether the interests of policy owners, insurance claimants, customers or creditors of the insurer may be, are, or are likely to be, in any way threatened by the person holding that position.

5.2 To ensure that key functionaries of insurers remain 'fit and proper' at all times in accordance with the requirements of section 70(2) of the Act and Part XII of the Regulations, all insurers are required to: -

(a) implement[5] a process or mechanism to ensure on an ongoing basis that the directors, CEO and managers fulfil the 'fit and proper' criteria prescribed in Part XII of the Regulations and are not disqualified under section 71 of the Act. The process or mechanism must be approved by the board and at a minimum, include a yearly assessment of the fitness and propriety of these persons. The assessment may be based on a declaration made by the persons concerning matters deemed relevant for the purpose of determining that they fulfil the relevant 'fit and proper' criteria outlined in Part XII of the Regulations and are not disqualified under section 71 of the Act. This should include a consideration of the matters set out in **Appendix III** (not exhaustive).

For the purpose of compliance with section 70(2) of the Act and the requirements of the Guidelines, the application of the 'fit and proper' criteria to 'managers' is further clarified to refer to **any officer concerned in the management of an insurer**, by whatever name

[5] With effect from 30 June 2004.

called. This includes any person who is vested with authority to decide on, or who is charged with primary responsibility for the implementation of, policies and/or strategies of the insurer, or proper conduct of any aspect of the insurer's operations, including responsibility for the internal audit function and the implementation of appropriate risk management systems in the insurer. The responsibilities may be in relation to the insurer as a whole or a department/division/branch of the insurer and includes the appointed actuary of a licensed life insurer, general managers and heads of divisions of an insurer or other officers holding similar or higher positions.

(b) notify[6] Jabatan Penyeliaan Insurans dan Takaful of the Bank of: -

(i) any appointment of key functionaries to more than one position in an insurer that could potentially result in a conflict of interest. Such notifications will apply, but are not limited, to the appointment of a **CEO, chief internal auditor, appointed actuary and head of risk management** to multiple positions and should include relevant justification for the appointment notwithstanding the potential conflict; and

(ii) any circumstances arising that may compromise the fitness and propriety of officers concerned in the management of an insurer. Such notification should be given to the Bank immediately upon the insurer becoming aware of the circumstance. This may include the appointment of the officer to a position, or acquisition/ possession of a property by the officer, which may directly/ indirectly cause a conflict of interest with the officer's responsibilities to the insurer.

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6 With effect from 18 February 2004.

The notification should include information on the mitigating controls/ factors in place and/or actions by the insurer to deal with the potential conflict.

6. RESTRICTIONS ON APPOINTMENT

6.1 Practising Lawyers and Accountants

6.1.1 To enable the insurance industry to tap the expertise of lawyers and accountants, practising lawyers may be appointed as directors of an insurer provided that they are not employed by or are not partners in a legal firm, which is on the panel of lawyers of that particular insurer. Similarly, practising accountants may be directors provided they are not employed by or are **not** partners in an accounting firm which is engaged to conduct audit of or consultancy work for that particular insurer.

6.1.2 The practising lawyers and accountants appointed as directors of an insurer must always be mindful of the need to avoid being involved or seen to be involved in any self-serving practices and conflict of interest situations in the conduct of their profession while serving as directors of the insurer. They are expected to exercise the highest degree of integrity and professionalism.

6.2 Directorship in More Than One Licensee

6.2.1 To avoid a conflict of interest, a director of an insurer holding directorships in more than one insurance licensee is subject to the following requirements:-

(a) a director of an insurer shall not also serve as a director in another insurer that is carrying on the same class of business, or in an insurance broker; and

(b) a director of an insurer that is carrying on general insurance business shall not also serve as a director in an adjuster.

6.2.2 The above restrictions on interlocking directorships also apply to appointments as director in a parent or related company of an insurer, insurance broker or adjuster as the case may be.

6.3 CEOs & Executive Directors

6.3.1 In line with efforts to promote good governance in the insurance industry and to ensure that the CEO and executive directors of insurers devote the necessary time and commitment to the affairs of the insurer, the directorships held by the **CEO and executive directors** of an insurer are restricted as follows[7]: -

(a) an executive director may only hold a position as non-executive director[8] in other companies and may only hold a maximum of five directorships at one time (including the directorship in the insurer)[9]; and

(b) the CEO may only hold a position as non-executive director in the insurer's holding company and subsidiaries as well as sister companies that are financial institutions[10] having synergies with the insurer, and may only hold a maximum of five directorships at one time (including the directorship in the insurer).

