



# **CORPORATE GOVERNANCE GUIDELINES**

## **FOR INSURERS & REINSURERS IN**

### **BOTSWANA**

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# CORPORATE GOVERNANCE GUIDELINES FOR THE INSURANCE SECTOR

IN EXERCISE of the powers conferred on the Non-Bank Financial Institutions Regulatory Authority by Section 4 (2) (d) of the Non-Bank Financial Institutions Regulatory Authority Act of 2016, the following guidelines are hereby made: –

## 1. INTRODUCTION

1.1 Corporate governance is the system by which companies are controlled and directed. Its prime focus for insurers is the protection of the interest of the shareholders, policyholders and all other material stakeholders of the insurers, which in turn, promotes confidence in the insurance industry.

1.2 The aim of these guidelines is to inculcate good corporate governance practices by insurers (including reinsurers) and those participating in the insurance industry space. This will ensure stability and soundness of the industry. The insurers are required to develop appropriate policies that will give effect to prudent management of their affairs.

## 2. INTREPRETATION

In these Rules, unless the context leads to a contradictory result:

**2.1 “The Act”** means the Non-Bank Financial Institutions Regulatory Authority Act, 2016 as amended from time to time; and the Insurance Industry Act, 2015

**2.2 “Board”** means the Board of a regulated institution;

**2.3 “Controller”** has the meaning assigned to it under the Act;

**2.4 “Director”** has the meaning assigned to it under the Act;

- 2.5 “Key Person”** has the meaning assigned to it under the Act; **“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 company; they hold specific executive powers conferred upon them by the authority of the Board of Directors and may include the principal officer and line managers.
- 2.6 “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 company and approved as such by *the Regulatory Authority*.
- 2.7 “Executive Director”** means an individual who is involved in the day-to-day management and is usually a salaried employee of the company who sits in the board of directors.
- 2.8 “Non- Executive Director”** means an individual board member, not involved in the day-to-day management of the insurer and is not a salaried employee of the company or its subsidiaries.
- 2.9 “Regulated Institution”** means any institution licensed under the Act or any financial services law and or whose activities are regulated by *the Regulatory Authority*;
- 2.10 “Regulated Activity”** means any activities regulated under the Act and/or any of the financial services laws;
- 2.11 “The Regulatory Authority”** means the Non-Bank Financial Institutions Regulatory Authority;
- 2.12 “Independent Director”** means a director who;

- a) Has not been employed by the insurance company in any executive capacity within the preceding three (3) years.
- b) Is not associated to an adviser or consultant to the insurance company or a member of the company's senior management or a significant customer or supplier of the company or with a not-for-profit entity that receives significant contributions from the insurance company; or within the preceding five (5) years, has not had any business relationship with the company (other than service as a director) for which the insurance company has been required to make disclosure;
- c) Has no personal service contract(s) with the insurance company or a member of the company's senior management;
- d) Is not employed by a company at which an executive officer of the insurance 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 insurance company.

2.13 **"Fit and proper criteria"** for the purposes of these guidelines means the criteria as set out in the NBFIRA Fit & Proper Rules.

### 3.0 OBJECTIVES

- 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 insurance companies fully recognize the expectations of all stakeholders as well as those of *the Regulatory Authority*.

The Board should take steps required to adopt sound and prudent principles and practices for the governance of the concerned companies and should have the ability to quickly address issues of non-compliance or weak oversight and controls.

- 3.2. These guidelines therefore amplify on certain issues which are covered in the Insurance Industry Act, (2015) and the Regulations framed thereunder and include measures which are additionally considered essential by *the Regulatory Authority* for adoption by insurers.

### 4.0 PRINCIPLES OF GOOD GOVERNANCE

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

#### 4.1 Governance structure of the Boards

- 4.1.1 Every insurer is expected to appoint at least five (5) members of the board.

The majority of the Board members should be non-executive directors (NEDs), of which a majority shall be independent, non-executive directors

(INEDs) in keeping with the King IV principles of corporate governance. The directors shall not hold office for more *than three 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. Any company that for whatever reason is unable to meet this requirement must apply to *the Regulatory Authority* seeking authority to be exempted from this requirement.

4.1.2 Over and above the minimum number of directors stated above, each company is to determine the size and composition of its board taking into account the scale and complexity of the company's operations; the need for sufficient members to serve on its committees; the need to secure quorum at meetings; as well as ensuring the right balance of skills, knowledge, experience and diversity. 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.

4.1.3 The Independent, Non-executive 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. In case the company constitution allows for the appointment of an alternate director, such appointment shall be approved by *the Regulatory Authority*, and the person so appointed shall not be a sitting member of the board.



