Insurer Governance Principles[1]

PREAMBLE

- The Governance Principles, referred to below as 'the Code', were drafted by the 'Dutch Association of Insurers' (*Verbond van Verzekeraars*, also referred to as 'the Association'), in addition to the 'Code of Conduct for Insurers' (*Gedragscode Verzekeraars*) drafted in 2002. The Code is consistent with the basic tenets of the Banking Code (*Code Banken*) drafted by the 'Dutch Banking Association' (*Nederlandse Vereniging van Banken*).
- The Code applies to all insurers that hold a licence granted under the 'Financial Supervision Act' (*Wet op het financieel toezicht* (Wft)). No distinction is made in this regard between activities performed in the Netherlands or in another EU Member State, and it is irrelevant whether or not the activities are carried out through a branch office. Insurers to which the Code applies and which are part of a group can apply elements of the Code at the level of the group or the insurer group. Where applicable, the principles of the Code will extend in full to the insurers in the group. The application of the Code is recommended in respect of activities and branch offices – of insurers to which the Code applies – in non-Member States and in respect of foreign insurance subsidiaries of insurers to which the Code applies. The same recommendation holds for activities and branch offices in the Netherlands of insurers with a licence that was granted in another Member State.
- The Dutch Corporate Governance Code of 10 December 2008 applies in full to listed insurers. Non-listed insurers often apply this Corporate Governance Code on a voluntary basis. The Code contains principles that are based on the Dutch Corporate Governance Code. The Code focuses in particular on the role of the executive board and the supervisory board and on the function of risk management and auditing at insurers. The Code also contains principles about remuneration.
- The Code does not stand on its own but is instead part of the full set of national, European and international laws and regulations, case law and codes, which is viewed in its entirety. This national, European and international context and the activities and other specific characteristics of the insurer (and the group, if the insurer is part of a group) should all be taken into account when the insurer applies the Code.
- In their annual report (or group annual report), insurers indicate how they have applied the principles of the Code in the previous year and present substantiated explanations when a principle has not or not fully been applied. All insurers place this report on their website.
- The decisive factor as regards the proper functioning of the Code is not the extent to which there is compliance with the letter of the Code ('ticking off items on a checklist'), but the way in which the intentions behind the Code are treated.
- It is the responsibility of the insurer's executive board to consider the interests of all of the parties involved with the insurer, such as its clients, shareholders and employees, in a balanced manner. These considerations shall take into account the continuity of the insurer, the environment in society in which the insurer operates and legislation, regulations and codes that apply to the insurer. Clients shall be treated with the proper care at all times.
- The Dutch version of the Code contains a number of terms derived from English. In the interests of readability, two terms from the Code are briefly explained below. - *Risk appetite (in Dutch: 'risicobereidheid')* refers to the amount of reasonably foreseeable risk that the insurer – given its proposed activities – is prepared to accept in the pursuit of its objectives.

[1] The original Dutch text will be binding and shall prevail in case of any variance between the Dutch text and the English translation.

Product approval process (*in Dutch: 'product goedkeuringsproces'*) refers to the procedure that an insurance product must undergo before it can be introduced onto the market. In the process, the insurer decides whether the product will be produced or distributed at its own risk and expense or at the risk and expense of the client and extensive testing is conducted in relation to aspects of the duty of care and risk management.

- The Code repeatedly refers to the role of the supervisory board's risk committee. A similar committee can perform the function of the supervisory board's risk committee for an insurer that does not have a specific risk committee.
- The Code takes effect on 1 January 2011.
- Given the nature of the Code and the fact that the circumstances and timing of its creation had their own unique dynamic, further changes may still be made to the Code if necessary (especially in response to international developments).
- Compliance with the Code shall be monitored annually by an independent monitoring body to be appointed by the Association in consultation with the Minister of Finance.

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EXPLANATORY NOTES

1. COMPLIANCE WITH THE CODE

The Code uses the "comply or explain" principle, which means that insurers shall, in principle, apply the principles of the Code. The application of the principles depends in part on the activities and other specific characteristics of the insurer (and of the group if the insurer is part of a group). The insurers subject to the Code differ from each other in many ways. For example, they may vary in nature or size, operate in different markets or submarkets, have a national or international focus or have different corporate governance structures. Where indicated because of these differences, the principles of the Code can be applied in proportion to the individual circumstances of the insurer. Departures from the Code, if substantiated, can therefore be justified.

2. SUPERVISORY BOARD

2.1 Composition and expertise

2.1.1 The supervisory board shall be composed in such a way that it is able to perform its tasks properly. Complementarity, a collegial board, independence and diversity are preconditions for the supervisory board to perform its tasks properly.

