



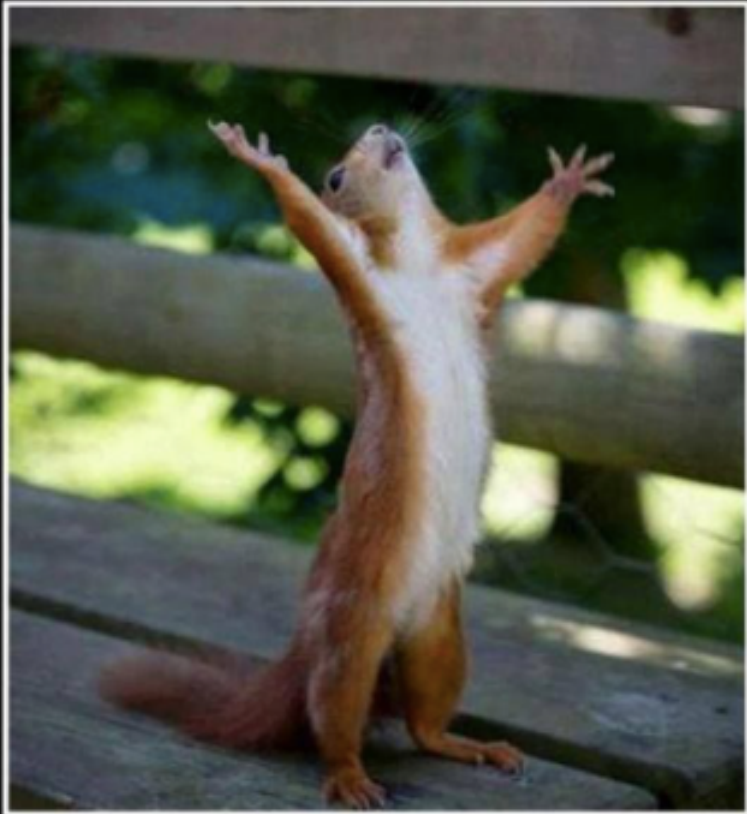
ICD

**Institute of
Corporate
Directors**

INSURANCE CARRIER GOVERNANCE

1st Annual CEO Forum on
Insurance Strategy & Governance
Makati Shangri-la Hotel
September 15, 2017

Ricardo Nicanor N. Jacinto
Chief Executive Officer



It's Friday !



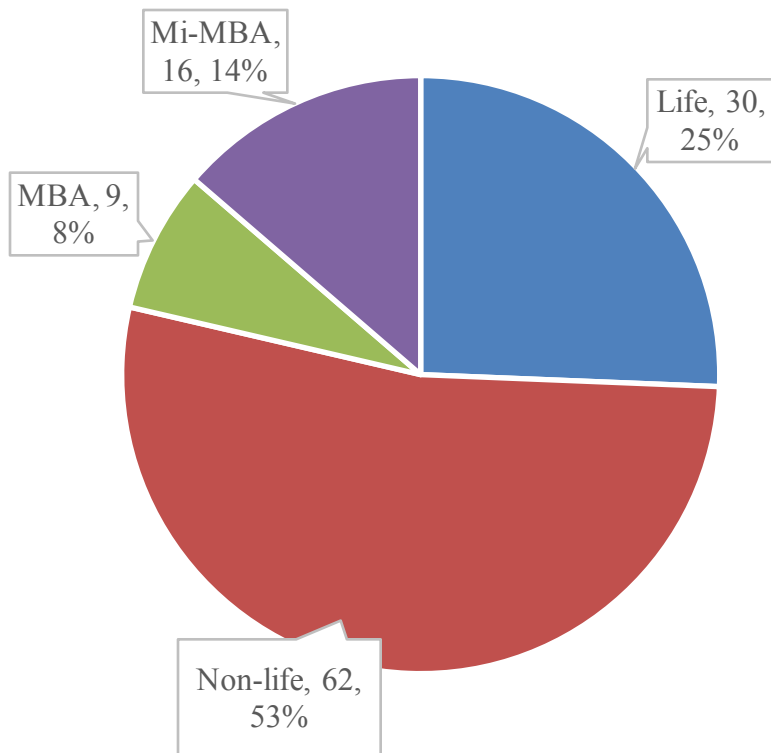
FRIDAY!!!

YES!!!