## 4.2 BOARD OF DIRECTORS – ROLES AND RESPONSIBILITIES

4.2.1 The business and affairs of each company shall be managed by, or under the direction or supervision of, the board of directors, which shall have all the powers necessary for managing, and for directing and supervising the management of the business and affairs of the company. The board of directors should lead ethically and effectively by ensuring the following:

(a) Members of the board should individually and collectively cultivate the following characteristics and exhibit them in their conduct:

(1) **integrity:** - the Board should act in good faith and in the best interest of the insurance company and its policyholders and should take necessary steps to avoid conflict of interest and where such cannot be avoided, take the necessary steps to ensure it is effectively managed. The Board should as well inculcate an ethical culture. All directors must act with integrity, lead by example and promote the desired culture.

(2). **Competence:** - members of the board should ensure that they have at least a working knowledge of the company, its industry, the capital it employs as well as compliance requirements applicable to the company. At all times, members of the Board should act with due care, skill and diligence and take reasonable steps to become informed about matters for decision.

(3). **Responsibility:** - Members of the Board should assume collective responsibility for steering and setting the direction of the organization; approving policy and planning; overseeing and monitoring of implementation and execution by management; ensuring accountability for performance.

Members of the Board should attend meetings of the Board and its committees and dedicate time to prepare for meetings.

(4). **Accountability:** - Members of the Board should be willing to answer for the execution of their decisions even when such were delegated

(5). **Fairness:** - Members of the Board should adopt a stakeholder-inclusive approach in the execution of their governance role and responsibility and make decisions which are friendly to the natural environment, society and future generations

(6). **Transparency:** - Members of the Board should be transparent in the manner in which they executive their governance role and responsibility

vii. A successful company shall be led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for the investors/stakeholders and contributing to wider society.

(b) The board should establish the company's purpose, value and strategy, and satisfy itself that these and its culture are aligned. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls which enable risk to be assessed and managed.

(c) In order for the company to meet its responsibilities to shareholders and investors/stakeholders, the board should ensure effective engagement with, and encourage participation from investors/stakeholders.

- (d) The board should ensure that staff policies and practices are consistent with the company's values and support its long-term sustainable success. The staff should be able to raise any matters of concern.
- (e) The board should include an appropriate combination of executive and non-executive (and in particular independent non-executive) directors, such that no one individuals dominate the board's decision-making.
- (f) Non-executive directors should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

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

- 4.2.2. Overall direction of the business of the company, 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.
- 4.2.3. Ensuring compliance with the Insurance Industry Act, its regulations, the Administrative Rules as well as other Financial Services Laws.
- 4.2.4. Set out its responsibilities in committing to the specific corporate governance principles, policies and procedures and ensuring that they are applied in a sound and prudent manner and for approving and overseeing the implementation of the insurer's business objectives and strategies
- 4.2.5. To develop a formal, documented process for nomination, selection, and removal of the Board members.

- 4.2.6. 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.
- 4.2.7. Satisfies itself that the insurance company is organized in a way that promotes the effective and prudent management of the institution and the board's oversight of that management.
- 4.2.8. 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.
- 4.2.9. Establishes standards of business conduct and ethical behavior for directors, senior management and other personnel.
- 4.2.10. Ensures fair treatment of the shareholders, policyholders and employees
- 4.2.11. 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 Industry Act and rules and regulations made there under, standards of practice, and guidelines issued by *the Regulatory Authority*.
- 4.2.12. Establishes Board committees with specific responsibilities which shall be incorporated in the Board Charter.

- 4.2.13 Appointment of the Principal Officer who will be responsible for the day-to-day management of the company and ensures compliance of the company to regulatory requirements.
- 4.2.14. Development of investment and other critical company policies.
- 4.2.15. Preparation of financial statements and accounts.
- 4.2.16. Formulation and implementation of information technology (IT) governance structure.

### 4.3 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;

- 4.4.1. Robust and efficient mechanisms for the identification, assessment, quantification, control, mitigation and monitoring of the risks;
- 4.4.2. Appropriate processes for ensuring compliance with the Board approved policies, applicable laws and regulations;
- 4.4.3. Appropriate internal controls to ensure that the risk management and compliance policies are observed;
- 4.4.4. An internal audit function capable of reviewing and assessing the adequacy and effectiveness of, and the company's adherence to its internal controls as well as reporting on its strategies, policies and procedures; and
- 4.4.5. Independence of the control functions, including the risk management function, from business operations demonstrated by a credible reporting arrangement.

