South African Reserve Bank
Prudential Authority

Prudential Standard GOI 2

Governance of Insurers

Objectives and Key Requirements of this Prudential Standard

This Standard sets out the governance requirements for insurers. Good governance is the foundation of prudent business management by an insurer. Strong governance arrangements provide effective oversight of the way in which an insurer operates its business and manages its risks.

This Standard sets down the Prudential Authority's minimum requirements for good governance of insurers. They include:

- *requirements for the composition and operation of boards of directors (including requirements for independence of board members);*
- *mandatory committees for audit, risk and remuneration;*
- *roles and responsibilities of board members and senior management;*
- *guidance on delegations of roles and functions and how these should be governed;*
- *ongoing requirements for the operation of boards of directors, including succession planning, and evaluation of board performance and renewal; and*
- *ongoing requirements for the operation of senior management.*

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1. Application

1.1. This Standard applies to all insurers licensed under the Insurance Act, 2017 (the Act), other than microinsurers, Lloyd's and branches of foreign reinsurers. The application of these Standards to insurance groups that have been designated as such by the Prudential Authority, under section 10 of the Act, is addressed in a separate standard, GOG (Governance and Operational Standard for Groups).

1.2. Unless otherwise indicated, all references to "insurer" in this Standard can be read as a reference to life insurers, non-life insurers and reinsurers.

2. Roles and Responsibilities

2.1. An insurer's board of directors is ultimately responsible for ensuring that the insurer complies with the principles and requirements of this Standard.

2.2. An insurer's auditor must provide assurance to the insurer and the Prudential Authority, if requested, that the insurer complies with the requirements of this Standard or a part thereof.

3. Commencement and Transition Provisions

3.1. This Standard commences on 1 July 2018.

Version Number	Commencement Date
1	1 July 2018

4. Principles

4.1. The governance framework of an insurer provides for the prudent management and oversight of its insurance business. It includes the checks and balances needed to ensure decisions are aligned with the strategies and policies of the insurer and the interests of policyholders.

4.2. As set out in Part 1 of Chapter 5 of the Act:

a) insurers must adopt, implement and document an effective governance framework, that protects the interest of policyholders;
b) the governance framework must be proportionate to the nature, scale and complexity of the insurance business and risks of the insurer; and
c) the governance framework must include effective systems of corporate governance, risk management and internal controls.

4.3. Good governance starts with boards of directors and senior management. The requirements for boards of directors and senior management in this Standard sets out the requirements for meeting the governance framework as set out in the Act.

4.4. An insurer's corporate culture should support its governance framework by aligning with the insurer's strategic objectives and values. Guidance Note GOI GN 2.1 offers guidance on this alignment.

5. Composition of the Board of Directors of an Insurer

5.1. The two critical ingredients of effective board decision making are independence and capacity. The board of directors of an insurer must at all times consist of:

a) A sufficient number of non-executive directors and independent directors to promote objectivity in decision making by the board of directors (for a detailed definition of independence, see Attachment 1); and
b) an appropriate number and mix of individuals to ensure that there is an adequate overall spread and level of knowledge, expert skills and experience at board level, commensurate with the nature, scale and complexity of the business and risks of the insurer.

5.2. The Prudential Authority recognises that, notwithstanding section 5.1 above, circumstances may justify alternative board compositions that nevertheless provide the independence and capacity needed to govern and prudently manage an insurer's business. An insurer must seek prior approval from the Prudential Authority before implementing a board structure that deviates from section 5.1 above.

5.3. The Prudential Authority in considering an application for a board structure that deviates from section 5.1 above will have regard to the following:

a) the prudent management of the insurance business of the insurer;
b) the protection of the interests of policyholders;
c) the nature, scale and complexity of the business of the insurer;
d) developmental and financial inclusion objectives necessary to facilitate the progressive or incremental compliance with the Act by a specific insurer; and
e) if the granting of the approval will not—
   (i) conflict with the public interest; or
   (ii) frustrate the achievement of the objective of the Act.

6. Chairperson of the Board of Directors

6.1. Unless approved otherwise by the Prudential Authority, the chairperson of the board of directors of an insurer must be an independent director.

6.2. The Prudential Authority in considering an application for prior approval will have regard to the matters referred to in section 5.3 above.

6.3. The chairperson of the board of directors must:

a) provide leadership to the board of directors in respect of the proper and effective functioning of the board as a collective;
b) ensure that adequate time is allocated for discussion of board matters, especially discussions of a strategic or policy nature; and
c) promote a culture of openness and debate among directors, senior management and heads of control functions (for requirements for control functions see GOI 3 (Risk Management and Internal Controls)).