CEOs may also hold directorships or council positions in organisations that exist for the development of the insurance

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7 With effect from 18 February 2004.

8 Non-executive directors are persons who do not have an active role in the management of a company or who do not participate in the day-to-day running of a company's business.

9 Directorships in other companies within the same group and directorships in companies to represent the equity interest *of* the insurer concerned should be aggregated and counted as one directorship. Directorships in family-owned companies should also be aggregated and counted as one directorship. Directorships or council positions in organisations that exist for the development of the insurance industry, professional bodies, non-profit social organisations, government bodies and government-controlled companies are excluded from the computation of the limit.

10 Including but not limited to institutions licensed under the Insurance Act 1996, the Banking and Financial Institutions Act 1989, the Takaful Act 1984, the Islamic Banking Act 1983, the Development Financial Institutions Act 2002, the Securities Industry Act 1983 and the Futures Industry Act 1993.

industry, professional bodies, non-profit social organisations, government bodies and government-controlled companies. In the case of CEOs, such directorships are limited to the permitted organisations listed in **Appendix IV** unless the prior approval of the Bank has been obtained for any other organisation not listed therein. Directorships in these organisations will not be included in determining the maximum number of directorships held by the CEO. However, the board of the insurer should establish a limit on the number of directorships that may be held by the CEO in such organisations to ensure that he is able to devote the necessary time and attention to the affairs of the insurer. However, directorships held by CEOs in family-owned companies are not permitted.

CEOs and executive directors of insurers are required to rationalise their existing directorships in other institutions to comply with the above restrictions by **31 December 2004.**

6.4 Non-executive Directors

6.4.1 A non-executive director on the board of an insurer should not simultaneously serve on the board of more than 15 companies (including the insurer)[11] consistent with the Government's decision to restrict the number of directorships that may be held by directors (both executive and non-executive) of public-listed companies. This is to ensure that he will discharge his duties and responsibilities to the insurer effectively.

6.5 Chairman

6.5.1 There should be a clear division of responsibilities between the top management positions in an insurer which will ensure a balance of power and authority, such that no one individual has unfettered decision-making powers. In this connection, the Chairman of the board should be

in a **non-executive** capacity and should not have an executive position or responsibility at the parent or related institutions. The non-executive Chairman assumes an important role in encouraging a healthy debate on critical issues and brings to the board the required level of independence and professional scepticism. Accordingly, an insurer should not combine the roles of the board Chairman and CEO.

7. ALTERNATE DIRECTORS

7.1 Directors of insurers should be committed personally to the board in directing the management of the insurers concerned. This is important for effective governance. Accordingly, the appointment of alternate directors **is not** permitted[12] as an alternate director, in his capacity as a proxy for a director, may not be able to contribute effectively to the deliberations of the board. Individuals currently serving as alternates to permanent directors will no longer be permitted to continue as such upon the expiry of the period approved or the termination/ resignation/retirement of the permanent director concerned.

PART IV - MATTERS RELATED TO THE BOARD

8. BOARD COMPOSITION

8.1 To be effective, the board of an insurer must be composed of a minimum number of directors that reflects the nature of its fiduciary responsibilities, complexity and scale of its operations. Accordingly, each insurer must have a minimum of five directors. This is to ensure that an adequate number of directors is always present to provide direction and guidance to the management of the insurer. Where the M&A of the insurer prohibits the appointment of more than four directors, the M&A should be amended accordingly.

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11 With effect from 10 May 2000.
12 With effect from 18 February 2004.

8.2 On the other hand, an insurer is discouraged from having **more than eight** directors. However, a **maximum** of 10 directors may be allowed, provided the additional directors are independent directors as defined under the Guidelines.

8.3 The board should also include a balance of executive directors and non-executive directors (including independent non-executives) such that no individual or small group of individuals can dominate the board's decision making. In general, a maximum of two senior officers of an insurer may be allowed to sit on its board. However, in exceptional cases and with the consent of the Bank, up to three senior officers may be members of the board. However, directors with executive powers must not account for more than 40% of the total board members at anytime.

8.3A Where directors on the board of an insurer also include executives from the parent or related institutions (e.g. regional office), the board of the insurer must be able to demonstrate that an effective separation between oversight and management is maintained in the overall balance between executive directors and non-executive directors on the board. This should take into account the extent to which the executives from the parent or related institutions assume accountability for decisions and actions within the insurer directly or indirectly, through reporting and decision making structures. Where such accountability is assumed, compensating measures must be put in place such as by having a higher balance of independent directors on the licensed institution's board to ensure effective oversight.