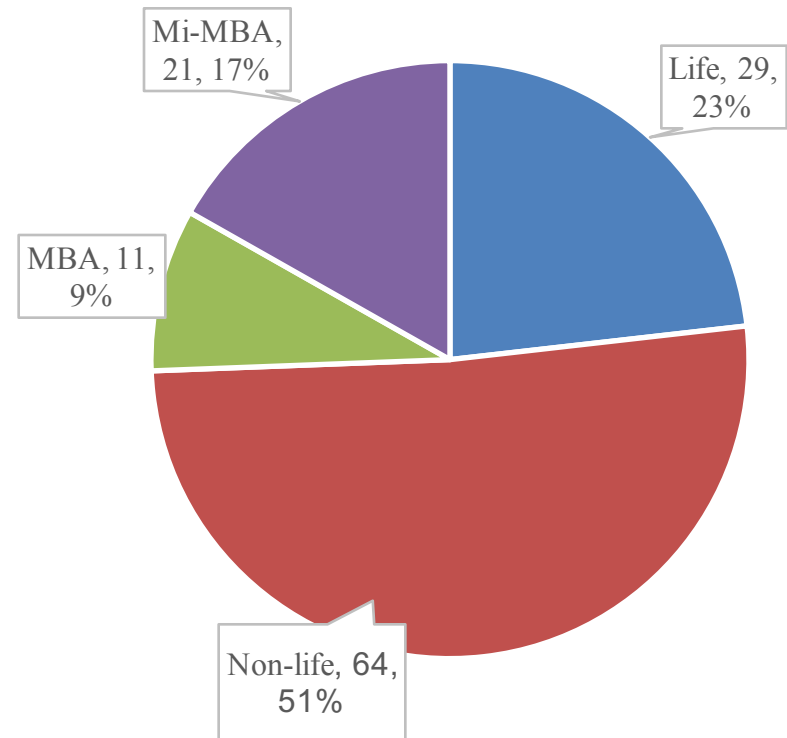


Insurance CG Scorecard –Number of Companies Assessed

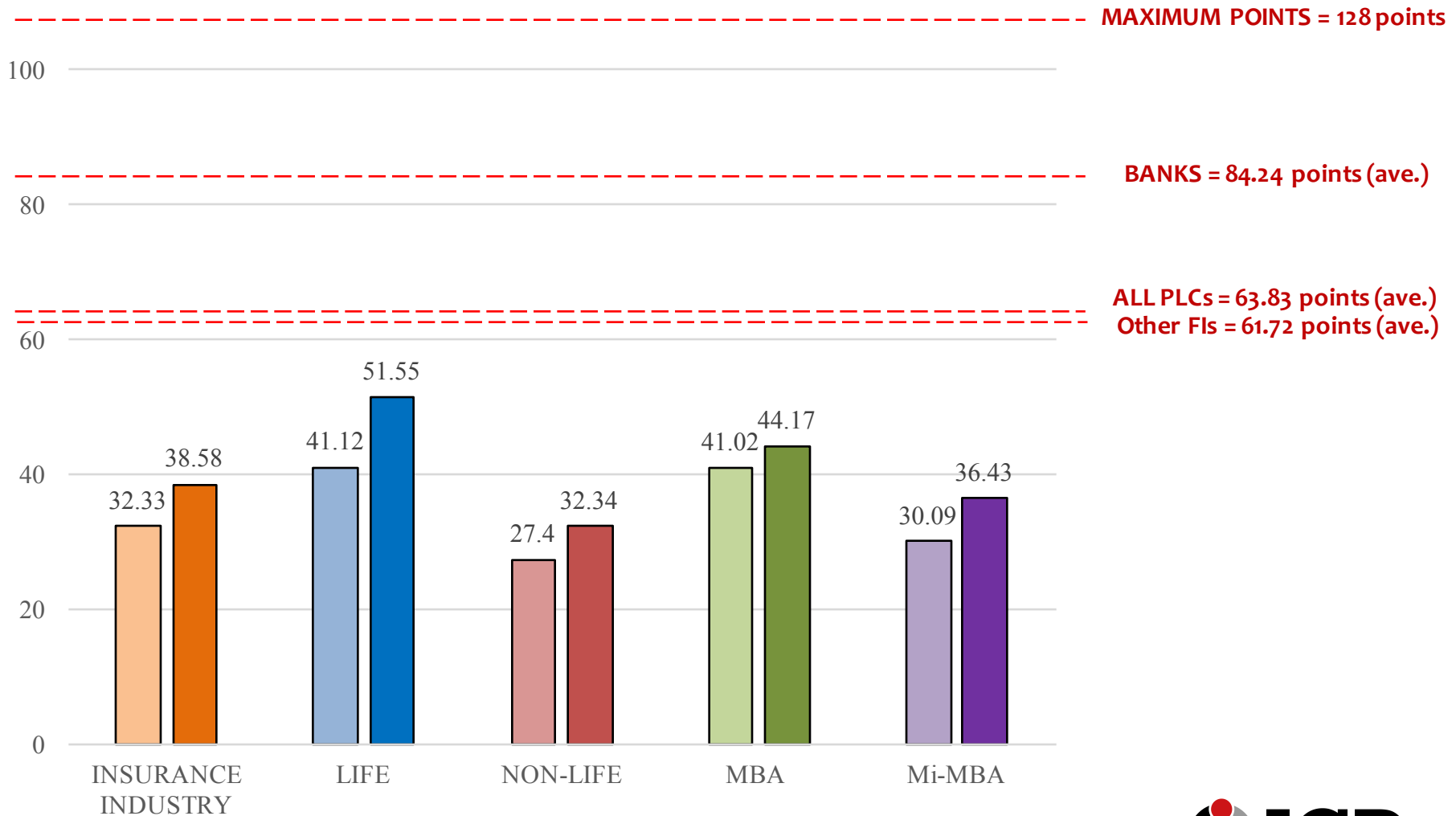
2015 ASSESSMENT



2016 ASSESSMENT

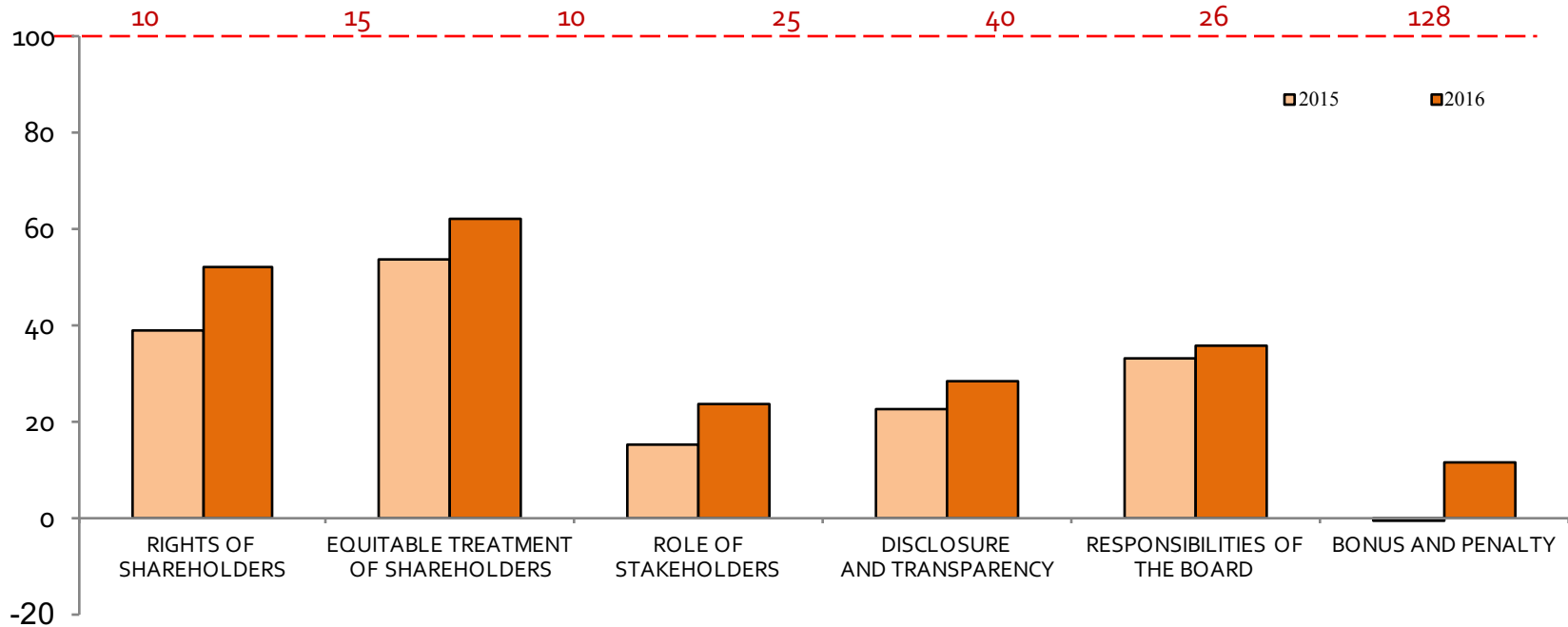


CG Scorecard Result for Insurance Industry



2016 RESULT PER CATEGORY – INSURANCE INDUSTRY

HIGHEST ATTAINABLE SCORE PER SECTION



2015	3.87	8.07	1.53	5.62	13.32	-0.07
2016	5.18	9.31	2.38	7.12	14.19	2.94

Areas for Improvement – RELATING TO OTHER STAKEHOLDERS

POLICIES AND ACTIVITIES ON:



- ADDRESSING CUSTOMERS' WELFARE (16%)



- COMMUNITY INTERACTION (19%)



- ENSURING THAT VALUE CHAIN IS ENVIRONMENTALLY-FRIENDLY (15%)



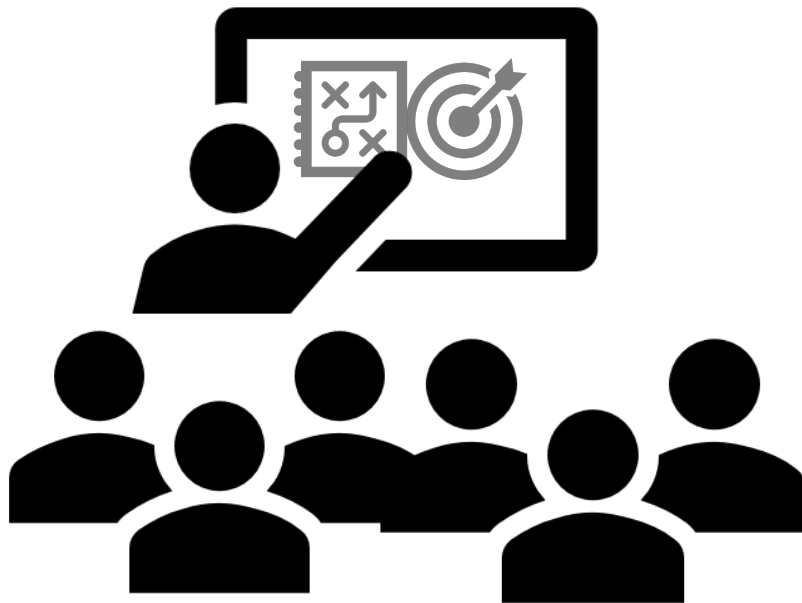
- SAFEGUARDING CREDITORS' RIGHTS (13%)



- ANTI-CORRUPTION PROGRAMS (14%)

Areas for Improvement – RESPONSIBILITIES OF THE BOARD

BOARD'S ROLE IN STRATEGY



- THE BOARD OVERSEEING AND MONITORING THE IMPLEMENTATION OF STRATEGY (33%)
- ANNUAL REVIEW OF CORPORATE STRATEGY (8%)

Areas for Improvement – RESPONSIBILITIES OF THE BOARD

BOARD'S OVERSIGHT ON RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS



- THE BOARD REVIEWING THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS (6%)
- BOARD COMMENTING ON THE ADEQUACY OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS (5%)

Areas for Improvement – RESPONSIBILITIES OF THE BOARD

BOARD PERFORMANCE APPRAISAL SYSTEM



- CONDUCT OF ANNUAL PERFORMANCE APPRAISAL OF THE BOARD (20%)
- DISCLOSURE OF CRITERIA USED (8%)

Areas for Improvement – RESPONSIBILITIES OF THE BOARD

BOARD PROTOCOLS



- BOARD DIVERSITY POLICY (12%)