6.4. In circumstances where the Prudential Authority approves a non-independent chairperson, the board of directors must appoint a lead independent director.

6.5. The functions of the lead independent director, where appointed, are to, among other things:

a) provide leadership and advice to the board of directors in respect of matters where the chairperson has a conflict of interest or perceived conflict of interest, including the identification of circumstances where the chairperson may have a conflict of interest or perceived conflict of interest that may impact on the chairperson's independent decision making;
b) preside at meetings of the board of directors from which the chairperson is absent or in respect of which the chairperson has a conflict of interest or perceived conflict of interest;
c) perform the functions of the chairperson that cannot be performed by the latter because of a conflict of interest or perceived conflict of interest;
d) provide a sounding board for the chairperson to discuss confidential issues related to governance, board performance, the performance of individual directors, and concerns raised by directors, shareholders or employees; and
e) perform the annual assessment/appraisal of the chairperson's performance based on direct and confidential feedback from all directors.

7. Board Committees

7.1. Committees support boards by providing specific expertise for considering complex or specialised matters and making recommendations for consideration by the board of directors.

7.2. Subject to sections 7.3 and 7.4 below, the board of directors of an insurer should assess whether, and to what extent, the establishment of committees is appropriate.

7.3. Insurers must have an audit committee [1]. Notwithstanding the provisions of section 94(2) of the Companies Act, 2008 (Companies Act), an insurer may not rely on the audit committee of a parent entity to satisfy this requirement, unless the Prudential Authority has exempted it from the requirement to have its own audit committee. The audit committee plays a key role in ensuring the accountability and transparency of an insurer. As an independent body, its function is to ensure the integrity of financial controls and financial risk management, and reporting to shareholders and other stakeholders. Attachment 2 sets out functions and requirements of an insurer's audit committee that are additional to those prescribed in the Companies Act.

7.4. Unless approved by the Prudential Authority to implement alternative arrangements, each insurer must also establish a risk committee and a remuneration committee. Attachments 3 and 4 set out the functions of an insurer's risk committee and remuneration committee respectively. The Prudential Authority in considering an application for prior approval will have regard to the matters referred to in section 5.3 above.

7.5. As set out in section 33 of the Act, board committees must have the necessary authority, independence, resources, expertise and access to all relevant employees and information to perform their functions. In addition, they must have a clearly defined and documented mandate and functions.

[1] Section 94 of the Companies Act requires the shareholders of among others a public company to appoint an audit committee at the public company's annual general meeting. Section 94 requires that the committee comprise at least three members, and all members must be independent directors of the company. While technically a shareholder committee, not a board committee, the audit committee provides critical governance support to the board of directors.

8. Roles and Responsibilities of the Board of Directors

8.1. The board of directors of an insurer is responsible for the effective governance of the insurer. In exercising that responsibility the board of directors must:

a) set, approve and oversee the implementation of the insurer's business objectives and strategies for achieving those objectives, taking into account the long-term financial soundness of the insurer as a whole, the interests of its policyholders and other stakeholders, and the fair treatment of customers;
b) act with independence of mind in pursuing the best interest of the insurer, policyholders and other stakeholders;
c) regularly review the insurer’s business objectives and strategies to ensure they are consistent with the insurer’s broader policyholder and other stakeholder commitments;
d) set, be role models for, and test the ongoing adherence to the insurer’s values and culture (for guidance on culture see Guidance Note 2.1 (Corporate Culture));
e) promote an open and accountable environment in which employees who communicate concerns about illegal or irregular behaviour are properly protected from occupational detriment;
f) set and oversee the design and implementation of sound risk management and internal control systems and functions as set out in GOI 3 (Risk Management and Internal Controls);
g) set and oversee the effective implementation of all material policies as set out in Attachment 1 of GOI 3 (Risk Management and Internal Controls) of the insurer;
h) set and oversee the effective implementation of a remuneration and incentive model that demonstrably supports prudent decision making, is consistent with the insurer’s risk appetite, and does not induce excessive or inappropriate risk taking;
i) set and implement appropriate governance procedures over the board’s activities to ensure that conflicts of interest are properly identified and managed;
j) set and implement governance arrangements to ensure reliable and transparent financial reporting for public and supervisory purposes;
k) establish and implement impartial and effective arrangements for communicating with the Prudential Authority and other financial sector regulators, to ensure that regulatory matters are properly prioritised and dealt with expeditiously and accurately;
l) regularly monitor and, at least annually, review the adequacy and effectiveness of the insurer's governance framework;
m) regularly review the composition of knowledge, expert skills and experience of the board of directors as a whole and plan for the orderly succession of board members; and
n) notify the Prudential Authority of any shortcomings in the insurer's governance framework, the reasons for the shortcomings, and the insurer’s plans to rectify them.

