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Insurance Regulatory Authority

CORPORATE GOVERNANCE GUIDELINES FOR INSURANCE AND REINSURANCE COMPANIES

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To All Stakeholders

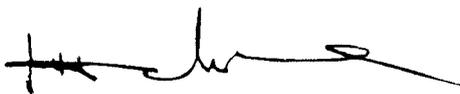
THE CORPORATE GOVERNANCE GUIDELINES

These Corporate Governance Guidelines are issued pursuant to section 3A of the Insurance Act.

The aim of these guidelines is to enhance good corporate governance practices by insurers which is critical to the stability of the insurance industry. The insurers are required to develop appropriate policies that will give effect to prudent management of their affairs.

The prime focus of corporate governance is the protection of the interest of the shareholders, policyholders and all the stakeholders of the insurers which promotes confidence in the insurance industry.

To this end, the Insurance Regulatory Authority hereby issues these Corporate Governance guidelines.



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COMMISSIONER OF INSURANCE & CHIEF EXECUTIVE OFFICER

**THE INSURANCE ACT
(CAP 487)**

**CORPORATE GOVERNANCE GUIDELINES FOR INSURANCE AND
REINSURANCE COMPANIES**

TABLE OF CONTENTS

1.0	Authorisation	2
2.0	General Introduction	2
2.1	Application	2
2.2	Definitions	2
2.3	Objectives	4
3.0	Principles of Good Governance	5
3.1	Governance structure of the Boards	5
3.2	Board of Directors – Roles and Responsibilities	5
3.3	Fit and proper person criteria	7
3.4	Control Function of the Board	7
3.5	Role of the Chairman of the Board	8
4.0	Board Committees	8
4.1	Audit Functions	9
4.1	Investment Functions	10
4.2	Risk Management Functions	10
4.3	Asset Liability Management functions	11
4.4	Policyholders’ Protection functions	12
4.5	Ethics functions	12
4.6	Nomination and Remuneration functions	12
5.0	Senior Management	13
5.1	Responsibilities of the Senior Management	13
6.0	Principal Officer	13
6.1	Major Duties and Responsibilities of the Principal Officer	13
6.2	Appointment of the Principal Officer and approval of Authority	14
7.0	Actuary and Auditor	15
7.1	Role of appointed Actuary	15
7.2	Independent Auditors	16
8.0	Information, disclosure, & transparency towards the market	17
9.0	Relationship with the Authority	18
10.0	Effective Date	19
11.0	Enquiry	19

CORPORATE GOVERNANCE GUIDELINES FOR INSURANCE AND REINSURANCE COMPANIES

1.0. Authorisation

IN EXERCISE of the powers conferred by sections 3A (a), (b) and (g) of the Insurance Act, the Insurance Regulatory Authority issues the Guidelines set out here below, for observance by insurance and reinsurance companies in Kenya (herein referred to as the Insurers), in order to enhance corporate governance practices by such companies.

2.0 General Introduction

The Insurance Regulatory Authority (herein referred to as Authority) has developed these Corporate Governance Guidelines to promote prudent management of all the Insurers in Kenya. Good governance of the Insurers is critical to the stability and development of the Insurance industry, and promoting public interest in the industry translating into the robust economic growth.

Corporate governance refers to the manner in which Boards of Directors and Senior Management oversee the Insurers' business. It encompasses the means by which members of the board and senior management are held accountable and responsible for their actions. Corporate governance includes corporate discipline, transparency, independence, accountability, responsibility, fairness, probity and social responsibility. Timely and accurate disclosure on all material matters regarding the Insurer, including the financial situation, performance, ownership and governance arrangements, is part of a corporate governance framework. Corporate governance also includes compliance with legal and regulatory requirements.

The Board of Directors is the focal point of the corporate governance system. It is ultimately accountable and responsible for the performance and conduct of the Insurer. Delegating Authority to board committees or management does not in any way mitigate or dissipate the discharge by the Board of Directors of its duties and responsibilities.

2.1 Application

These guidelines shall apply to all Insurers authorized by law to carry out insurance business.