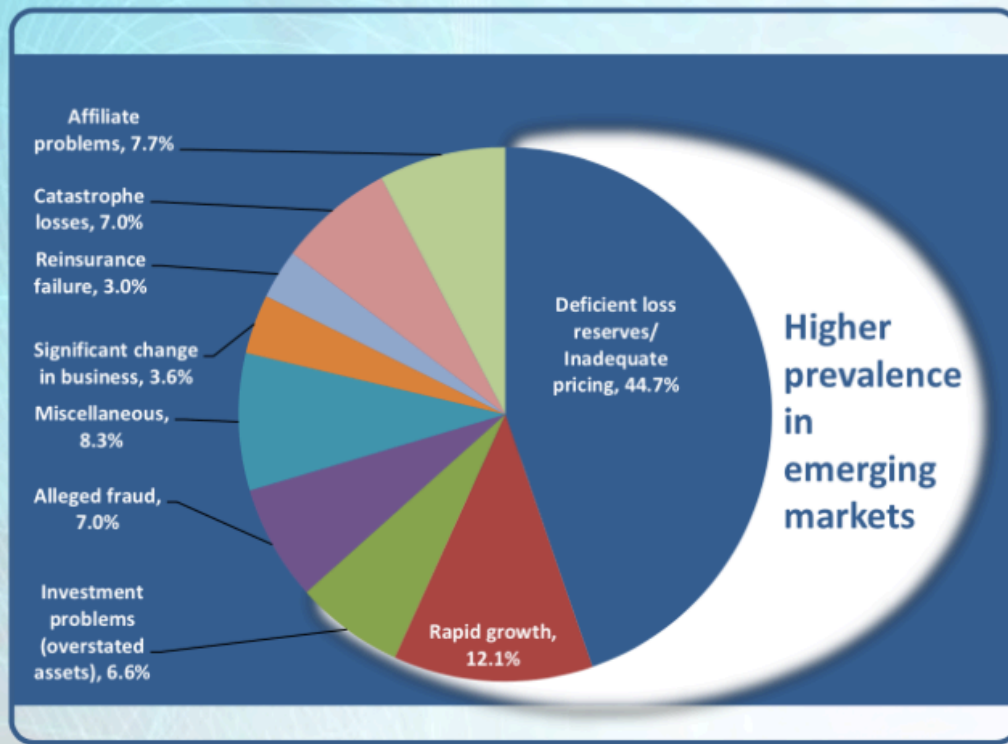
- SUCCESSION PLANNING (7%)



- CONTINUING EDUCATION PROGRAM FOR DIRECTORS (38%)

Greater Risk?

Primary causes of impairment of non-life companies (1969-2014)