#### 4.4 FIT AND PROPER CRITERIA

The controllers of insurance companies must always meet the “fit and proper” criteria as specified in the NBFIRA Fit and Proper Rules.

#### 4.5 ROLE OF THE CHAIRMAN OF THE BOARD

The Chairman of the Board shall preferably be a Non-Executive and Independent Director and his/her responsibilities include providing overall leadership to the Board and ensuring overall effectiveness in directing the company. He/she should demonstrate objective judgement throughout his/her tenure and promote a culture of openness and debate. Additionally, the chairman is responsible for:

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

#### 4.6 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. No board committee should be chaired by an executive director.
- (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.
- (g) The board of insurers shall form such number of committees necessary for the performance of functions including but not limited to;

- I. Audit
- II. Investment
- III. Risk Management
- IV. Asset Liability Management
- V. Policyholder Protection
- VI. Ethics
- VII. Nomination and Remuneration

#### 4.7 Audit Functions

The Audit Committee shall perform the following specific responsibilities:

- 4.7.1 Oversight of the financial statements, financial reporting and disclosure processes.
- 4.7.2. Oversight of the efficient functioning of the internal audit department and reviewing its reports. The Committee will additionally monitor the progress made in rectification of irregularities and changes in processes wherever deficiencies have been reported.
- 4.7.3. Direct responsibility 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).
- 4.7.4. Establishing 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.

4.7.5. 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.

4.7.6 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 involvement of the Principal Officers in the Audit Committee should be limited to eliciting any specific information concerning audit findings.

## 4.8 Investment Functions

4.8.1 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.

4.8.2 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.

4.8.3 Members of the Board performing investment functions shall be conversant with requirements on investments as provided by the Insurance Industry Act and any relevant regulations on insurance fund investments.

4.8.4 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.

4.8.5 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.

4.8.6 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.

#### 4.9 Risk Management Functions

*The Regulatory Authority* is keen on the prudent management of the risks and development of strong risk management systems 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 and limit the risk exposure of the insurer on an on-going basis to indicate potential risks as early as possible.

#### **4.9.1. 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 specialized analysis and quality reviews.

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.

#### **4.10 Asset Liability Management functions**

The Board shall play a critical role of formulating, implementing, monitoring and revising strategies related to assets and liabilities. The work of the committee is aimed at achieving an organization's financial objectives. The Board is to lay down the framework to ensure that the insurer invests in a 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,

4.10.1 Set the insurer's risk or reward objectives and assess policyholder expectations.

4.10.2 Quantify the level of risk exposure and assess the expected rewards and costs associated with the risk exposure.

4.10.3 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.

4.10.4 Lay down the risk tolerance limits.

4.10.5 Monitor risk exposures at periodic intervals and revising asset liability management strategies where required.

4.10.6 Place the asset liability management information before the board at periodic intervals.

#### 4.11 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 as per the NBFIRA Policyholders Protection Rules (PPR) and *the Regulatory Authority's* Complaints Procedure.

#### 4.12 Ethics functions

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

4.12.1 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.

4.12.2 Approving compliance programs, reviewing their effectiveness on a regular basis and signing off on any material compliance issues or matters.

#### 4.13 Nomination and Remuneration functions

The board is required to determine on behalf of itself 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. There should be a formal and transparent procedure for the appointment of new directors to the board. The nomination procedure shall clearly set out the appropriate recruitment criteria and the terms of office.

- (a) a nominations committee should be established to make recommendations to the board on all new board appointments. Most of the members of this committee should be non-executive directors and the chairman of the committee should be a non-executive director. The chairman and members of the nominations committee should be identified in the annual report.
- (b) The nomination committee or in its absence, the board should annually assess board composition to ascertain whether the combined knowledge and experience of the board matches the strategic demands facing the company. The findings of such assessment should be taken into account

when new board appointments are considered and when incumbent directors come up for re-election.

- (c) Upon appointment of a new director to the board, the company should forthwith disclose to shareholders a brief resume of such a director which should indicate the nature of his/her expertise in relevant functional areas and the names and registered addresses of directorships and memberships in other board and committees in which they sit.

4.13.1 The remuneration package shall be closely connected with the performance objectives laid down for the board and senior management.

4.13.2 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.

4.13.3 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.

#### 4.14 APPRAISAL OF BOARD PERFORMANCE

(a) Boards should periodically appraise their own performance in order to ensure that prime board responsibilities are satisfactorily discharged.

(b) The board should annually appraise itself in the key responsibilities, inter-alia, of:

- i) Reviewing/formulating and monitoring implementation of a sound business strategy.