2.2 Definitions

In these guidelines, reference to the following words shall have the meaning assigned in this article:

2.2.1. **Board** shall apply to the Board of Directors.

2.2.2. **Senior Management** means team of individuals at the highest level of the

insurer's management who have the day-to-day responsibilities of managing the insurer; they hold specific executive powers conferred onto them with and by Authority of the Board of Directors and may include the principal officer and line managers.

2.2.3. **Principal Officer** – means the Chief Executive Officer, Managing Director, General Manager or any other officer of the Insurer responsible for the general control, direction and supervision of the Insurer.

2.2.4. **Non- Executive Director** means an individual not involved in the day to day management of the insurer and is not a salaried employee of an Insurer or its subsidiaries.

2.2.5. **Independent Actuary** means a Fellow of the Institute of Actuaries in England or the Faculty of Actuaries in Scotland or the Society of Actuaries of the United States of America or such other person having actuarial knowledge as the Commissioner may, on application of a member of the insurance industry approve who has not been previously employed by the Insurer in any capacity, has no personal relation to the insurer, its affiliates, associates, its senior managers or its service providers.

2.2.6. **Independent Auditor** means the auditor appointed under section 56(4) of the Insurance Act and has not been previously employed by the Insurer in any capacity, has no personal relation to the insurer, its affiliates, associates, its senior managers or its service providers.

2.2.7. **Independent Director** means a director who;

- a) Has not been employed by the Insurer in any executive capacity within the preceding five (5) years.
- b) Is not associated to an adviser or consultant to the Insurer or a member of the Insurer's senior management or a significant customer or supplier of the Insurer or with a not-for-profit entity that receives significant contributions from the Insurer; or within the preceding five (5) years, has not had any business relationship with the Insurer (other than service as a director) for which the Insurer has been required to make disclosure;
- c) Has no personal service contract(s) with the Insurer, or a member of the Insurer's senior management;
- d) Is not employed by a public listed company at which an executive officer of the Insurer serves as a director;
- e) Is not a member of the immediate family of any person described above;

Or;

- f) Has not had any of the relationships described above with any affiliate of the Insurer.

2.2.8. **Fit and proper criteria** for the purposes of these guidelines means the criteria that should be taken into account in determining whether one is suitable for appointment to a particular position and broadly include honesty, integrity, and reputation; competence and capacity; and financial soundness of the person to be so appointed. One shall be considered to have failed that test or criterion if the person;

- (a) has been issued a warning or reprimand by the Authority, any other regulatory Authority, an operator of a market or clearing facility, any professional body or government agency.
- (b) has had any judgment (in particular; that associated with a finding of fraud, misrepresentation, financial mismanagement or dishonesty) entered against the relevant person in any civil proceedings or is a party to any pending proceedings which may lead to such a judgment, under any law in any jurisdiction;
- (c) has been convicted of any offence of financial fraud, or is being subject to any pending proceedings which may lead to such a conviction, under any law in any jurisdiction;
- (d) has been a director or a member of management of any financial institution in Kenya that has become insolvent; or is facing insolvency proceedings due to financial mismanagement.

2.3 Objectives

2.3.1. The objective of these guidelines is to ensure that the structure, responsibilities and functions of Board of Directors and the senior management of the Insurer fully recognize the expectations of all stakeholders as well as those of the Authority. The Board should take steps required to adopt sound and prudent principles and practices for the governance of the Insurer and should have the ability to quickly address issues of non-compliance or weak oversight and controls.

2.3.2. These guidelines therefore amplify on certain issues which are covered in the Insurance Act, CAP 487 and the Regulations framed thereunder and include measures which are additionally considered essential by Authority for adoption by insurers.

3.0 Principles of Good Governance

The effective administration and structure of the board that is accountable and responsible for the performance and conduct of the insurer is core to good governance. Every Insurer should be headed by an effective board to offer strategic guidance and policy direction, lead and control the Insurer and be accountable to its shareholders and other stakeholders.