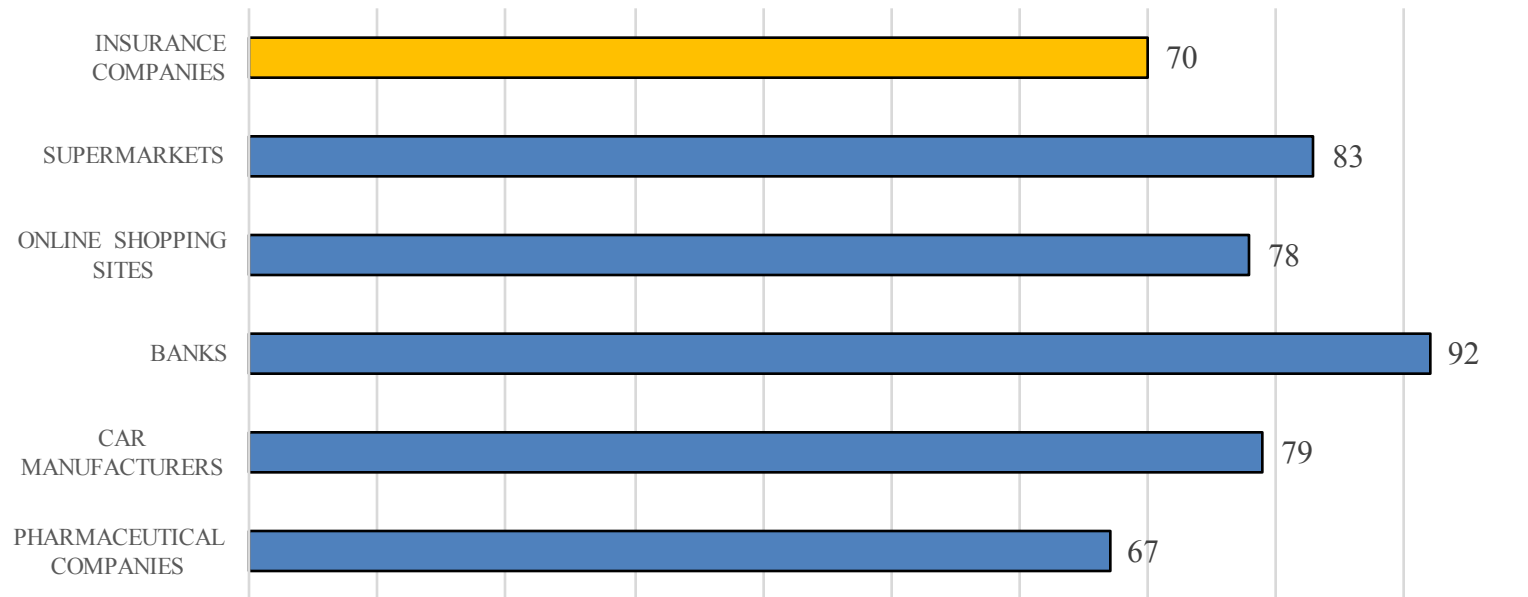


- Main reasons for impairment are **inadequate pricing** and **deficient loss reserves**
 - often insufficient external oversight of reserves in emerging markets
- **Rapid growth** can mask problems until it is too late to act
- **Valuation of assets** is questionable in many emerging markets
- These 3 factors account for almost 60% of impairments in the US

Source: Best's Special Report – Property / Casualty Impairments Continue Downward Trend dated 3 August 2015

Trust Issues?

