

## **Instructions No. (2) of 2006**

### **Corporate Governance Instructions and the Amendments Thereof \***

**Issued by the Board of Director of the Insurance Commission pursuant to the provisions of paragraph (B) of Article (45) and paragraph (B) of Article (108) of the Insurance Regulatory Act No. (33) of 1999 and the Amendments Thereof**

#### **Article (1):**

These Instructions shall be known as the (Corporate Governance Instructions of 2006) and shall come into force as of the date of its publication in the Official Gazette.

#### **Article (2):**

A- The following words and phrases, mentioned in these Instructions shall have the meanings ascribed thereto in Article (2) of the Insurance Regulatory Act No. (33) of 1999 and the Amendments Thereof, unless otherwise indicated by context.

B- For purposes of these Instructions, the words and phrases mentioned hereunder shall have the following meaning:-

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| Act                  | : The Insurance Regulatory Act in force.   |
| Corporate Governance | : A Set of relationships, between the board of directors of the company, its executive management, its shareholders and other entities related thereto, that aim to attain the interests of the company and the insureds, monitor the achievement of those objectives and the compliance of the company with the rules of equity, transparency and disclosure of its financial position, performance, its ownership, and its compliance with the relevant legislation. |
| Executive Management | : Senior employees to whom daily work is entrusted, including the general manager of the company, the authorized manager, deputy general manager and assistant general manager.  |
| Control              | : The direct or indirect capacity to influence effectively the actions or decisions of another person.   |
| Affiliate            | : A person that controls or is controlled by another person, or each of the two persons is controlled by a third person.   |

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\* These Instructions were published in the Official Gazette volume (4804) dated 16/1/2007 page (119), and have been amended according to the Instructions No. (5) of 2007 "Instructions Amending the Corporate Governance Instructions No. (2) of 2006" published in the Official Gazette dated 15/11/2007 volume (4862) page (6821) and Instructions No. (2) of 2009 "Instructions Amending the Corporate Governance Instructions" published in the Official Gazette dated 1/7/2009 volume (4790) page (3124).

## **Board of Directors**

### **Article (3):**

The board of directors of the company shall be responsible to set the general policies of the company and supervise the execution thereof. To achieve that, the board of directors shall acquire the responsibilities and authorities stipulated in the Act, Regulations, Instructions and Decisions issued by virtue of any of them and the legislation relevant to the business and activities of the company, provided that such responsibilities and authorities shall include the following as a minimum:-

- A- Establishing strategic objectives of the company, the necessary procedures for supervising and evaluating the compliance of such, provided that such objectives and the adherence to it shall be reviewed and evaluated annually or during the year, if necessary.
- B- Appointing the general manager of the company, and approving the appointment of the deputy general manager and the assistant general manager upon recommendation of the general manager.
- C- Approving the organizational structure of the company and setting the internal regulations and instructions to specify the duties and responsibilities of the executive body of the company, in order to achieve the administrative and financial monitoring over its business.
- D- Adopting measures to specify the amount of compensation determined for the members of the board of directors and the executive management including salaries, allowances, remunerations and other privileges in a manner that preserve the interest, goals and objectives of the company and in accordance with the relevant legislation.
- E- Setting the necessary procedures to ascertain that no member of the board of directors or the executive management is gaining any personal benefit at the expense of company and its objectives.
- F- Setting procedures that ensure that the company is complying with the provisions of the Act, Regulations, Instructions and Decisions issued by virtue of any of them, and with the provisions of any legislation relevant to business and activities of the company.
- G- Ascertaining the availability of a risk management system suiting the volume of business and the nature of activity of the company, covering all the transactions of the company, and avail an effective mechanism to ascertain a periodical evaluation for the risk management policy of the company.
- H- Taking the necessary procedures for disclosure of information regarding the financial position of the company and providing the concerned entities with such, in due time.
- I- Determining a mechanism for the members of the board of directors, either individually or as a group, if necessary, to get technical consultations from entities outside the company in order to improve the performance of their duties, provided that such consultations shall be on the expense of the company.
- J- Contacting the relevant regulatory and supervisory entities, if the board of directors so deemed.
- K- Establishing the necessary committees to execute functions of the board of directors, provided that the board of directors specifies the responsibilities of these committees and the mechanism of their work.
- L- Setting a business plan to implement the standards of corporate governance mentioned in these Instructions and the relevant legislation as well as reviewing and evaluating the scope of implementation annually.