3.1 Governance structure of the Boards

- 3.1.1. In line with the requirements of section 27A of the Insurance Act, the Insurer is expected to appoint at least five (5) members of the Board. A third of the board members shall be independent directors who shall not hold office for more than two terms of three years each. The Principal Officer shall be an *ex-officio* member of the Board with no right to vote at the Board Meetings.
- 3.1.2. The requirements set in section 27 of the Insurance Act that a third of the members of the Board shall be Kenyan citizens for locally incorporated companies shall be factored in the composition of the Board.
- 3.1.3. The Board shall ensure that the management and Board functions are clearly separated to enable the Board to exercise its oversight function over the management. For avoidance of doubt no member of the management save for the Principal Officer as provided in clause 3.1.1, shall serve in the Board of the Insurer.
- 3.1.4. The Independent Directors shall be independent professionals who are free from any business relations or other associations, including those arising out of involvement in past management or as a supplier, customer or adviser that could materially interfere with the exercise of their independent judgment except those arising from substantial shareholding.
- 3.1.5. In case the Articles of Association of the Insurer allows for the appointment of an alternate director, such appointment shall be approved by the Authority, and the person so appointed shall not be a sitting member of the board and the composition shall comply with section 27A of the Insurance Act.
- 3.1.6. Senior management of the Insurer, with responsibilities relating to the business in Kenya, must be ordinarily resident in Kenya.

3.2 Board of Directors – Roles and Responsibilities

The Board of Directors of an Insurer shall be charged with the following responsibilities:

- 3.2.1. Appointment of the Principal Officer.

- 3.2.2. Overall direction of the business of the insurer, including projections on the capital requirements, revenue streams, expenses and the profitability. While laying down the projections, the Board must address the expectations of the shareholders and the policyholders.
- 3.2.3. Absolute compliance with the Insurance Act and the regulations framed thereunder, and other statutory requirements applicable to it.
- 3.2.4. Sets out its responsibilities in committing to the specific corporate governance principles, policies and procedures and ensuring that they are applied in sound and prudent manner and for approving and overseeing the implementation of the insurer's business objectives and strategies.
- 3.2.5. To develop a formal, documented process for nomination, selection, and removal of the Board members.
- 3.2.6. Establishes policies and strategies, the means of attaining them, and procedures for monitoring and evaluating the progress toward them. Adherence to the policies and strategies as reviewed regularly; at least annually.
- 3.2.7. Satisfies itself that the insurer is organized in a way that promotes the effective and prudent management of the institution and the board's oversight of that management.
- 3.2.8. The board of directors should have in place independent risk management functions that monitor the risks related to the type of business undertaken. The board of directors establishes risk management functions, audit functions, actuarial functions, strong internal controls and applicable checks and balances.
- 3.2.9. Establishes standards of business conduct and ethical behaviour for directors, senior management and other personnel.
- 3.2.10. Ensures fair treatment of the shareholders, policy holders and employees.
- 3.2.11. Develop and implement human resource policies which shall include a remuneration policy that is reviewed periodically which does not induce excessive or inappropriate risk taking. This policy shall be made available to the Authority.
- 3.2.12. Ensures information sharing with and disclosure to stakeholders, including investors, policyholders, employees, the regulators, consumers, financial analyst and/or rating agencies. The Board should develop specific policies in line with disclosure requirements set by the Insurance Act and rules and regulations made there under, standard of practice, and guidelines issued by the Authority.
- 3.2.13. Establishes Board committees with specific responsibilities which shall be incorporated in the Board Charter.

- 3.2.14. Development of investment policies.
- 3.2.15. Preparation of financial statements and accounts.
- 3.2.16. Formulate and implement information technology (IT) governance structure.