8.4 As best practice, the majority of non-executive directors should comprise independent directors. This is to ensure independence of the board and help mitigate any possible conflict of interest between the policy-making process and the day-to-day management of the insurer.

9. INDEPENDENT DIRECTOR[13]

9.1 Definition

9.1.1 An independent director is a non-executive director who represents the interest of the general public or the shareholders other than the controlling shareholders. An independent director should not:-

(a) hold more than 5% equity interest directly or indirectly in the insurer or in its related corporations;

(b) be employed in an executive position in the insurer or its related corporations at least two years prior to his appointment date;

(c) have an immediate family member who is, or has been in the past two years, employed by the insurer or any of its related corporations as a key senior officer. For this purpose, an 'immediate family member' refers to the spouse, parent, brother, sister, child (including adopted or step child) and the spouse of such brother, sister or child, of the independent director;

(d) be engaged, or have been engaged in the past two years, as a professional adviser by the insurer or any related corporation of the insurer, either personally or through a firm or company in which he is a partner, director or major shareholder; and

(e) be engaged, or have been engaged in the past two years, in any for-profit-business transaction (other than transactions relating to the sale of insurance policies) of a value exceeding RM1 million with the insurer, whether with other persons or through a firm or company in which he is a partner, director or major shareholder. However, "transactions" as stated above shall exclude transactions entered into:-

(i) for personal use of the said director; or

(ii) for personal investment of the said director **other than for the purpose of carrying on a trade or business**, provided that such transactions are on normal commercial terms.

[13] With effect from 30 June 2003.

9.1.2 An independent director of the holding company and/or sister companies of an insurer who is also on the board of the insurer may be considered an independent director of the insurer provided that:-

(a) he fulfils the criteria under paragraph 9.1.1; and

(b) he is not the only director appointed from the holding company to the board of the insurer.

9.2 Responsibilities

9.2.1 The primary responsibility of independent directors is to protect the interest of minority shareholders, other stakeholders and the general public. Therefore, independent directors should provide effective oversight and ensure a strong independent element on the board for it to function effectively and exercise objective judgments. The effective participation of independent directors serves to promote greater accountability and balance in the board's decision-making process. The responsibilities of an independent director should therefore, include the following:-

(a) to enhance the independence and objectivity of the board's deliberations from the executive arm of the insurer;

(b) to mitigate any possible conflict of interests between the policy-making process and the day-to-day management of the insurer;

(c) to constructively challenge and contribute to the development of strategies for the insurer;

(d) to ensure that the board uses adequate systems and controls to safeguard the interests of the insurer;

(e) to provide the 'check and balance' function to the board; and

(f) to monitor and provide an objective view on the performance of executive directors and management in meeting the agreed goals and objectives.

10. BOARD COMMITTEES

10.1 OBJECTIVE

10.1.1 To support sound corporate governance and processes, all locally incorporated insurers and reinsurers are required to establish the following board committees[14]:-

(a) **a nominating committee** – the primary objective of the nominating committee is to establish a documented formal and transparent procedure for the appointment of directors, CEO and key senior officers and to assess the effectiveness of individual directors, the board as a whole (including various committees of the board), CEO and key senior officers on an on-going basis;

(b) **a remuneration committee** – the primary objective of the remuneration committee is to provide a formal and transparent procedure for developing a remuneration policy for directors, CEO and key senior officers and ensuring that their compensation is competitive and consistent with the insurer's culture, objectives and strategy; and

(c) **a risk management committee** – the primary objective of the risk management committee is to oversee the senior management's activities in managing the key risk areas of the insurer and to ensure that an appropriate risk management process is in place and functioning effectively.

The nominating, remuneration and risk management committees established shall comply with the terms of reference set out below.

10.2 Nominating Committee

10.2.1 The terms of reference of the nominating committee are as follows:-

(a) **Composition of committee**

The board of an insurer shall appoint a committee of directors consisting of at least five members comprising a minimum of four non-executive directors to perform the role of the nominating committee. The committee must be chaired by an independent director. In order to avoid conflicts of interest, a member of the committee shall abstain from participating in discussions and decisions on matters directly involving him.