- ii) Ensuring that the CEO and the management team are competent and the adoption of an effective CEO and senior management succession strategy
- iii) Securing effective information, control and audit systems
- iv) Ensuring compliance with legal/ethical standards
- v) Ensuring prevention and management of risks and
- vi) Fulfilling such other board functions as are vital, given the scale, nature and complexity of the business concerned.

#### 4.15 APPRAISAL OF CHIEF EXECUTIVE OFFICER

The board should be required, at least on an annual basis to assess the performance of the Chief Executive Officer.

- (a) At the commencement of every fiscal year, the board, in consultation with the Chief Executive Officer, should set reasonable financial and non-financial targets, in line with the short-, medium- and long-term objectives of the company, that are to be met by the Chief Executive Officer during the year.
- (b) The performance of the Chief Executive Officer should be evaluated by the board at the end of each fiscal year in order to ascertain whether the targets set by the board have been achieved and if not, whether the failure to meet such targets was reasonable in the circumstances.
- (c) In assessing the Chief Executive Officer's performance, compliance with these Guidelines, the level of compliance with Financial Services Laws, the number of internal registered fraud cases, number of cases brought against the company by law enforcement agencies and any Regulatory Authority should be taken into account.

#### 4.16 EXECUTIVE DIRECTORS' REMUNERATION REMUNERSATION PROCEDURE

- (a) The company should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.
- (b) To avoid conflicts of interest, boards of directors should set up remuneration committees of independent non-executive directors to make recommendations to the board, within agreed terms of reference, on the company framework of executive remuneration and its costs, and to determine on their behalf specific remuneration packages for each of the executive directors, including pension rights and any compensation payments.
- (c) Remuneration committees should consist exclusively of non-executive directors who are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.
- (d) The members of the remuneration committee should be listed each year in the board's remuneration report to shareholders
- (e) The shareholders should determine the remuneration of non-executive directors, including members of the remuneration committee, within the limits set in the constituting documents. Where permitted by the constituting documents, the board may, however, delegate this responsibility to a small sub-committee, which might include the Chief Executive Officer.
- (f) Remuneration committees should consult the Chairman and/or Chief Executive Officer about their proposal relating to the remuneration of the other executive directors and have access to professional advice inside and outside the company.



## 5.0 DISCLOSURE OF REMUNERATION

- a) The company's audit report should contain a statement of remuneration policy and details of the remuneration of the board as a whole.
- b) The total of the executive directors' and the total of the non-executive directors' remuneration and not individual remuneration should be disclosed separately.
- c) Remuneration should include bonus payments and share option schemes.

## 6.0 ACCOUNTABILITY & AUDIT

### 6.1 FINANCIAL REPORTING

The Directors Report, which forms part of the Audit Report, should contain declarations by the directors to the effect that:

- (a) The company has not engaged in any activities, which contravenes laws including financial services laws;
- (b) The directors have declared all material interests in contracts involving the company and refrained from voting on matters in which they were materially interested
- (c) The business is a going concern, with supporting assumption or qualification as necessary
- (d) They have conducted a review of the internal controls which cover financial, operational and AML/compliance controls and risk management and the resultant report has been submitted to *the Regulatory Authority*

The annual return should contain a statement setting out the responsibilities of the board for the preparation of financial statements, together with a statement by the auditors about their reporting responsibilities.

- (e) The annual report should contain a management report, discussing, among other issues:
  - i) Industry structure and development
  - ii) Opportunities & threats
  - iii) Risks and concerns
  - iv) Internal control systems and their adequacy
  - v) Financial performance
  - vi) Material developments in Human Resources/Industrial relations
  - vii) Prospects for the future
- (f) In the event that the company's prescribed capital target (PCT) and/or the solvency ratio fall below the regulatory limit, the directors shall forthwith summon a special board meeting of the company to discuss the issue and report to *the Regulatory Authority* the nature of the remedial action being taken.

## 7.0 SENIOR MANAGEMENT

### 7.1 Responsibilities of the Senior Management

- 7.1.1 Overseeing the operations of the company 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.

7.1.2 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 company.

7.1.3 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.