2.1.2 The supervisory board shall have a sufficient number of members to properly perform its function, including in its committees. The appropriate number of members depends on the nature, size and complexity of the insurer.

2.1.3 The members of the supervisory board shall have thorough knowledge of the insurer's functions in society and of the interests of all parties involved in the insurer. The supervisory board shall carefully consider the interests of all parties involved in the insurer, such as the insurer's clients, its shareholders and its employees.

2.1.4 Each member of the supervisory board shall be capable of assessing the main aspects of the insurer's overall policy in order to form a balanced and independent opinion about the basic risks involved. Each member of the supervisory board shall also possess the specific expertise needed to perform his or her role in the supervisory board. To this end, whenever a vacancy arises on the supervisory board, an individual profile shall be drawn up for the new member of the board.

2.1.5 As part of the process to fill the vacancy of chairman of the supervisory board, an individual profile shall be drawn up that also focuses on the insurer's requirements in terms of expertise and experience in relation to the financial sector and familiarity with the socio-economic and political culture and the social environment of the insurer's main markets.

2.1.6 Each member of the supervisory board – the chairman in particular – shall be sufficiently available and contactable to properly perform his or her tasks in the supervisory board and the supervisory board's committees.

2.1.7 Each member of the supervisory board shall receive suitable compensation for the amount of time that he or she spends on supervisory board activities. This compensation shall not depend on the insurer's results.

2.1.8 The chairman of the supervisory board shall organise a programme of lifelong learning, with the aim of maintaining the expertise of the supervisory board directors at the required standard and improving their expertise where necessary. The learning programme shall cover relevant developments at the insurer and in the financial sector, corporate governance in general and in the financial sector in particular, the duty of care towards the client, integrity, risk management, financial reporting and audits. Every member of the supervisory board shall take part in the programme and meet the requirements of lifelong learning.

2.1.9 The assessment of the effectiveness of the lifelong learning referred to in principle 2.1.8 shall be part of the annual evaluation performed by the supervisory board.

2.1.10 In addition to the supervisory board's annual self-evaluation, the functioning of the supervisory board shall be evaluated under independent supervision once every three years. The involvement of each member of the supervisory board, the culture within the supervisory board and the relationship between the supervisory board and the executive board shall be part of this evaluation.

2.2 Tasks and working methods

2.2.1 As part of its supervisory tasks, the supervisory board shall pay special attention to the insurer's risk management. All discussions about risk management shall be prepared by a risk committee or a similar committee, which committee shall be appointed by the supervisory board from its ranks for this purpose.

2.2.2 Both the risk committee and the audit committee shall be subject to specific requirements as regards competency and experience. For example, a number of members of the risk committee must have sound knowledge of the financial aspects of risk management or the experience needed to make a thorough assessment of risks. A number of members of the audit committee must have sound knowledge of financial reporting, internal control systems and audits or the experience needed to thoroughly supervise these areas.

3. EXECUTIVE BOARD

3.1 Composition and expertise

3.1.1 The executive board shall be composed in such a way that it is able to perform its tasks properly. Complementarity, a collegial board and diversity are preconditions for the executive board to perform its tasks properly.

3.1.2 Each member of the executive board shall possess a thorough knowledge of the financial sector in general and the insurance sector in particular. Each member of the executive board shall have thorough knowledge of the insurer’s functions in society and of the interests of all parties involved in the insurer. In addition, each member of the executive board shall possess thorough knowledge so that he or she is able to assess and determine the main aspects of the insurer's overall policy and then form a balanced and independent opinion about the risks involved.

3.1.3 The chairman of the executive board shall organise a programme of lifelong learning, with the aim of maintaining the expertise of the executive board directors at the required standard and improving their expertise where necessary. The learning programme shall cover relevant developments at the insurer and in the financial sector, corporate governance in general and in the financial sector in particular, the duty of care towards the client, integrity, risk management, financial reporting and audits.

3.1.4 Every member of the executive board shall take part in the programme referred to in 3.1.3 and meet the requirements of lifelong learning. They have to satisfy this condition in order to sit on the executive board. The supervisory board shall ensure that the executive board members possess the necessary expertise.

3.1.5 Each year, the insurer shall indicate in its annual report in what manner it implemented principles 3.1.3 and 3.1.4.

3.1.6 Taking into account the risk appetite approved by the supervisory board*,* the executive board shall ensure a balanced assessment between the commercial interests of the insurer and the risks to be taken.