3.3 Fit and proper person criteria

- 3.3.1 In line with the international and domestic norms, the Directors of insurers have to meet the “fit and proper” criteria. The criteria to be satisfied, at a minimum, would relate to integrity demonstrated in personal behaviour and business conduct, soundness of judgment and financial soundness.
- 3.3.2 With a view to ensuring that the Directors comply with the above requirement, a due diligence enquiry should be undertaken by a Nomination Committee on the person to be appointed as Director or for the continuance of the existing Directors only after obtaining a declaration from the proposed or existing Directors, at the time of their appointment or re-appointment provided that such declaration shall be filed with the Authority.
- 3.3.3 It is therefore a requirement that the Board shall constitute a Nomination Committee to scrutinize the declarations of the applicants before the appointment or reappointment or election of directors by the shareholders at the General Meetings. The Nomination Committee should also make independent or discreet references, where necessary, well in time to verify the accuracy of the information furnished by the Director. The insurers are further required that they should obtain an annual declaration from the Directors that the information provided in the declaration at the time of appointment or re-appointment has not undergone any change subsequently and the changes, if any, are appraised by the concerned Director to the Board.

3.4 Control Function of the Board

Prudent governance requires that the Board of an insurer takes measures that are aimed at minimizing the risk which the Insurer is prone to. It is important for the Board to put in place;

- 3.4.1. Robust and efficient mechanisms for the identification, assessment, quantification, control, mitigation and monitoring of the risks;
- 3.4.2. Appropriate processes for ensuring compliance with the Board approved policies, applicable laws and regulations;
- 3.4.3. Appropriate internal controls to ensure that the risk management and compliance policies are observed;

- 3.4.4. An internal audit function capable of reviewing and assessing the adequacy and effectiveness of, and the insurer's adherence to its internal controls as well as reporting on its strategies, policies and procedures; and
- 3.4.5. Independence of the control functions, including the risk management function, from business operations demonstrated by a credible reporting arrangement.

3.5 Role of the Chairman of the Board

The Chairman of the Board shall be Non-Executive and Independent Director and whose responsibilities shall include but not be limited to:

- (a) Providing overall leadership to the Board,
- (b) Participating in the selection of Board members,
- (c) Ensuring proper induction, training and continuous development of Board members,
- (d) Ensuring that the Board is appropriately composed in compliance with the laws,
- (e) Ensuring that there is a formal succession plan for the Board,
- (f) Setting the agenda for the Board meetings,
- (g) Ensuring appropriate conduct of Board meetings in accordance with the law,
- (h) Ensuring that decision making process is in accordance with the law and that it caters for interests of the policyholders and shareholders.

4.0 Board Committees

The Board shall establish Board committees to assist it in discharging its duties and responsibilities. However, the board remains accountable and shall retain responsibility for monitoring and oversight of its sub-committees and external service providers.

- (a) There should be a formal procedure for certain functions of the board to be delegated, describing the extent of such delegation, to enable the board to properly discharge its duties and responsibilities and to effectively execute its decision making process.
- (b) Board committees with formally determined terms of reference, life span, role and function constitute an important element of the process and should be established with clearly agreed upon reporting procedures and written scope of Authority.
- (c) As a general principle there should be transparency and full disclosure from the board committee to the board, except where the committee has been mandated otherwise by the Board.
- (d) Non-executive directors must play an important role in board committees.

- (e) Board committees should be free to take independent professional advice as and when necessary, and to invite Senior Management to provide technical advice when needed.
- (f) The board shall form such number of committees necessary for the performance of functions including but not limited to;
 - a) Audit
 - b) Investment
 - c) Risk Management
 - d) Asset Liability Management
 - e) Policyholder Protection
 - f) Ethics
 - g) Nomination and Remuneration

4.1 Audit Functions

The Audit Committee shall perform the following specific responsibilities;

- 4.1.1 The Audit Committee shall oversee the financial statements, financial reporting and disclosure processes.
- 4.1.2 The Chairman of the Audit Committee should be an Independent Director of the Board and should be a professional Certified or Chartered Accountant or a person with strong financial analysis background. The association of the Principal Officers in the Audit Committee should be limited to eliciting any specific information concerning audit findings.
- 4.1.3. The Audit Committee will oversee the efficient functioning of the internal audit department and review its reports. The Committee will additionally monitor the progress made in rectification of irregularities and changes in processes wherever deficiencies have been reported.
- 4.1.4. The Audit Committee shall be directly responsible for the appointment, remuneration, performance and oversight of the auditors (internal or statutory or concurrent). In case of statutory audit, the independence of the auditors shall be ensured (although the approval of appointment, remuneration and removal of the statutory auditors shall be done by the shareholders at the annual general meeting).
- 4.1.5. The Audit Committee shall establish procedures to attend to issues relating to maintenance of books of account, administration policies and procedures, transactions and other matters having a bearing on the financial position of the insurer, whether raised by the auditors or by any other person.