**Article (4):**

Subject to the provisions of Articles (31) and (32) of the Act and the relevant legislation:-

- A- The company abides that the board of directors shall consist of an appropriate number of qualified members not less than seven members. Those members shall have the necessary knowledge, experience and skills to supervise and follow up on the affairs of the company.
- B-
  - 1- The number of the independent members at the board of directors shall not be less than one third of the board other than the members of the executive management.
  - 2- For purposes of these Instructions, the independent member shall mean the member who has no relationship with the company or with any other affiliated company or its directors, any relationship that affects or could affect his independency in making decisions.
- C- For purposes of paragraph (B) of this Article, the following cases shall be considered to affect the independency of the board member:-
  - 1- If the board member is an employee in the company or in any other affiliated company during the period as a board member or during the two previous financial years.
  - 2- If the board member is related to a senior employee in the company or in an affiliated company, by marriage or family relationship up to the second degree, which exists for the last three financial years.
  - 3- If the board member acquires (5%) or more of the stocks of the company.
  - 4- If the board member has control over the company.
  - 5- If there is a consultancy relationship, direct or indirect commercial interest between the board member of the company and the company or any other affiliated company, or if the independent member accepted any remuneration or compensation from the company or any affiliated company other than the remuneration or compensation for services provided to the board of directors for the current year or during the last three financial years.
- D- The board of directors, notwithstanding the existing of one or more of the cases mentioned in paragraph (C) of this Article in the board member, may consider a member to be independent, provided that the board shall fully disclose the situation of that member and justify the reasons for considering that member to be independent.
- E- The chairman of the board of directors shall not be a member of the executive management.

### **Executive Management**

**Article (5):**

The general manager shall comply with the following:-

- A- Managing the business of the company and providing directions to the executive body subject to the strategic objectives and policies set out by the board of directors of the company, as well as the provisions of the Act, Regulations, Instructions and Decisions issued by virtue of any of them and other legislation relevant to the business and activities of the company.
- B- Providing the board of directors of the company with accurate regular reports in respect of the company's financial position, transactions, and the procedures taken in respect of the risk management of the company and the internal control system, to enable the board of directors of the company to review the objectives, plans and policies, and to hold the executive management accountable for its performance.

- C- Providing the board members with any information and documents necessary for the board meetings in suitable time.
- D- Providing recommendations regarding any suggestions related to the business of the company, he may deem necessary.
- E- Providing the Commission with any information, data or documents required according to the Act, Regulations, Instructions and Decisions issued by virtue of any of them.

**Article (6):**

Subject to the provisions of Articles (31), (32) and (33) of the Act, competence and experience in insurance business are prerequisites in the executive management appointed after these Instructions came into force, according to the following:-

- A- The general manager should have one of the following:
  - 1- A university degree and an actual work experience in matters related to insurance for not less than eight years. The Director General may approve to decrease such period for those holding the Doctor of Philosophy or Masters degree in related fields or those holding an insurance professional certificate.
  - 2- An insurance professional certificate and an actual work experience in matters related to insurance for not less than fifteen years.
  - 3- An actual work experience in matters related to insurance for not less than twenty years.
- B- The deputy general manager or the assistant general manger, as the case may be, should have one of the following:-
  - 1- A university degree and an actual work experience in matters related to insurance for not less than five year. The Director General may approve to decrease such period for those holding the Doctor of Philosophy or Masters degree in related fields or those holding an insurance professional certificate.
  - 2- An insurance professional certificate and an actual work experience in matters related to insurance for not less than ten years.
  - 3- An actual work experience in matters related to insurance for not less than fifteen years.
- C- For the purposes of implementing the provisions of this Article, the approval of the Director General on the professional certificates and the submitted work experience is required.

**Audit Committee**

**Article (7):**

Subject to the provisions of the relevant legislation, the board of directors shall establish an audit committee according to the following:-

- A- The audit committee shall consist of a chairman and two other members, provided that one of them, at least, shall have the experience in auditing, accounting or finance, or shall be a public accountant according to the relevant legislation in force. The board of directors shall elect the committee members among its members other than the members of the executive management or any of the committees established by the board. The audit committee shall meet, at least, once every three months, or whenever necessary.
- B- The functions and authorities of the audit committee shall be clearly specified, and shall include the following:-
  - 1- Recommending to the board of directors to nominate the external auditor to be elected by the general assembly.
  - 2- Monitoring the extent of comprehensiveness of the external audit of the business of the company.