(b) **Committee's responsibilities**

The nominating committee is responsible for: -

(i) establishing minimum requirements for the board and the CEO to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the board in terms of the appropriate size and mix of skills, the balance between executive, non-executive and independent directors, and other core competencies required;

(ii) recommending and assessing the nominees for directorship, the directors to fill board committees, as well as nominees for the CEO position. This includes assessing directors and the CEO proposed for reappointment before an application for approval is submitted to the Bank;

(iii) establishing a mechanism for formal assessment and assessing the effectiveness of the board as a whole, the

[14] With effect from 19 May 2003.

contribution by each director to the effectiveness of the board, the contribution of the board's various committees and the performance of the CEO. The assessments should also include ascertaining that the director is not disqualified under the relevant law and fulfil the 'fit and proper' criteria. For this purpose, insurers may require their directors to make a quarterly declaration, using a standard format, that they are not disqualified under the relevant law and fulfil the 'fit and proper' criteria;

(iv) recommending to the board the removal of a director/CEO if he is ineffective, errant or negligent in discharging his responsibilities;

(v) ensuring that all directors undergo appropriate induction programmes and receive continuous training; and

(vi) overseeing the appointment, management succession planning and performance evaluation of key senior officers, and recommending to the board the removal of key senior officers if they are ineffective, errant and negligent in discharging their responsibilities.

10.2.2 The procedures for appointment and assessment must be approved by the full board and disclosed to the shareholders of the insurers. The committee should not be delegated with decision-making powers but should report its recommendations to the full board for decision.

10.2.3 The full committee should meet as and when required, at a minimum once a year, to deliberate on matters relating to its responsibilities.

10.3 Remuneration Committee

10.3.1 The terms of reference of the remuneration committee are as follows:-

(a) **Composition of committee**

The board of an insurer shall appoint a committee of non-executive directors to perform the role of the remuneration committee. The committee must consist of at least three members and must be chaired by an independent director. In order to avoid conflicts of interest, a member of the committee shall abstain from participating in discussions and decisions on matters directly involving him.

(b) **Committee's responsibilities**

The remuneration committee is responsible for: -

(i) recommending a framework for the remuneration of directors, the CEO and key senior officers. The remuneration policy should –

- be documented and approved by the full board and any changes thereto should be subject to the endorsement of the full board;
- reflect the experience and level of responsibility borne by individual directors, the CEO and key senior officers;
- be sufficient to attract and retain directors, CEOs and key senior officers of calibre needed to manage the company successfully; and
- be balanced against the need to ensure that the funds of the insurers are not used to subsidise excessive remuneration packages and should not create incentives for irresponsible behaviour or insider excesses.

(ii) recommending specific remuneration packages for directors, CEO and key senior officers. The remuneration packages should –

- be based on objective considerations and approved by the full board;
- take due consideration of the assessments of the nominating committee of the effectiveness and contribution of the director, CEO or key senior officer concerned;
- not be decided by the exercise of sole discretion by any one individual or restricted group of individuals; and
- be competitive and consistent with the insurer's culture, objectives and strategy.

10.3.2 The remuneration packages for executive directors should be structured to link rewards to corporate and individual performances to encourage high performance standards. However, the rewards-to-performance linkages should not create incentives for irresponsible behaviour and insider excesses. As for non-executive directors and independent directors, the level of remuneration should be linked to their level of responsibilities undertaken and contribution to the effective functioning of the board. Non-executive chairmen should not expect executive pay.

10.3.3 The remuneration of CEO, should not be out of line with the scale of business operations and activities of insurers. CEOs should not avail themselves of self-serving remuneration with excessive bonuses and fringe benefits relative to the profits and operations of the insurers concerned. The entitlement of CEOs to receive directors' fees from

subsidiaries of the insurer in which they are directors should be nominal and not excessive.

10.3.4 Internal policies on leave passage benefits for employees should be equitable and commensurate with the productive contributions of the officers entitled to such benefits. The policy and limit of the benefits provided should be determined by the board and comply with the following minimum requirements[15]:-

(a) the benefits should be limited to local travel only[16] except for the CEO and executive directors who may be allowed leave passages that alternate between local travel and overseas travel[17]; and

(b) the benefits should be included in the insurer's computation of management expenses which are subject to the management expense limits specified under the BNM/RH/GL/003-7: Guidelines to Control Operating Costs of General Insurance Business and BNM/RH/GL/003-12: Guidelines to Control Operating Costs of Life Insurance Business.