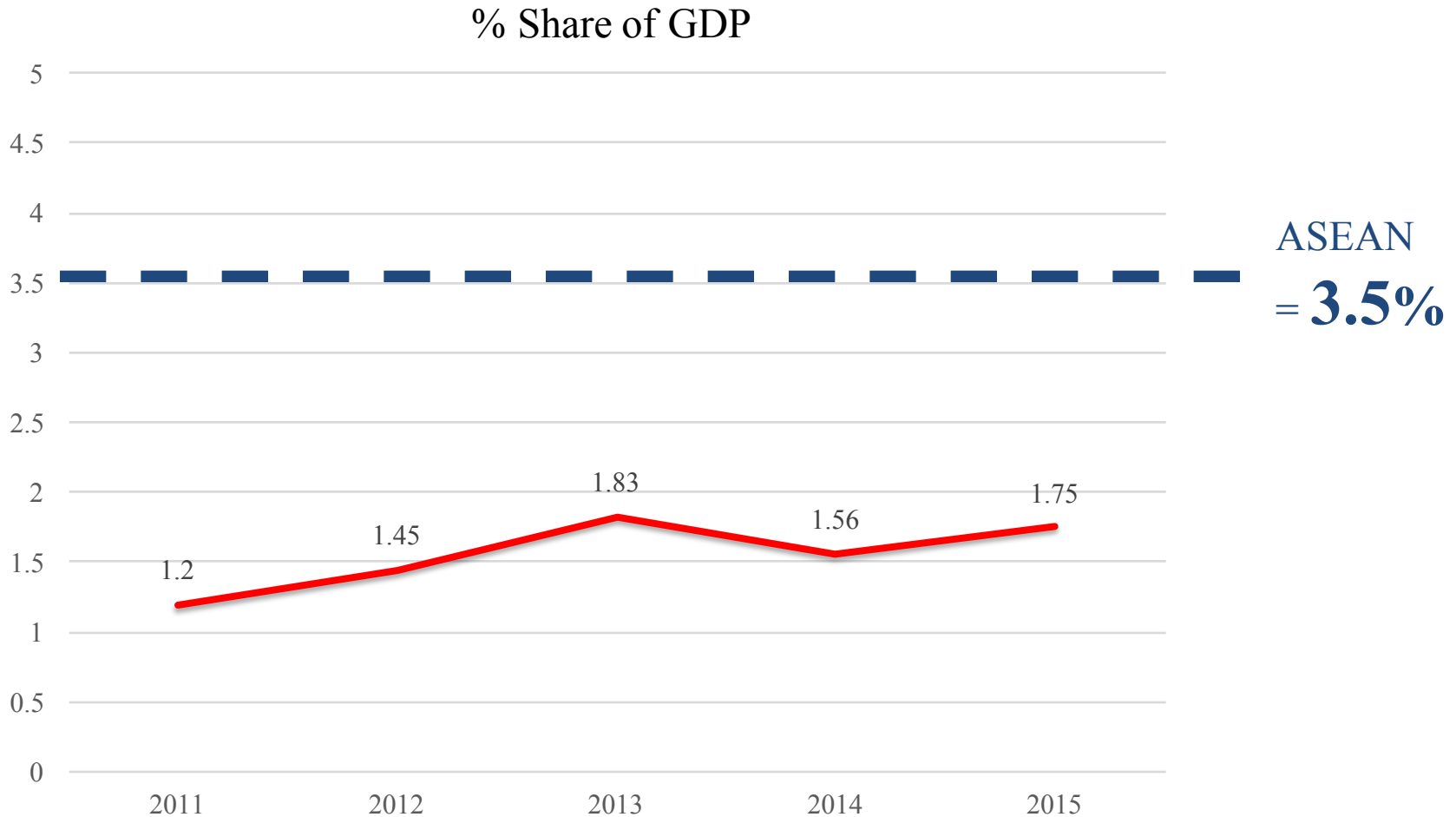
LEVEL OF TRUST



For additional information about this survey, go to ey.com/insurance/GCIS2014



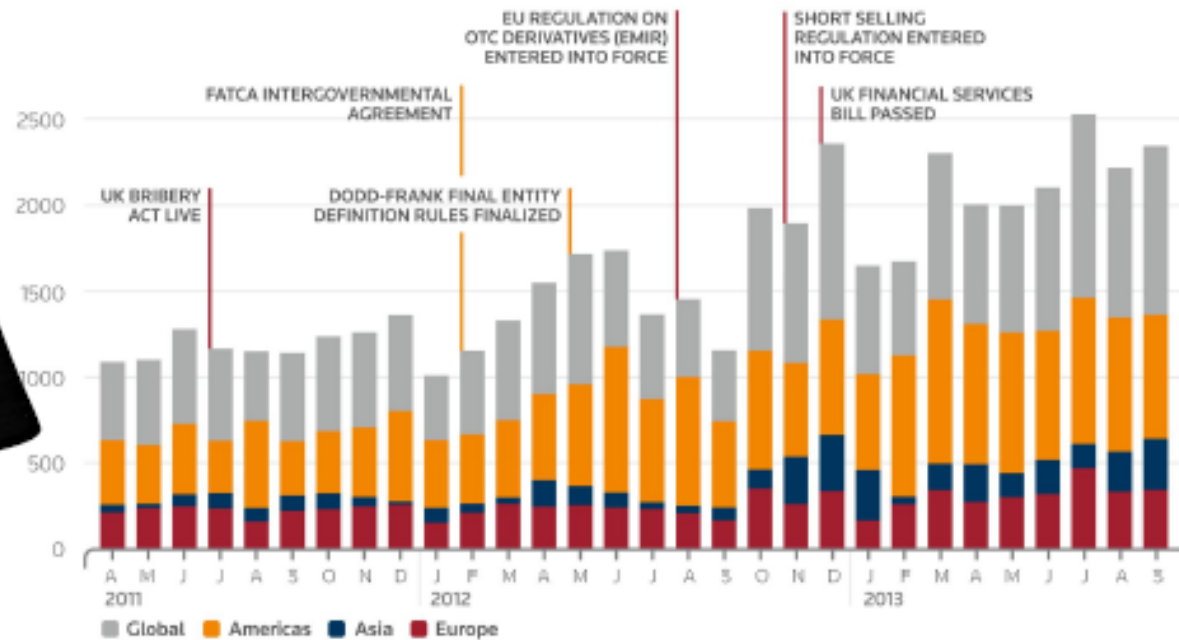
Unfulfilled Potential?



Source: Insurance Commission 2015 Annual Report; ASEAN Insurance Markets, 2015

KEEP
CALM
AND LET THE
**CHIEF
COMPLIANCE
OFFICER**
HANDLE IT

Regulatory Activity Tracked 2011-2013



Source: Prof. EP Vermeulen

Challenges in Insurance Carrier Governance

- Corporate Governance as a Tool for
 - Creating value
 - Ensuring long-term sustainability
- Insurance Carrier Role In Stewardship

Corporate Governance Objectives

Sustainability: the capacity to endure without failing or giving way

- *Prof Lynn S. Paine, Harvard Business School*

Ensures that right decisions are taken by the right people in the right way and in the interests of all shareholders

- *Dr David A. Smith, Aberdeen Asset Mgmt*

Berkshire Hathaway

- Holding company controlled by Warren Buffett
- Insurance arm consists of GEICO, the second largest private auto insurer in the US, as well as two of the largest reinsurers in the world, General Re and Berkshire Hathaway Reinsurer
- 11 subsidiaries with 44,300 employees
- Insurance premiums worth US\$45.9Bn in 2016 from US\$34.5Bn in 2012



Berkshire Hathaway

	% Change in Book Value Per Share	% Change in Market Value Per Share	% Change in S&P 500 (incl. dividends)
Compounded Annual Gain 1965-2016	19%	20.8%	9.7%
Overall Gain, 1965-2016	884,319%	1,972,055%	12,717%