## 8.0 PRINCIPAL OFFICER

### 8.1 Major Duties and Responsibilities of the Principal Officer

The sound operations of the insurance company 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 company. The Principal Officer shall;

- (a) Ensure that the policies spelt out by the Board in the company's overall corporate strategy of the institution shall be implemented.
- (b) Through designed criteria and in adherence to the company's human resources policy, identify and recommend to the Board competent officers to manage the operation of the company.
- (c) Co-ordinate the operation of the various departments within the company.
- (d) Establish and maintain efficient and adequate internal control systems.
- (e) Design and manage the necessary management information system 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 Regulatory Authority*, and any violations to those laws, and Regulations if any, and the remedial actions taken to such violation.
  - (vi) Large exposures.
  - (vii) Any other areas relevant to the company's operations.

## 8.2 Appointment of the Principal Officer and approval of *the Regulatory Authority*

8.2.1 The insurance company shall apply to *the Regulatory Authority* for approval of a person appointed as the Principal Officer. The insurers proposing such appointment shall present to *the Regulatory Authority* a duly complete fit and proper form as per the **NBFIRA Fit & Proper Rules**

## 9.0 ACTUARY AND AUDITOR

### 9.1 Role of statutory Actuary

*The Regulatory Authority* puts emphasis on the appointment of an independent statutory Actuary by the Board of the insurance company. In making the appointment the board should ensure that:

- 9.1.1 A procedure for appointment of the Actuary is in place and has been adhered to.
- 9.1.2 The statutory Actuary qualifies and satisfies the 'Fit & Proper' criteria.
- 9.1.3 The company 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.
- 9.1.4 As soon as the statutory 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.
- 9.1.5 The Board shall interact directly with the statutory Actuary wherever it considers it expedient to secure his advice.
- 9.1.6 The statutory 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.

## 9.2 INDEPENDENT AUDITORS

The auditors recommended by the Audit Committee are required to be appointed at an annual general meeting of the shareholders of the insurance company. The auditors of insurers are required to certify the insurer's accounts on an annual basis. The Board should therefore ensure that the 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.

9.2.1 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, retains his or her independence in line with International Financial Reporting

Standards (IFRS), the Insurance Industry Act and Regulations, prudential management policies of the insurer and that there is no conflict of interest.

9.2.2 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.

9.2.3 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 auditor's 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.

9.2.4 An independent Auditor shall be engaged for a *maximum duration of ten (10) consecutive years*, with the lead audit partner rotated every 5 years.

9.2.5 In appointing the 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 three (3) continuous years from previous engagement.

9.2.6 In order for an audit firm to be eligible for appointment as Auditors for insurance companies, they must be in the list of auditors accredited to audit public interest entities published by Botswana Accountancy Oversight Authority (BAOA).

## **10.0 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 insurance companies and the risks to which they are subject, regardless of whether they are publicly traded or not.

**10.1** Insurance companies are required to disclose information on their financial position and the risks to which they are subject. Specifically, information disclosed should be:

10.1.1. Relevant to decisions taken by stakeholders

10.1.2. Timely so as to be available and up to date at the time those decisions are made

10.1.3. Accessible without undue expense or delay by the stakeholders

10.1.4. Comprehensive and meaningful so as to enable stakeholders to form a well-rounded view of the insurer

10.1.5. Reliable as a basis upon which to make decisions

10.1.6. Comparable between different insurers

10.1.7. Consistent over time to enable relevant trends to be discerned.



**10.2. Information includes quantitative and qualitative information on:**

10.2.1 Financial position

10.2.2 Financial performance

10.2.3 A description of the basis, methods and assumptions upon which information is prepared (and comments on the impact of any changes)

10.2.4 Risks exposures and how they are managed

10.2.5 Management and corporate governance.

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

10.3.1 Scope of the cover in very certain terms in the proposal forms to be filled to the insured.

10.3.2 The exclusions of the risks not covered by the proposed policy. The policyholder should be aware of the risks not covered to enable them to make informed decisions on the proposed cover.

10.3.3 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.

10.3.4 To the prospective policyholder/existing policy holder of the need to cover other risks not covered through taking additional cover.

10.3.5 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.

## 11.0 REPORTING TO *THE REGULATORY AUTHORITY*

- 11.1. Insurance companies must regularly share material information on their governance processes with authority and the relevant stakeholders.
- 11.2. Information that may be appropriate for communication on at least an annual basis to the Authority and relevant stakeholders includes;
  - 11.2.1 the insurer's overall strategic objectives, covering existing or prospective lines of business and how they are being or will be achieved;
  - 11.2.2 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;
  - 11.2.3 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.
  - 11.2.4 the general design, implementation and operation of the insurer's remuneration policy.
  - 11.2.5 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 Regulatory Authority*.
  - 11.2.6 any other information specifically mentioned in the guidelines.

## 12.0. Effective Date

These Corporate Governance Guidelines shall come into effect on *February 1, 2022*