The above requirements on leave passage benefits however, do not apply to home leave passage expatriates.

10.3.5 The framework for remuneration and specific remuneration packages must be approved by the full board. The committee should not be delegated with decision-making powers but should report its recommendations to the full board for decision.

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15 With effect from 16 January 2004.

16 In line with Government's initiative to promote tourism industry.

17 Staff (other than CEO and executive directors) of an insurer who are considered as "very senior executives" and have been enjoying overseas leave passage benefits prior to 16 January 2004 under their terms of employment may continue to enjoy the overseas leave passage benefits as provided for under their contractual terms of employment.

10.3.6 The full committee shall meet at least once a year to review the remuneration packages of the directors, CEO and key senior officers.

10.4 Risk Management Committee

10.4.1 The terms of reference of the risk management committee are as follows:-

(a) **Composition of committee**

The board of an insurer shall appoint a committee of non-executive directors to perform the role of the risk management committee. The committee must consist of at least three members and must be chaired by an independent director.

(b) **Committee's responsibilities**

The risk management committee is responsible for: -

(i) reviewing and recommending risk management strategies, policies and risk tolerance levels for the board's approval;

(ii) reviewing and assessing the adequacy of the risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;

(iii) ensuring that adequate infrastructure, resources and systems are in place for effective risk management e.g. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the insurer's risk taking activities; and

(iv) reviewing the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

10.4.2 The committee should hold regular meetings, at a minimum once every quarter, and should report regularly to the full board.

11. MINIMUM QUALIFICATION STANDARD AND TRAINING REQUIREMENTS FOR DIRECTORS[18]

11.1 OBJECTIVE

11.1.1 The minimum qualification standard and training requirements for directors (hereinafter referred to as the minimum standard) aim to ensure that the boards of insurers collectively possess the necessary qualifications and experience to enable them to effectively discharge their governance responsibilities. This minimum standard also aims to ensure that directors are regularly assessed so that they are not disqualified under the Act and remain 'fit and proper'.

11.1.2 Relevant training will enable directors of insurers to have a robust understanding on the nature of business and to keep abreast of current issues and regulatory changes in the industry. This minimum standard also stipulates the minimum training requirement for directors of insurers in view of the importance of training to further strengthen their ability to meet the governance responsibilities.

11.2 Minimum Qualification Requirements

11.2.1 At least two members of the board of an insurer should be qualified in finance-related disciplines, which at a minimum should be at a university degree level, or have at a minimum five years of working experience at managerial level in these disciplines. For the purpose of the minimum standard, finance-related disciplines include banking,

[18] With effect from 19 May 2003.

insurance, takaful and investment. In addition, at least one member of the board who sits in the audit committee of the insurer should have working experience or knowledge in accounting, auditing practices and financial reporting requirements.

11.2.2 To ensure that the board of an insurer has the required mix of skills and experience to discharge its duties, it is encouraged that the members of the board be from diverse backgrounds, with knowledge and experience in relevant disciplines such as legal, accounting, marketing, information technology, business administration and investment management. Preferably, all members of the board of an insurer should also have some form of educational qualification and/or working experience at managerial level in finance-related disciplines, in addition to the qualifications and experience in their respective disciplines. An insurer should strive towards appointing board members with strategic thinking and leadership skills who are dynamic and responsive to the business environment.

11.2.3 It is further encouraged that all members of the audit committee should be able to understand the financial reporting process and be financially literate[19]. In addition, in view of the important role of the committee in ensuring that there are checks and balances in the internal audit process, audit committee members should also be familiar with areas included in the scope of internal audit including risk management, underwriting, investments and claims management. At least one member of the audit committee should be a member of a recognised accounting professional body, such as the Malaysian Institute of Accountants.

11.3 Training Requirements

11.3.1 The nominating committee of an insurer is required to ensure that the board appointees receive continuous training to enable them to have a robust understanding of the nature of the insurer's business and keep abreast with new regulatory and business developments. Further, insurers are required to develop in-house orientation and education programmes which should be attended by their newly appointed directors to familiarise them with the insurance industry and the institution **within three months of the appointment**. The orientation and education programmes should cover at a minimum the nature of business; the corporate strategy of the insurer; duties and responsibilities of a director and the board as a whole; an overview of risks of the business and the risk management strategy of the insurer; legal requirements and compliance controls of the insurer; and an overview of the financial health of the insurer. New/reappointed directors of listed insurers, who have yet to attend the mandatory training programmes prescribed by the Bursa Malaysia Berhad (for listed companies), must attend the programme within six months of their appointment. For new/reappointed directors of non-listed insurers, who have yet to attend the Corporate Directors Training Programme by Suruhanjaya Syarikat Malaysia (CCM), are however **encouraged** to attend the training programme.