8.2. In overseeing senior management and heads of control functions, the board of directors of an insurer must:

a) ensure that there are adequate policies and procedures relating to the appointment, dismissal and succession of senior management and heads of control functions, and be actively involved in such processes;
b) monitor that the knowledge and expertise of senior management and heads of control functions remain appropriate to the nature of the insurer’s business and risk profile;
c) set appropriate performance and remuneration standards for senior management and heads of the control functions consistent with the long-term strategy and the

financial soundness of the insurer and monitor whether they are meeting the performance goals set for them;

d) assess, at least annually, the performance of the chief executive officer or the person that is in charge of the insurer against the performance goals set for them;
e) ensure that adequate procedures are in place for assessing, at least annually, the effectiveness of the performance of senior management (other than the chief executive officer or the person that is in charge of the insurer) and the heads of the control functions against the performance goals set for them;
f) monitor whether senior management is managing the affairs of the insurer in accordance with the strategies and policies set by the board of directors, and the board-approved risk appetite, values and culture;
g) monitor whether the policies and procedures set by the board of directors are being properly implemented by senior management and are operating as intended;
h) monitor whether senior management is promoting a culture of sound risk management, compliance and policyholder protection;
i) monitor whether senior management and heads of control functions provide the board of directors with adequate and timely information to enable it to carry out its duties and functions;
j) monitor whether senior management and heads of control functions provide the Prudential Authority, policyholders and other stakeholders with the information required to satisfy the legal and other obligations applicable to the insurer; and
k) regularly meet with senior management and heads of control functions to discuss and review the decisions made, information provided and explanations given with respect to the business and operations of the insurer.

9. Allocation and Delegation of Roles and Responsibilities

9.1. As the governing body, all powers and responsibilities reside initially with the board of directors. The board of directors may delegate some of the activities or functions associated with its roles and responsibilities to board committees or members of senior management, other persons within the insurer or, in certain cases, to external parties. Outsourcing of roles and functions to external parties introduces particular risks to the prudent management of an insurer and are addressed separately in GOI 5 (Outsourcing by Insurers).

9.2. The allocation of roles and responsibilities between the board of directors and senior management is one of the most critical governance decisions that the board of directors of an insurer makes. As a general principle, the board of directors should retain all strategic and policy decisions, and delegate day-to-day management decisions.

9.3. Delegation does not abrogate the accountability of the board of directors for decisions made under delegation. Anything done or omitted to be done under a delegation is deemed to have been done or omitted by the board of directors.

9.4. Effective delegation requires a strong and disciplined governance model. The board of directors of an insurer must develop an appropriate system of delegation in which:

a) delegations are appropriately and clearly mandated and documented;
b) there are adequate checks and balances;
c) there is provision for the monitoring and reporting on delegations;
d) there is no undue concentration of powers; and
e) delegations may be withdrawn.

10. Duties of Individual Directors

10.1. A director of an insurer, in addition to the requirements of the Companies Act to act in good faith, honestly, and reasonably, and to exercise due care and diligence in fulfilling his/her duties, must:

a) at all times comply with the fit and proper policy of the insurer;
b) act in the best interests of the insurer and policyholders; and
c) exercise independent judgment and objectivity in decision making, taking into account the interests of the insurer and policyholders.

10.2. A director of an insurer must have the commitment necessary to fulfil his/her role, as demonstrated by, for example, a sufficient allocation of time to the affairs of the insurer and reasonable limits on the number of directorships held within or outside the insurance group.

10.3. A director of an insurer must act without favour, providing constructive and robust challenge of proposals and decisions and asking for information when the director considers it necessary.

11. Board Performance

11.1. The board of directors of an insurer must:

a) have appropriate internal governance practices and procedures to support its work, in a manner that promotes efficient, objective and independent judgment and decision-making; and
b) ensure that the internal governance practices and procedures referred to above are followed and periodically reviewed to assess their effectiveness and adequacy.

11.2. The board of directors of an insurer must have adequate powers and resources to discharge its duties fully and effectively. These should, at a minimum, include:

a) the power to obtain timely and comprehensive information relating to the management of the insurer, including direct access to relevant persons within the organisation for obtaining information, such as senior management and Key Persons in control functions; and
b) access to services of external consultants or specialists where necessary or appropriate, subject to criteria (such as independence) and due procedures for appointment and dismissal of such consultants or specialists.