- 3- Ensuring the existence of coordination between external auditors, in case there is more than one.
  - 4- Reviewing the observations in the reports of the Insurance Commission and the reports of the external auditor and following up measures taken in their reports.
  - 5- Studying the annual plan of the internal audit and review the notes in the internal audit reports and following up measures taken in their reports.
  - 6- Ascertaining the accuracy and soundness of the accounting, financial and control procedures and the extent of compliance therewith.
  - 7- Ensuring that the external auditor reviews the financial statements before presenting them to the board of directors of the company, particularly the compliance with the requirements issued by the Commission.
  - 8- Ensuring that the company complies with the Acts, Regulations, Instructions and Decisions that regulate the businesses and activities of the company.
  - 9- Meeting with the external and internal auditors, and with the appointed or accredited Actuary, as the case may be, at least once a year and without the presence of representatives of the executive management of the company.
  - 10- Recommending to the board of directors with the appointment and resignation or discharging of the internal auditor.
  - 11- Presenting to the board of directors the minutes of its meetings and the reports it has prepared.
  - 12- Any other duties requested by the board of directors of the company.
- C- The board of directors of the company shall disclose in the annual report, the names of the audit committee members, its activities and number of meetings held during the year.

### **Risk Management and Internal Control and Supervision System**

#### **Article (8):**

- A- A written risk management policy, suiting the volume of business and the nature of activity of the company, must be available in the company. This policy shall be capable to identify, measure, assess, disclose and contain the risks and to ensure the effectiveness of such system, it shall include the following:-
- 1- A comprehensive cover of all transactions of the company, setting standards and clear limits for each type of risk and the procedures to deal therewith; and it shall be ascertained that all staff of the company, each in accordance to their administrative level, are fully aware and familiar with such policy.
  - 2- Monitoring the commitment of the company to the risk management policy and the levels of all types of risks.
  - 3- Following the procedures necessary to ensure that information are delivered to decision makers in a suitable time in respect of any excesses of material effect, and the steps necessary to correct such excesses and follow up on the procedures taken.
  - 4- A regular evaluation of the procedures and policies of risk management and the levels thereof, taking into consideration the seriousness of the problem that may emerge, the strategy of the company and market development.
- B- The company must establish the internal arrangements necessary for the management and supervision of all risks subsequent to the transactions of the company.

#### **Article (9):**

- A- The company shall establish an authenticated internal control and supervision system, accredited by the board of directors of the company, suiting the volume of business of the company, the nature of its activity, and the relevant legislation; supported by an information system which ascertains the auditing of these

information, provided that the system is regularly reviewed by the internal and the external auditor and the actuary to ensure that the system is in harmony with the relevant legislation, and to evaluate its effectiveness and sufficiency.

- B- The control and supervision system of the company referred to in paragraph (A) of this Article shall include the following, as a minimum:-
- 1- Availability of a supervisory environment at the executive management as per the organizational structure of the company and in harmony with the nature of the business of the company provided that all communication lines and responsibilities are clearly defined for each administrative unit.
  - 2- Existence of a detailed job description for required qualifications, a detailed manual and procedures to execute the different business of the company.
  - 3- Availability of supervision controls and segregation of responsibilities, and ascertainment of segregation between the authorities responsible for risk management and the controllers on these risks.
  - 4- Availability of procedures accredited by the board of directors of the company that ensure the execution and review of the strategies of the company for the information systems in a manner which ensures availability of information to decision makers effectively and at a suitable time, including a contingency plan dealing with cases of emergency.
  - 5- Clear supervision basis applicable to all the business of the company that will be executed by entities outside the company, to ensure that the execution has been implemented in accordance with the established internal supervision controls of the company.