11.3.2 On an on-going basis, insurers should notify the board of all guidelines and circulars (excluding administrative circulars) issued by the Bank within one month of the date of issuance of the guidelines or circular.

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[19] Financial literacy is defined as the ability to read and understand fundamental financial statements, including a company's balance sheet, income statement and cash flow statement.

PART V - DISCLOSURE REQUIREMENTS

12. REMUNERATION OF DIRECTORS/CEOS

12.1 To promote enhanced disclosures by insurers of compensations paid to their senior management and directors, all **locally-incorporated** insurers are required to include the following disclosures in the notes to the financial statements with effect from **financial years beginning on or after 1 July 2003**:-

(a) the aggregate remuneration of **executive directors** separately disclosed in respect of salaries, bonuses, benefits-in-kind and other remuneration;
(b) the aggregate remuneration of **non-executive directors** separately disclosed in respect of fees and other remuneration; and
(c) the remuneration, including benefits-in-kind, attributable to the **CEO.**

Branches of foreign insurers are required to make disclosures of the remuneration attributable to the CEO of the Malaysian branch. The above disclosures should be made in the notes to the financial statements specified under the revised JPI/GPI 15: Model Insurance Company Accounts[20] in the form specified in **Appendix V**.

12.2 The enhanced disclosure requirement represents the minimum disclosure that insurers must comply with. Insurers are encouraged, as best practice, to make voluntary disclosures in addition to the minimum requirement which may include disclosure of:-

(a) the remuneration of individual directors;
(b) the number of directors whose total remuneration falls in successive bands of a specified range; and/or
(c) the aggregate/individual remuneration attributable to the five highest paid directors and officers.

13. BOARD COMMITTEES

13.1 The assessments of the nominating, remuneration and risk management committees must be made available to the full board. In addition, the activities of the committees and their assessments should also be briefly reported in the insurer's disclosure on corporate governance required to be made pursuant to BNM/RH/GL/003-2. The disclosure must include the following: -

(a) the membership of the committees;

(b) the responsibilities of the committees;

(c) the number of committee meetings held in a year. Insurers are also encouraged to disclose information on the number of meetings attended by each member of the committees; and

(d) a statement on the nominating committee's assessment of the mix of skills, experience and other competencies of directors, and a statement of the insurer's risk management framework.

Departures from the established terms of reference of the committees and circumstances justifying such departures should also be explained.

[20] Issued by the Bank on 24 April 2002.

PART VI - WITHDRAWAL OF GUIDELINES/CIRCULARS

14. With the issuance of these consolidated guidelines, the following guidelines and circulars are hereby withdrawn in respect of their application to insurers:-

Guidelines/ Circulars	Title	Date of Issuance
JPI/GPI 1	Guidelines on Duties and Responsibilities of Directors and Chief Executives of Insurers	11 December 1990
JPI/GPI 1 (Revised)	Guidelines on Duties and Responsibilities of Directors and Chief Executives of Insurers	2 November 1995
JPI: 13/2003	Corporate Governance Standards	19 May 2003
JPI: 16/2003	Corporate Governance Standards	30 June 2003
JPI: 21/2003	Pelantikan Pengarah/Ketua Pegawai Eksekutif oleh Pemegang Lesen/Pengawal Penanggung Insurans	9 October 2003
JPI: 23/2003	Appointment of Directors for Locally Incorporated Licensed Insurers and Reinsurers	21 October 2003
JPI: 27/2003	Tempoh Pelantikan Pengarah/Ketua Pegawai Eksekutif Penanggung Insurans	12 November 2003
JPI: 32/2003	Disclosure of Remuneration of Directors/Chief Executive Officers of Insurers	9 December 2003
JPI: 2/2004	Kemudahan Tambang Percutian	16 January 2004
JPI: 5/2004	Fit and Proper Requirements for Board Members and Senior Management of Insurance Licensees	18 February 2004
JPI: 6/2004	Borang Tapisan Kebankrapan dengan JPHM	27 February 2004
JPI: 11/2004	Pelantikan Pengarah/Ketua Pegawai Eksekutif oleh Pemegang Lesen/Pengawal Penanggung Insurans	29 April 2004