Financial Reporting for Insurers in Zimbabwe - Corporate Governance

Corporate Governance for Insurers and Pension Funds

Presented by Togarepi Pupurai

Head - Prudential Supervision

IPEC
Preamble

• Following scandals in various corporates, the world over in particular in the financial services sector, the insurance industry included, it is imperative that stakeholders (including government and regulators) increase their focus on improving governance standards.

• The resultant failures of these companies have had far reaching systematic consequences (Systematic risk) hence the need to scale up compliance with the regulations relating to corporate governance.

• The major cause on most of these failures can be traced to poor corporate governance - The board and senior managers slept on the wheel.
Definition

• The internal structures and processes by which a corporate entity is controlled and managed at the highest level.

• Governance for our purposes include among other issues:

  ➢ A board which gives direction to an insurer’s/or pension fund’s management

  ➢ Holding final authority and responsibility for the entity
Major Corporate Governance Issues in Insurance Entities

- **Suitability of persons** - Shareholders, board members, senior management, accountants, auditors and actuaries must be fit and proper - We expect to work with various professional boards like ICAZ to rid the industry of unethical practitioners.

- The assessment of fitness and propriety is an ongoing process and is not limited to the point of appointment.

- The main issues include composition of the boards, allocated powers to committees such as Audit, Risk, Finance and Human Resources

- Changes in control (shareholding) including mergers need approval by the Commissioner

- **Internal controls** must be adequate for the nature and scale of business

- **Information and Disclosure** - Reporting on corporate governance activities and compliances is expected timeously whenever is necessary.
Major Corporate Governance Issues in the Pensions Industry

• The Board of Trustees should be aware of their fiduciary responsibility - on behalf of pensioners.
• Trustees can be held accountable should negligence be proved in their handling of pension assets.
• The trustees – look after member’s interest - Assets of the pension fund should be treated with due care and diligence.
• The Board of Trustees - should recognize the separate roles and responsibilities of the fund and employer.
• Disclosure of conflict of interest.
Pension Funds Challenges in Zimbabwe Today

• Trustees take trustee business as commitments that can be avoided giving management unlimited latitude to make decisions.

• Trustees lack relevant competencies to run some huge funds, especially on control and monitoring.

• Conflict of interest - A Finance Director for instance could be compromised should he be faced with a tough financial decision pitting the fund and employer.

• Transparency and accountability.
Ethics in the Insurance and Pensions Industry

The US dollar appetite has eroded some of the salient ethical practices of insurance such as:

1. **Switching** - A practitioner moves business from one insurer/fund manager to another for selfish reasons against the policyholder’s /members interest

2. **Rebating** - players undercut premiums or induce potential policyholders

3. **Pension funds** take too many risks to the disadvantage of pensioners

4. **Too powerful brokers/agents** - illegally withholding premiums and in some instances settling claims - insurer afraid to lose business acts in complicity

5. **Indemnity** - losses are now paid in installments (Is this the spirit at the policy inception?)

6. **Overtrading beyond one’s underwriting capacity without reinsurance arrangements**

7. **Ex-gratia cover** – where an insurer finds a way to pay than to repudiate a claim- that spirit must come back. It oils the confidence of the insuring public

8. **De-campaigning other players**- In actual fact create a bad perception/image about the insurance industry.

9. **Pseudo shareholders** (just paper equity owners) only for fulfilling ownership registration requirements while the entity is owned by one person

10. **Family owned businesses** whose continuity is doubtful on death of the promoter
The Role of the Regulator

- IPEC’s responsibilities in corporate governance are as follows:
  - Establish rules for good corporate governance of insurance companies
  - Authorizing/licensing participants - these must be reliable, properly managed, adequately capitalized and have the skills to transact business without destabilizing the market.
  - Regular financial and statistical monitoring of players
  - On-site and off-site surveillance of authorized market participants to assess accuracy of information and compliance with regulations.

- The commission implores insurers and pension funds to appreciate the multiplicity of risks they face and how these can be worsened by laxity in Corporate Governance.

- It is also important for regulated entities to realize that what they hold are mainly public funds hence the need for prudent governance structures and processes in their operations.