3.1.7 Within the executive board one member shall be responsible for preparing the decision-making with regard to risk management. This member of the executive board shall be involved, in a timely manner, in the preparation of decisions that are of material significance for the insurer as regards the risk profile, especially where these decisions may result in departure from the risk appetite approved by the supervisory board. Risk management shall also include a focus on the interests of financial stability and on the impact that systemic risk could have on the risk profile of the insurer.

3.1.8 The member of the executive board who is responsible for preparing the decision-making with regard to risk management may combine his or her function with other focus areas, on the condition that he or she does not bear any individual commercial responsibility for the commercial task areas and operates independently from those areas.

3.2 Tasks and working methods

3.2.1 In all of its actions, the insurer's executive board shall ensure that it carefully considers the interests of all parties involved in the insurer, such as the insurer's clients, its shareholders and its employees. These considerations shall take into account the continuity of the insurer, the environment in society in which the insurer operates and legislation, regulations and codes that apply to the insurer.

3.2.2 Maintaining a continued focus on its clients' interests is a necessary precondition for the continuity of the insurer. Without prejudice to the principle formulated in 3.2.1, the executive board shall ensure that the insurer always treats its clients with due care. The executive board shall see to it that the duty of care towards the client is embedded in the insurer's culture.

3.2.3 The members of the executive board shall perform their tasks in a meticulous, expert and fair manner, taking into account the applicable laws, codes of conduct and regulations. Each member of the executive board shall sign a moral and ethical conduct declaration. A declaration has been included in the explanatory notes to this code. This declaration is a model declaration, which means that each insurer can supplement it as it deems appropriate.

3.2.4 The executive board shall ensure that the declaration referred to in principle 3.2.3 is translated into principles that form guidelines for the behaviour of all of the insurer's employees. The content of these principles shall be expressly pointed out to every new employee of the insurer when he or she joins the insurer by inserting a reference to these principles in the new employee's contract of employment. Every new employee shall be required to comply with these principles.

4. RISK MANAGEMENT

4.1 The executive board – and primarily the chairman of the executive board – shall be responsible for adopting, implementing, monitoring and, where necessary, adjusting the insurer's overall risk policy. The executive board shall propose the risk appetite to the supervisory board for approval at least once a year. Any material changes to the risk appetite in the interim shall also require the supervisory board's approval.

4.2 The supervisory board shall supervise the risk policy pursued by the executive board. As part of its supervision, the supervisory board shall discuss the insurer's risk profile and assess at a strategic level whether capital allocation and liquidity impact in the general sense are in line with the approved risk appetite. In the performance of this supervisory role, the supervisory board shall be advised by the risk committee formed from the ranks of the supervisory board for this purpose.

4.3 The supervisory board shall assess periodically at the strategic level whether the commercial activities in the general sense are appropriate in the context of the insurer's risk appetite. The executive board shall provide the supervisory board with the relevant information for this assessment in such a way that the supervisory board is able to form a sound opinion.

4.4 The executive board shall ensure that risk management is arranged adequately so that the executive board is aware in good time of any material risks run by the insurer in order that these risks can be managed properly. The executive board shall take any decisions that are of material significance for the risk profile, the capital allocation or the liquidity impact.

4.5 Each insurer shall have a Product Approval Process. The executive board shall organise the product approval process and shall be responsible for the process working properly. Products that go through the product approval process at the insurer shall not be launched on the market or distributed without careful consideration of the risks by the insurer's risk manager and a careful assessment of any other relevant factors, including the duty of care towards the client. Based on an annual risk analysis, the in-house auditor shall check whether the product approval process has been designed properly, is present and is working effectively and shall then inform the executive board and the relevant supervisory board committee (risk committee or similar committee) about the results.

5. AUDIT

5.1 The executive board shall ensure that a systematic audit is conducted of the management of the risks related to the insurer's business activities.

5.2 Each insurer shall have its own, internal auditor who shall occupy an independent position within the insurer. The head of the internal audit team shall present a report to the chairman of the executive board and shall report to the chair of the audit committee.

5.3 The internal auditor shall have the task of assessing whether the internal control measures have been designed properly, are present and are working effectively. This assessment shall include the quality and effectiveness of the system of governance, risk management and the insurer’s control procedures. The internal auditor shall report the findings to the executive board and the audit committee.

5.4 The internal auditor, the external auditor and the supervisory board’s risk committee and/or audit committee shall consult periodically, including as regards the risk analysis and the audit plan of both the internal auditor and the external auditor.

