[IC CIRCULAR LETTER NO. 13-2002-A, September 15, 2003]

CORPORATE GOVERNANCE

Pursuant to the national policy to institute corporate governance reforms in order to achieve policyholder and market investor confidence; sustain the growth of the insurance industry, thereby contributing to country's economic well-being; this Circular on Corporate Governance is hereby promulgated for adoption and compliance by all insurance companies and intermediaries authorized to do business in the Philippines.

The primary objective of this Circular is to enhance the corporate accountability of insurers and intermediaries and promote the interests of their stakeholders specifically those of the policyholders, claimants and creditors.

Consistent with a disclosure-based approach to implementation and enforcement, all concerned are required to make a general disclosure of their corporate governance practices briefly describing the manner in which the various issues enumerated above have been addressed particularly the following:

A. Board Composition & Responsibility
B. Management Accountability
C. Corporate Independence
D. Internal Controls and Operational Risk Management
E. Public Accountability
F. Financial Reporting

The report to be prepared under the heading "Corporate Governance" shall be submitted one hundred twenty (120) days after every end of a calendar year.

This Circular supersedes IC Circular Letter No. 13-2002 dated 12 July 2002.

For strict compliance.

Adopted: 15 Sept. 2003

(SGD.) EDUARDO T. MALINIS
Insurance Commissioner

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A. **Definitions**

1. ***Corporate Governance -*** refers to a system whereby shareholders, creditors and other stakeholders of a corporation ensure that management enhances the value of the corporation as it competes in an increasingly global market place.

2. ***Board of Directors -*** refers to the collegial body that exercises the corporate powers of all corporations formed under the Corporation Code. It conducts all business and controls or holds all properties of such corporations.

3. ***Independent Director -*** refers to a person other than an officer or employee of the corporation, its parent or subsidiaries, or any other individual having any relationship with the corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. This means that apart from the director's fees and shareholdings, he should be independent of management and free from any business or other relationship which could materially interfere with the exercise of his independent judgment.

4. ***Management -*** refers to the body given the authority to implement the policies determined by the Board in directing the course/business activity/ies of the corporation.

5. ***Executive Director -*** refers to a director who is at the same time appointed to head a department/unit within the corporate organization.

6. ***Non-Executive Director -*** refers to a Board member with non-executive functions.

7. ***Internal Control -*** refers to the process effected by a company's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable

laws, regulations, and internal policies.

8. ***Independence -*** refers to that environment which allows the person to carry out his/her work freely and objectively.

9. ***Objectivity -*** refers to unbiased mental attitude that requires the person to carry out his/her work in such manner that he/she has an honest belief in his/her work product and that no significant quality compromises are made. Objectivity requires the person not to subordinate his/her judgment to that of others.

10. ***Stakeholders -*** refers to the group of company owners, officers and employees, policyholders, suppliers, creditors and the community.

B. Board of Directors

1. *Composition and Board Size*

1. The Board shall be composed of at least five (5) but not more than fifteen (15) members elected by shareholders.

2. The Corporation shall ensure that there is at least one (1) independent director in the Board.

3. The Board shall endeavor to include a balance of executive and non-executive directors, such that no individual or small group of individuals can dominate the Board's decision making.

4. The non-executive directors shall be of sufficient qualifications and stature. Non-executive independent directors shall be identified in the annual report.

2. *Qualifications & Age Limit*

1. Directors sitting on the board of insurance entities shall be possessed of the necessary skills, competence and experience, in terms of management capabilities, and preferably in the field of insurance or insurance-related disciplines. In view of the fiduciary nature of insurance obligations, directors shall also be persons of integrity and credibility.

2. Every director shall own at least one (1) share of the capital stock of the corporation, whose share shall stand

in his name in the books of corporation.

3. The Board shall establish a fixed retirement age policy for directors.

3. ***Election***

1. The stockholders shall elect the Board of Directors.

2. Each director shall represent all shareholders and shall be in a position to participate independently and objectively.

4. ***Orientation and Training***

1. The corporation shall provide for an adequate orientation process for new directors.

2. The Board shall assess the adequacy of director development and education for individual directors and for the Board as a team.

5. ***Chairman and CEO***

1. Considering that the insurance business is imbued with public interest, the roles of Chairman and Chief Executive Officer shall as a general rule not be combined to ensure a balance of power and authority such that no one person has unfettered decision-making powers. Accordingly, the Chairman of the Board should be a non-executive director.

6. ***Multiple Board Seats***

1. The Board shall consider guidelines on the number of directorships for its members. Such guidelines may be subject to exceptions in a few cases. In general, however, the CEO and other executive directors shall submit themselves to a low indicative limit (four or lower) on membership in other corporate boards. There can be a higher indicative limit (five or lower) for other directors who hold non-executive positions in any corporation.

7. ***Independence of Directors***

1. An independent director shall be one who has not been an officer or employee of the corporation for the last three (3) years immediately preceding his term or incumbency.

2. He or she is not related by consanguinity or affinity to an officer in a senior management position of the corporation.

3. He or she does not provide services, and receives no significant income for other professional services to the corporation.

C. *Mission & Responsibility of the Board of Directors*

1. Approving corporate philosophy and mission.

2. Reviewing and approving management's strategic and business plans.

3. Reviewing and approving the corporation's financial objectives, plans and actions.

4. Overseeing the conduct of the business to ensure proper management and fair and equitable dealings with the policyholders, claimants and creditors.

5. Identifying key business risks, establishing operational risk-taking limits commensurate with financial capacity and technical capabilities for the corporation's core activities, specifically underwriting, reinsurance and investment, taking into consideration the pertinent provisions of the Insurance Code, and insuring the implementation of appropriate systems to manage risks within said limits.

6. Approving corporate policies on major areas of operations, including underwriting, investments, reinsurance and claims management.

7. Monitoring corporate performance against the strategic and business plans.

8. Reviewing performance of senior management, and succession planning including the replacement, appointment, training and remuneration of senior executive officers.

9. Ensuring the adequacy and effectiveness of internal control and management information systems, and compliance with applicable