- 4.1.6. Any work other than audit that is entrusted to the auditor or any of its associated persons or companies shall be specifically approved by the Board who shall keep in mind the necessity to maintain the independence and integrity of the audit relationship. All such other work entrusted to the auditor or its associates shall be specifically disclosed in the annual accounts of the insurer.

4.2 Investment Functions

- 4.2.1 The Board shall be responsible for laying down an overall investment policy and operational framework for the investment operations of the insurer. The policy should focus on a prudential asset liability management supported by robust internal control systems.
- 4.2.2 The investment policy and operational framework shall , inter alia, encompass aspects concerning liquidity for smooth operations, compliance with prudential regulatory norms on investments, risk management or mitigation strategies to ensure commensurate yield on investments and above all protection of policyholders' funds. It is also responsible for a periodic review of the investment policy based on the performance of investments and the evaluation of dynamic market condition.
- 4.2.3 Members of the Board performing investment functions shall be conversant with requirements on investments as provided by the Insurance Act and any relevant regulations on insurance fund investments.
- 4.2.4 All Investments made are to be approved by the Board members performing investment functions or by the delegated and authorized operational staff to facilitate urgent and day-to-day Investment operations.
- 4.2.5 The Board shall also put in place an effective reporting system to ensure compliance with the policy set out by it apart from Internal / Concurrent Audit mechanisms for a sustained and on-going monitoring of Investment Operations.
- 4.2.6 The Board members performing Investment functions shall meet at least once in a quarter and look into various aspects of investment operations and monitor them.

4.3 Risk Management Functions

The Authority is keen on the prudent management of the risks and development of strong risk management system and mitigation strategies by requiring the Boards of all Insurers to perform Risk Management functions by laying down the company's Risk Management Strategy. The risk management functions shall be organized in such a way that it is able to monitor all the risks across the various lines of business of the Insurer and the operating head has direct access to the Board.

An insurer should identify, understand, and manage the significant risks that it faces. Effective and prudent risk management systems appropriate to the complexity, size and nature of the insurer's business should identify and measure against risk tolerance limits the risk exposure of the insurer on an on-going basis in order to indicate potential risks as early as possible.

4.3.1. Specific Responsibilities of Board members in performing Risk Management functions

The Board members performing Risks Management functions shall;

- a) Assist the Board in effective operation of the risk management system by performing specialised analysis and quality reviews.
- b) Maintaining a group-wide and aggregated view on the risk profile of the insurer in addition to the individual risk profile.
- c) Report to the Board details on the risk exposures and the actions taken to manage the exposures.
- d) Advise the Board with regard to risk management decisions in relation to strategic and operational matters such as corporate strategy, mergers and acquisitions and related matters.

4.4 Asset Liability Management functions

The Board shall play a critical role of formulating, implementing, monitoring and revising strategies related to assets and liability. The work of the committee is aimed at achieving an organization's financial objectives. The Board is to lay down framework to ensure that the insurer invests in manner which will enable it to adhere to the solvency requirements and thus meet its cash flow needs and capital requirements at a future date.

The Board in performing its Assets Liability Management functions shall,

- 4.4.1 Set the insurer's risk or reward objectives and assess policyholder expectations.
- 4.4.2 Quantify the level of risk exposure and assessing the expected rewards and costs associated with the risk exposure.
- 4.4.3 Formulate and implementing optimal asset liability management strategies and meeting risk or reward objectives. The strategies must be laid down both at product level and enterprise level.
- 4.4.4 Lay down the risk tolerance limits.