5.5 As part of the general audit assignment for the financial statements, the external auditor shall produce a report for the executive board and the supervisory board which shall contain the external auditor’s findings concerning the quality and effectiveness of the system of governance, risk management and the insurer’s control procedures.

5.6 The internal auditor shall take the initiative in arranging talks with De Nederlandsche Bank and the external auditor at least once a year to discuss each other’s risk analysis and findings and each other’s audit plan at an early stage.

6. REMUNERATION POLICY

6.1 Basis

6.1.1 The insurer shall implement a meticulous, restrained and long-term remuneration policy that is in line with its strategy and risk appetite, objectives and values, taking into account the long-term interests of the insurer, the relevant international context and wider societal acceptance. The supervisory board and the executive board shall take this basis into account when performing their tasks in relation to the remuneration policy.

6.2 Governance

6.2.1 The supervisory board shall be responsible for the implementation and evaluation of the remuneration policy adopted with regard to the members of the executive board. The supervisory board also approves the remuneration policy for the senior management and oversees its implementation by the executive board. Additionally, the supervisory board approves the principles of the remuneration policy for other employees of the insurer. The insurer’s remuneration policy shall also comprise the policy on awarding retention, exit and welcome packages.

6.2.2 The supervisory board shall annually discuss the highest variable incomes at the insurer. The supervisory board shall ensure that the executive board assesses whether variable incomes are consistent with the remuneration policy adopted by the insurer, and in particular whether they comply with the principles set out in this section. Furthermore, the supervisory board shall discuss material retention, exit and welcome packages, assess whether they are consistent with the remuneration policy adopted by the insurer and ensure that these packages are not excessive.

6.3 Remuneration of members of the executive board

6.3.1 The total income of a member of the executive board shall be in reasonable proportion to the remuneration policy adopted by the insurer. At the time when his or her total income is decided, it shall be slightly below the median level for comparable positions in the relevant markets both inside and outside the financial sector. The relevant international context shall be a major factor.

6.3.2 In the event of dismissal, remuneration may not exceed one year’s salary (the 'fixed' remuneration component). If the maximum of one year’s salary would be manifestly unreasonable for an executive board member who is dismissed during his or her first term of office, such board member shall be eligible for severance pay not exceeding twice the annual salary.

6.3.3 When variable remuneration is awarded to the executive board, the long-term component shall be taken into account as well as profitability and/or continuity of the insurer and a material part of the variable remuneration shall be conditional and shall not be paid until at least three years have passed.

6.3.4 Shares granted to executives board members without financial consideration shall be retained for a period of at least five years or at least until the end of the employment, if this period is shorter. If options are granted, they shall, in any event, not be exercised in the first three years after the date on which they were awarded.

6.4 Variable remuneration

6.4.1 The allocation of variable remuneration shall be related to the insurer’s long-term objectives.

6.4.2 Each insurer shall set a maximum ratio of variable remuneration to fixed salary that is appropriate for the insurer in question. The variable remuneration per annum of members of the executive board shall not exceed 100% of the member’s fixed income.

6.4.3 Variable remuneration shall be based on the performances of the individual, his part of the business and the performance of the insurer as a whole according to pre-determined and assessable performance criteria. In addition to financial performance criteria, non-financial performance criteria shall also make up a significant portion of the assessment of the individual. Performance criteria shall be defined in terms that are as objective as possible in the insurer’s remuneration policy.

6.4.4 When performances are assessed based on the pre-determined performance criteria, financial performances shall be adjusted to allow for estimated risks and capital costs.

6.4.5 In exceptional circumstances – for example, if application of the pre-determined performance criteria would result in undesired variable remuneration for a member of the executive board – the supervisory board shall have the discretionary power to adjust the variable remuneration if, in its opinion, this remuneration would have unfair or unintended effects.

6.4.6 The supervisory board shall be authorised to reclaim variable remuneration allocated to a member of the executive board based on inaccurate data (whether or not the inaccurate data is financial in nature).

EXPLANATORY NOTES

Several of the Code's principles are explained below.

2.1.1 The Code expressly stresses the importance of complementarity, a collegial board, independence and diversity of the supervisory board. There is no quantitative provision included concerning the size of the supervisory board, in part because the size of the supervisory board is not necessarily decisive as regards its effectiveness.

2.1.5 The intention of this principle is expressly not that the chair of the supervisory board must come from the financial sector.

2.1.7 Added value provided by members of the supervisory board such as experience, expertise and professionalism may play a part in determining suitable compensation.

2.1.9 This principle assumes the usual practice of annual evaluation by the supervisory board of its own performance.

2.1.10 The assessment of the supervisory board's performance referred to in this principle need not always be supervised externally but can in certain cases be conducted in house, provided that the in-house supervision (like the external supervision) is independent of the supervisory board.