### **Internal Audit**

#### **Article (10):**

The internal auditor must audit the effectiveness and sufficiency of the internal control and supervision system, and the business of the company, in accordance to the volume of business of the company and the nature of its activity, including the following:-

- A- That the company is conducting pursuant to the provisions of the Act, Regulations, Instructions and Decisions issued by virtue of any of them.
- B- That the company practicing business in a sound manner and in harmony with the strategic objectives and policies determined by the board of directors of the company.
- C- That all transactions are conducted according to the responsibilities and authorities determined by the board of directors of the company.
- D- That the company implements sound and accurate accounting and supervisory procedures.
- E- That the assets of the company and properties are correctly and properly used according to rules.
- F- That the records and books of the company are comprehensive and accurate and contain all the necessary information.
- G- That the internal auditing standards are implemented on the services provided by external entities in the same manner they are implemented on the other internal transactions at the company.
- H- That the management of the company is always capable to identify, evaluate and manages its business risks, and that it keeps a sufficient capital base to meet such risks.
- I- That the executive management of the company responds to the decision made by the board of directors regarding the recommendations of the audit committee upon the internal report of the auditor.

- J- Notify the board of directors of the company immediately for any deficiency, difficulty or risk threatening the company, and follow up with the concerned persons to take the necessary corrective procedures.
- K- Provide the board of directors regularly with the reports regarding the sufficiency and efficiency of the internal control and supervision system.

**Article (11):**

The internal auditor shall do the following:-

- A- Submit a report of the results of the internal audit process, stipulated in Article (10) of these Instructions, provided that the report shall include the following, as minimum:-
  - 1- Scope of auditing, its procedures and time of accomplishment.
  - 2- The financial position of the company, quality of assets, consistency with the legislation in force and the observations of the external auditor.
  - 3- Weakness points, deceit or material violations, if any.
  - 4- The corrective procedures to be taken, if necessary.
- B- Submit an annual business plan before the end of the previous year, provided that such plan shall include the scope and procedures of auditing and time needed to accomplish.
- C- Maintain a report of the results of the internal audit process, related papers and documents for a period not less than five years as of the date the auditing process is conducted.

**Article (12):**

The internal auditor shall:-

- A- Be completely independent that can directly submit his reports and recommendations to the audit committee.
- B- Maintain the security of confidential dealings and documents in his possession.
- C- Conduct his business with professionalism, good behavior and competence.
- D- Attain the appropriate knowledge, competence and experience.
- E- Comply with the international practices and standards regarding the internal audit profession.

**Article (13):**

The company may appoint an internal auditor or establish an internal audit unit in accordance to the volume of business of the company and nature of its activity. The provisions of Articles (10), (11) and (12) of these Instructions shall be implemented, in all cases, on the internal auditor and the internal audit unit, as the case may be.

**General Provisions**

**Article (14):**

- A- The company shall provide the Director General with the following:-
  - 1- The policy of the company regarding the Internal Control and Supervision System, annually.
  - 2- List of names, qualifications and experiences of the audit committee.
  - 3- List of names, qualifications and experiences of the internal auditor.
  - 4- Copies of all the observations of the external auditor concerning the periodical auditing, within a period not exceeding three months as of the date of the commencement of the financial year.
  - 5- The report of the internal auditor including the conclusive statements of the company, provided that the report shall include the most important observations and conclusions of his dealings.

- B- The company shall notify the Director General immediately with any change or amendment occurring on any of items (2) or (3) of paragraph (A) of this Article.

**Article (15):**

The company shall disclose the following:-

- A- The relationship between the chairman of the board of directors of the company and its general manager, if any.
- B- The organizational structure of the company including the structure of the board of directors and the executive management as well as their qualifications and experiences.
- C- The remuneration policy for every member of the board of directors of the company and the executive management.
- D- The main risks in the company and the risk management policy.

**Article (16):**

If it becomes difficult, according to the election of the general assembly of the company, to elect one third of the board of directors from the independent members, the company shall notify the Director General with that. The Director General shall direct the company to take the appropriate procedures.

**Article (17):**

The provisions of these Instructions shall be applied on the authorized manager and the branch of the foreign insurance company, as much as they are applicable and according to the decision to be issued by the Director General for this purpose.

**Article (18):**

The company shall adjust its status in accordance with the provisions of these Instructions, within a period not exceeding one year as of the date the provisions of these Instructions came into force, provided that a plan shall be submitted to the Director General emphasizing the procedures to be followed by the company for purposes of adjusting its status pursuant to the provisions of these Instructions, within a period not exceeding three months as of the date of the commencement. The Director General may extend the adjustment period for a period not exceeding one year, if necessary.

**Article (19):**

The Director General shall issue the Decisions necessary for implementing the provisions of these Instructions.

**Board of Directors of the Insurance Commission**