- 4.4.5 Monitor risk exposures at periodic intervals and revising asset liability management strategies where required.
- 4.4.6 Place the asset liability management information before the Board at periodic intervals.

4.5 Policyholders' Protection functions

The Board shall develop a mechanism of keeping the policyholders well informed and educated about insurance products, claims and complaint-handling procedures and in particular shall;

- 4.5.1 Put in place proper procedures and effective mechanism to address complaints and grievances of policyholders.
- 4.5.2 Ensure compliance with the statutory requirements as laid down in the regulatory framework.
- 4.5.3 Review of the mechanism at periodic intervals.
- 4.5.4 Ensure adequacy of disclosure of "material information" to the policyholders. These disclosures shall, for the present, comply with the requirements laid down by the Authority both at the point of sale and at periodic intervals during the subsistence of the insurance contract.
- 4.5.5 Review the status of policyholders' complaints at periodic intervals.
- 4.5.6 Provide the details of grievances at periodic intervals in such formats as may be prescribed by the Authority.

4.6 Ethics functions

The Board's responsibilities in respect to the Ethics functions shall include:

- 4.6.1 Supervising and monitoring matters reported using the insurer's whistle blowing or other confidential mechanisms for employees and others to report ethical and compliance concerns or potential breaches or violations.
- 4.6.2 Approving compliance programmes, reviewing their effectiveness on a regular basis and signing off on any material compliance issues or matters.

4.7 Nomination and Remuneration functions

The board is required to determine on behalf of the Board and on behalf of the shareholders with agreed terms of reference, the insurer's policy on nomination procedures and specific

remuneration packages and any compensation, for the Principal Officer and the Executive Directors of the company.

The nomination procedure shall be clearly set out the appropriate recruitment criteria and the terms of office.

- 4.7.1 The remuneration package shall be closely connected with the performance objectives laid down for the board and senior management.
- 4.7.2 To avoid conflicts of interest, where the Nomination Committee is to determine the nomination procedure and remuneration packages of the executive directors, the committee shall comprise of at least three directors, all of whom should be non-executive directors, with the Chairman of the Committee being an Independent Director.
- 4.7.3 To ensure succession planning and board continuity the date of the appointment of the board of directors will be on different dates to ensure the term equally expires on different dates.

5.0 Senior Management

5.1 Responsibilities of the Senior Management

- 5.1.1 Overseeing the operations of the insurer and providing direction to it on a day-to-day basis, subject to the objectives and policies set out by the board of directors, as well as to legislation.
- 5.1.2 Providing the board of directors with recommendations, for its review and approval, on objectives, strategy, business plans and major policies that govern the operation of the insurer.
- 5.1.3 Providing the board with comprehensive, relevant and timely information that will enable it to review business objectives, business strategy and policies, and to hold senior management accountable for its performance.

6.0 Principal Officer

6.1 Major Duties and Responsibilities of the Principal Officer

The sound operations of the insurer will depend critically on the guidance given to the Management by the Principal Officer. The Principal Officer shall be responsible to the Board for the day to day running of the insurer. The Principal Officer shall;

- (a) Ensure that the policies spelt out by the Board in the Insurer's overall corporate strategy of the institution shall be implemented.

- (b) Through designed criteria and in adherence to the Institution's human resources policy, identify and recommend to the Board competent officers to manage the operation of the institution;
- (c) Co-ordinate the operation of the various departments within the institution;
- (d) Establish and maintain efficient and adequate internal control systems;
- (e) Design and manage the necessary management information system in order to facilitate efficient and effective communication within the institution;
- (f) Ensure that the Board is frequently appraised about the operation of the institution through presentation of relevant Board papers, which must cover, but not limited to the following arrears;
 - (i) Actual performance in variance with the past and/or projected performance and the budget together with the explanation of the likely cause of all the variances.
 - (ii) Capital structure and adequacy.
 - (iii) Income and expenditures.
 - (iv) Performance in terms of loans, investments, losses, recoveries and provisions.
 - (v) Reports on compliance with Insurance Laws, regulations and Guidelines issued by the Authority, and any violations to those laws, Regulations if any, and the remedial actions taken to such violation.
 - (vi) Large exposures.
 - (vii) Any other areas relevant to the Institution's operations.