2.2.1 The supervisory board must focus on risk management, in part by setting up a dedicated risk committee. The duties of the risk committee can also be performed by another specific committee (in many cases the audit committee). Particularly for smaller insurers, establishing a separate risk committee is not always possible.

3.1.1 In addition to the importance of diversity, this principle also emphasises the importance of complementarity and a collegial board as regards the composition and expertise of the executive board. Complementarity and a collegial board contribute to a stable in-house governance structure that is capable of overseeing and addressing in-house and external developments.

3.1.2 Each member of the executive board and the supervisory board is required to possess sound knowledge at all times in order to assess the main aspects of the insurer's overall policy and subsequently form a balanced and independent opinion about the associated risks. This principle is not an obstacle to people from outside the financial sector joining the insurer's executive board.

3.1.5 Each insurer must explain in its annual report how it has implemented the principles regarding lifelong learning.

3.1.6 In accordance with the principle of complementarity and a collegial executive board, this principle states that the executive board must ensure that the insurer's commercial interests and the potential risks are considered in a balanced manner.

3.1.8 Risk management duties are to be explicitly assigned to a member of the executive board who bears no individual commercial responsibility for and acts independently of commercial task areas. However, this does not change the fact that risk management is a core task of the entire executive board. Weighing risks and returns is the full responsibility of each member of the executive board and, as such, each member must sufficiently understand both the risks and the returns. Risk-related decisions cannot be fully delegated to a specialist risk department.

3.2.1 Under Dutch law, the interests of all stakeholders must be considered in the governance model. This requirement is expressed in a balanced manner by principle 3.2.1.

3.2.2 The Code not only makes explicit that the interests of the various stakeholders must be fully considered, but also that clients must always be handled with due care and that the duty of care towards the client must be embedded in the insurer's corporate culture. This addresses the view that clients ought to occupy a more prominent position in the consideration of the various stakeholders' interests, without compromising the interests of any of the other stakeholders.

3.2.3 and 3.2.4 The recommended wording of the moral and ethical conduct declaration to be signed by the members of the insurer's executive board is included below as a model. Each individual insurer is free to add to this declaration for its own executive board members to ensure that the declaration is in line with the insurer's specific nature and profile. The wording of the moral and ethical conduct declaration shall be disclosed to the public and the declaration shall be published on the insurer's website. The declaration shall also act as guidelines for the actions of all of the insurer's employees.

"I declare that I will perform my duties as an insurer with integrity and care. I will carefully consider all the interests involved in the insurer, i.e. those of the clients, the shareholders, the employees and the society in which the insurer operates. I will give paramount importance to the client's interests and inform the client to the best of my ability. I will comply with the laws, regulations and codes of conduct applicable to me as an insurer. I will observe secrecy in respect of matters entrusted to me. I will not abuse my insurance knowledge. I will act in an open and assessable manner and I know my responsibility towards society. I will endeavour to maintain and promote confidence in the insurance sector. In this way, I will uphold the reputation of the insurance profession."

5.2 The insurer's governance system must adequately address the internal auditor's tasks.

5.6 Where necessary, these discussions can be held with the 'Netherlands Authority for the Financial Markets' (AFM).

6. General note: As regards the section on remuneration, the supervisory board should dedicate itself to ensuring that existing contracts with the members of the executive board are adapted to bring them into line with the Code as soon as possible.

6.2.1 Approval of the principles of the remuneration policy for other employees of the insurer mainly concerns employees whose duties impact on the insurer's risk profile.

6.3.1 The intention behind setting the total income slightly below the median is that the remuneration of the executive board members should follow market developments and should definitely not anticipate those developments.

6.3.2 This wording in the Code is in line with the provisions of the Dutch corporate governance code with regard to severance pay.

6.3.3 The material part of the variable remuneration that is awarded conditionally is not paid out until three years later, at the earliest. The rest of the variable remuneration can be paid out immediately.

6.3.4 This wording in the Code is in line with the provisions of the Dutch corporate governance code with regard to holding shares and options.

6.4.3 The intention behind this principle as regards employees in control positions and other similar positions (Audit, Compliance and HR) is not to include the performance of the business unit for which these employees perform control activities.

6.4.4 It is recommended that the supervisory board determine the level and structure of the remuneration of executive board members based partly on scenario analyses and with due regard for the pay ratios within the company.

6.4.5 The supervisory board shall have the discretionary power to cap the yield from shares to prevent undesirable effects.

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