11.3. The internal governance practices and procedures referred to above must, among other things:

a) be documented in a Board Charter;
b) set out how the board of directors will carry out its roles and responsibilities;
c) include a process for nomination, selection and removal of board members and specify the term of office of board members as is appropriate to their roles and responsibilities; and
d) address appropriate succession planning.

11.4. The board of directors of an insurer must adopt and implement a procedure to review, at least annually, its performance both collectively and individually, to ascertain whether the board of directors remains effective in discharging its roles and responsibilities and identify opportunities for improvement.

12. Roles and Responsibilities of Senior Management

12.1. Subject to appropriate delegation from the board of directors, senior management is responsible for and must:

a) carry out the day-to-day operations of the insurer effectively and in accordance with the insurer's board-approved culture, business objectives and strategies for achieving those objectives in line with the insurer's long-term interests and viability;
b) promote sound risk management, compliance and fair treatment of customers;
c) provide the board of directors with adequate and timely information to enable the board of directors to carry out its duties and functions, including the monitoring and review of the performance and risk exposures of the insurer, and the performance of senior management;
d) maintain adequate and orderly records of the internal organisation;
e) promote strong risk management and internal controls, through their personal conduct, through the implementation of transparent policies, and by communicating to all employees their responsibilities in these areas; and
f) not interfere with the activities that control functions carry out in the rightful exercise of their responsibilities, including that of providing an independent view of governance, risk, compliance and control related matters.

12.2. Senior management must implement appropriate systems and controls, in accordance with the board-approved risk appetite and values, and consistent with internal policies and procedures. The systems and controls must provide for organisation wide decision-making in a clear and transparent manner that promotes effective management of the insurer, and must include:

a) processes for engaging persons with appropriate competencies and integrity to discharge the functions under senior management, including succession planning, ongoing training and procedures for termination;
b) clear lines of accountability and channels of communication between senior management and Key Persons;
c) proper procedures for the delegation of senior managerial functions and monitoring whether delegated functions are carried out effectively and properly, in accordance with the same principles that apply to delegations by the board of directors (see section 9 above);
d) standards of conduct and codes of ethics for senior management and other staff to promote a sound corporate culture, and the effective implementation on an on-going basis of internal standards and codes;
e) proper channels of communication, including clear lines of reporting, between senior management and the board of directors; and
f) effective communication strategies with the Prudential Authority, policyholders and other stakeholders, that include the identification of matters that should be disclosed, and to whom such disclosures should be made.

12.3. The chief executive officer or the person that is in charge of the insurer must assess, at least annually, the effectiveness of the performance of other senior managers against the performance goals set by the board of directors.

12.4. The chief executive officer or the person in charge of the insurer must address any identified inadequacies or gaps in performance of other senior managers promptly and report same to the board of directors.

Attachment 1: Independence

A. Non-Executive Directors

For the purposes of this Prudential Standard, a reference to a 'non-executive director' is a reference to a director who is not a member of the insurer's management (see definition in Attachment 1 to GOI 1 (Framework for Governance and Operational Standards for Insurers)). Non-executive directors may include board members or, where an insurer has a parent company or a significant owner, senior managers of the parent company or significant owner, but not executives of the insurer or its subsidiaries.

B. Independent Directors

The requirements for independence go beyond the need for a director to be non-executive. Independence generally means the capacity to exercise objective judgment, free from conflicts or biases.

In the context of audit committee appointments, section 94 of the Companies Act defines an independent director as one who is not:

- involved in the day-to-day management of the company's business and has not been so involved at any time during the previous financial year;
- a prescribed officer, or full-time employee, of the company or another related or inter-related company, and has not been such an officer or employee at any time during the previous three financial years;
- a material supplier or customer of the company, such that a reasonable and informed third party would conclude in the circumstances that the integrity, impartiality or objectivity of that director is compromised by that relationship; or
- related to any person who falls within any of the above criteria.

For the purposes of this Prudential Standard, independence requires additional considerations. Consistent with recommendations of the King IV Report on Corporate Governance for South Africa, in addition to the requirements of the Companies Act, an independent director may not:

- be a significant provider of financial capital or ongoing funding to the insurer;
- directly or indirectly hold a material equity position in the insurer;
- receive remuneration, such as through a share-based incentive scheme, that is contingent on the performance of the insurer;
- be a significant or ongoing professional adviser to, or auditor of, the insurer;
- have any business or other relationship (contractual or statutory), which could be seen by an objective outsider to interfere materially with the individual's capacity to act in an independent manner; or
- be related to any person who falls within any of the above criteria.