6.2 Appointment of the Principal Officer and approval of Authority

- 6.2.1 The Insurer shall apply to the Authority for approval of a person appointed as the Principal Officer. The Insurers proposing such appointment shall present to Authority a duly complete fit and proper form.
- 6.2.2 A principal officer shall be an individual who holds a technical or professional qualification in insurance, accounting or banking approved by the Commissioner, and who has more than ten years' experience in a managerial capacity in the respective sector.
- 6.2.3 Authority shall retain the power to disqualify any Principal Officer if it gathers

any information about the Principal Officer that is likely to adversely affect the operation of the insurer. In such a case the Authority shall call upon the insurer to present another name for approval. In case of voluntary resignation by a CEO/PO the Authority shall promptly be informed of the development and the proposed replacement in acting Capacity awaiting recruitment of the substantive office holder.

7.0 Actuary and Auditor

7.1 Role of appointed Actuary

The Authority puts emphasis on the appointment of an independent Actuary by the Board of the insurer. In making the appointment the board should ensure that;

- 7.1.1 A procedure for appointment of the Actuary is in place and has been adhered to.
- 7.1.2 The appointed Actuary qualifies and satisfies the 'Fit & Proper' criteria.
- 7.1.3 The insurer shall clearly set forth the Actuary's operational responsibilities and advisory role in relation to the Board or the management as well as their rights and obligations.
- 7.1.4 As soon as the appointed Actuary realizes that the entity does not comply or is likely to fail in complying with the requirements of solvency and other parameters of sound operations, they shall inform the Board or the management and/or the independent Auditors as appropriate depending on the gravity of the situation.
- 7.1.5 The Board shall interact directly with the appointed Actuary wherever it considers it expedient to secure his advice.
- 7.1.6 The appointed Actuary shall provide professional advice or certification to the board with regard to:
 - (a) Estimation of technical provisions in accordance with the valuation framework set up by the insurer
 - (b) Identification and estimation of material risks and appropriate management of the risks
 - (c) Financial condition testing
 - (d) Solvency margin requirements
 - (e) Appropriateness of premiums (and surrender value)

- (f) Allocation of bonuses to with-profit insurance contracts
- (g) Management of participating funds (including analysis of material effects caused by strategies and policies)
- (h) Product design, risk mitigation (including reinsurance) and other related risk management roles.

While the areas of certification listed above are with specific reference to life companies, the appointed actuaries in case of non- life insurance companies shall provide such advice/certification to the extent applicable.

In order to facilitate the appointed Actuary in discharge of his responsibilities, he shall at all times be provided access to the information as required.

7.2 Independent Auditors

The statutory auditors recommended by the Audit Committee are required to be appointed at an annual general meeting of the shareholders of the insurer. For the present, the statutory auditors of insurers are required to certify the insurer's accounts on an annual basis. The Board should therefore ensure that the statutory auditors are compliant with the regulatory requirements and there are no conflicts of interest in their appointment.

Key to the appointment of Auditors is their independence in judgment and in executing their audit duties.

- 7.2.1 The Board of the insurers must, to the extent practical, undertake steps to satisfy themselves that the Auditor, who undertakes the work for the insurer, must retain his or her independence in line with International Financial Reporting Standards, the Insurance Act and Regulations, prudential management policies of the insurer and that there is no conflict of interest.
- 7.2.2 In order to ascertain independence of the Auditor, he or she shall give a declaration to the effect that he or she is independent and or there is nothing in his or her knowledge (either in relation to individual auditor or audit firm or an Insurer of which the auditor is a member or director) that could compromise his or her independence and that there is no conflict of interest between himself or herself and the insurer that may compromise the insurer.
- 7.2.3 Conflict of interest may arise in the following circumstances;
 - (a) The auditor is not capable of exercising objective and impartial judgment in relation to the conduct of the work undertaken for the insurer due to the auditors association with the company;