Relevant aspects of independence for the purposes of the Governance and Operational Standards are captured in the definition of independent director in Attachment 1 to GOI 1 (Framework for Governance and Operational Standards for Insurers).

Attachment 2: Audit Committee

A. Composition of audit committee

1. The composition of the audit committee must comply with section 94(4) of the Companies Act.

2. The chairperson of the board of directors (if an independent director) or a lead independent director (where appointed) may be a member of the audit committee, but may not be the chairperson of the committee. If the chairperson of the board of directors is appointed as a member of the audit committee, the dual role of that person must be disclosed to shareholders at the annual general meeting and approved by shareholders.

B. General responsibilities

The audit committee, in addition to the requirements of the Companies Act, must:

1. Assist the board of directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing and actuarial valuation processes applied by the insurer in the day-to-day management of its business.

2. Facilitate and promote communication and liaison concerning the matters referred to in section 8.1 above or a related matter between the board of directors and senior management, the insurer's auditor and internal audit function.

3. Recommend the introduction of measures that may enhance the credibility and objectivity of financial statements and reports concerning the business of the insurer.

4. Advise the board of directors on any matter referred to the committee by the board of directors.

C. Responsibilities relating to the internal audit function

The audit committee must, in respect of the internal audit function:

1. Assess the effectiveness of the internal audit function.

2. Assess whether internal audit resources are adequate.

D. Responsibilities relating to the auditor

The audit committee must, in addition to the requirements of the Companies Act, in respect of the auditor:

1. Promote and maintain an effective relationship with the auditor.

2. Ensure that adequate policies and processes are in place to ensure the independence of the auditor.

E. Responsibilities relating to internal and external audit

The audit committee must, in respect of the internal and external audit functions:

1. Oversee the development of and approve internal and external audit plans to ensure that all material risks are considered, and statutory and financial reporting requirements are met.

2. Monitor the implementation of the internal and external audit plans.
3. Review all internal and external audit reports and ensure that issues identified are managed and rectified in an appropriate and timely manner.
4. Provide input to the scope of audit work.

Members of the audit committee must be available to meet with the Prudential Authority on request.

Attachment 3: Risk Committee

A. Composition of risk committee

1. The risk committee must consist of at least three members that include executive and non-executive directors, a majority of whom must be non-executive directors. The committee must perform at least the functions set out below.

2. The chairperson of the risk committee must be an independent director of the board of directors.

3. The chairperson of the board of directors may be a member of the risk committee, but may not be the chairperson of the committee.

B. Functions of risk committee

A risk committee must perform at least the following functions:

1. Assist the board of directors in developing its risk management strategy.

2. Assist the board of directors in evaluating the adequacy and effectiveness of the risk management system.

3. Assist the board of directors in identifying any build-up and concentration of the various risks to which the insurer is exposed.

4. Assist the board of directors in identifying and monitoring all material risks to ensure that its decision-making capability and accuracy of its reporting is adequately maintained.

5. Facilitate and promote communication regarding the matters referred to in 3 above, or any related matters, between the board of directors and senior management.

6. Facilitate and ensure the appropriate segmentation of duties of the risk management function from operational business line responsibilities and ensure that the segregation is observed.

7. Introduce measures to enhance the adequacy and effectiveness of the risk management system.

8. Oversee the monitoring of risk management on an enterprise-wide[2] and individual business unit basis.

Members of the risk committee must be available to meet with the Prudential Authority on request.

[2] The references to enterprise-wide refer to different activities across the solo insurance entity.

Attachment 4: Remuneration Committee

A. Composition of remuneration committee

1. The remuneration committee must consist of at least three members, all of whom must be non-executive directors with the majority being independent. The committee must perform at least the functions set out below.

2. The chairperson of the remuneration committee must be an independent director of the board of directors.

3. The chairperson of the board of directors may be a member of the remuneration committee, but may not be the chairperson of the committee.

B. Functions of Remuneration committee

A remuneration committee must perform at least the following functions:

1. Develop and conduct regular reviews of an appropriate remuneration policy for the insurer (see Attachment 1 to GOI 3 (Policies for Managing Financial Risks)).

2. Monitor the implementation and effectiveness of an insurer's remuneration policy and compliance with this Standard.

3. Make annual recommendations to the board of directors on the remuneration of –

    a) the chief executive officer or the person that is in charge of the insurer;
    b) the senior managers who report directly to the chief executive officer or the person that is in charge of the insurer;
    c) other persons whose activities may, in the remuneration committee's opinion, affect the financial soundness of the insurer and any other person specified by the Prudential Authority.

Members of the remuneration committee must be available to meet with the Prudential Authority on request.