- (b) A person, who is a member of an audit firm, or a director of the audit company but who initially served in professional capacity in the internal audit of the insurer;
 - (c) A person who was an employee of an audit company, other than the director of that company, and who acted as the lead auditor or reviewed audit in the internal audit of an insurer.
- 7.2.4 An independent Auditor shall be engaged for a maximum duration of ten (10) years.
- 7.2.5 In appointing the statutory auditors, the insurer must not re-appoint an Auditor whose maximum term as stipulated above has expired. Such an Auditor may however be appointed after a minimum of two (2) continuous years from previous engagement.
- 7.2.6 In order for an audit firm to be eligible for appointment as statutory Auditors, the firm's managing partner should have been in continuous practice for a period of at least fifteen (15) years.

8.0 Information, disclosure, & transparency towards the market

Public disclosure of reliable and timely information facilitates the understanding by prospective and existing stakeholders of the financial position of insurers and the risks to which they are subject, regardless of whether they are publicly traded or not.

8.1 Insurers are required to disclose information on their financial position and the risks to which they are subject. Specifically, information disclosed should be:

- 8.1.1. Relevant to decisions taken by stakeholders
- 8.1.2. Timely so as to be available and up-to-date at the time those decisions are made
- 8.1.3. Accessible without undue expense or delay by the stakeholders
- 8.1.4. Comprehensive and meaningful so as to enable stakeholders to form a well-rounded view of the insurer
- 8.1.5. Reliable as a basis upon which to make decisions
- 8.1.6. Comparable between different insurers
- 8.1.7. Consistent over time so as to enable relevant trends to be discerned.

8.2. Information includes quantitative and qualitative information on:

- 8.2.1 Financial position
- 8.2.2 Financial performance
- 8.2.3 A description of the basis, methods and assumptions upon which information is prepared (and comments on the impact of any changes)
- 8.2.4 Risks exposures and how they are managed
- 8.2.5 Management and corporate governance.

8.3 In order to encourage a fair market and protection of the policyholders both existing and prospective, the insurer shall disclose the following information to any person seeking to be a policyholder and or any policyholder seeking clarity;

- 8.3.1 Scope of the cover in very certain terms in the proposal forms to be filled to the insured.
- 8.3.2 The exclusions of the risks not covered by the proposed policy. The policyholder should be aware of the risks not covered to enable them make informed decisions on the proposed cover.
- 8.3.3 To the prospective policyholder at the time of taking the cover, those risks that will not be covered and hence not to be compensated when loss occurs.
- 8.3.4 To the prospective policyholder/existing policy holder of the need to cover other risks not covered through taking additional cover.
- 8.3.5 Any payment that the policyholder will be required to meet at the time of the loss and the basis of arriving at such payments. This information should be available at the time of taking the cover by the prospective policyholder.

9.0 Relationship with the Authority

- 9.1. Insurers must regularly share material information on their governance processes with Authority and the relevant stakeholders.
- 9.2. Information that may be appropriate for communication on at least an annual basis to the Authority and relevant stakeholders includes;
- 9.3. the insurer's overall strategic objectives, covering existing or prospective lines of business and how they are being or will be achieve;

- 9.4. the insurer's governance structures, including the allocation of responsibilities between the Board and Senior Management, as well as information on the organizational structure and reporting lines;
- 9.5. background information on members of the Board and its committees, including their respective expertise, qualifications, track-record, other positions held by such members, and whether such members are regarded as independent;
- 9.6. the general design, implementation and operation of the insurer's remuneration policy;
- 9.7. major ownership and group structures, and any significant affiliations and alliances. Any agreements and contracts with related entities shall be subject to approval by the Authority.
- 9.8. any other information specifically mentioned in the guidelines.

10.0. Effective Date

1st July 2011

11.0 Enquiry

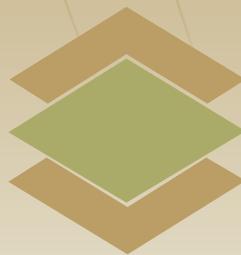
Enquiries on any aspect of these guidelines shall be referred to;

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