Source: Berkshire Hathaway, 2016 Annual Report



Berkshire Hathaway - Stockholders

- “Although our form is corporate, our attitude is partnership ... Charlie (Munger) and I think of our shareholders as owner-partners, and of ourselves as managing partners
- We will not diversify by purchasing entire businesses at control prices that ignore long-term economic consequences to our shareholders. We will only do with your money what we would do with our own ...”
- An Owner’s Manual

<https://www.youtube.com/watch?v=6scmSlXlUY>



Berkshire Hathaway –Stakeholders

“We use debt sparingly ... we will reject interesting opportunities rather than over-leverage our balance sheet. This conservatism has penalized our results but it is the only behavior that leaves us comfortable, considering our fiduciary obligations to policyholders, lenders and the many equity holders who have committed unusually large portions of their net worth to our care.”

- An Owner's Manual



Berkshire Hathaway –Stakeholders

“We are reluctant to sell sub-par businesses as long as we feel good about their managers and labor relations ... gin rummy managerial behavior (discard your least promising business at each turn) is not our style. We would rather have overall results penalized a bit than engage in that kind of behavior.”

- An Owner's Manual



Berkshire Hathaway – Disclosures

“Our long-term economic goal ... is to maximize Berkshire’s average annual rate of gain in intrinsic business value on a per-share basis.

... consolidated reported earnings may reveal relatively little about our true economic performance. Charlie and I ... virtually ignore such consolidated numbers. However, we will also report to you the earnings of each major business we control, numbers of great importance. These figures ... should generally aid you in making judgments about them.”

- An Owner’s Manual



Berkshire Hathaway – Disclosures

“We will be candid in our reporting to you, emphasizing the pluses and minuses important in appraising business value. Our guideline is to tell you the business facts that we would want to know if our positions were reversed. We owe you no less ... we also believe candor benefits us as managers. The CEO who misleads others in public may eventually mislead himself in private.”

- An Owner's Manual



Berkshire Hathaway – Disclosures

“I earlier described our gradual shift from a company obtaining most of its gains from investment activities to one that grows in value by owning businesses ... Despite that cautious approach, I made one particularly egregious error, acquiring Dexter Shoe for \$434 million in 1993. Dexter’s value promptly went to zero. The story gets worse: I used stock for the purchase, giving sellers 25,203 shares of Berkshire that at yearend 2016 were worth more than \$6billion.”

Berkshire Hathaway 2016 Annual Report



Berkshire Hathaway – The Board

Qualifications

- High integrity, business savvy, shareholder orientation, genuine interest
- No term limits
- If a director receives more “withheld” votes than “for”, he/she must resign.
- 2 EDs, 2 NEDs, 8 independents



Berkshire Hathaway – The Board

Policies and Processes

- IDs meet regularly in executive sessions
- EDs do NOT receive compensation. Fees are nominal and limited to immediate compensation. Fees should be of NO consequence to any director.
- Company does not purchase D&OLI.



Berkshire Hathaway – The Board

Policies and Processes

- At least once a year, the Board reviews its long-term plans and principal issues that the Company will face in the future.



Berkshire Hathaway – The Board

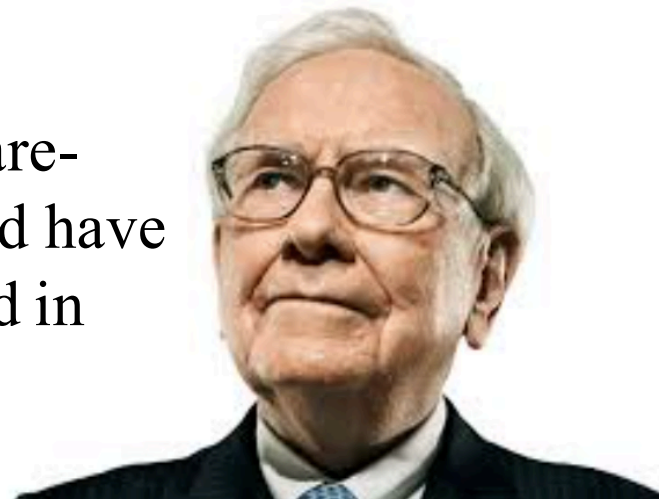
Policies and Processes

- Succession is one of the Board's primary responsibilities. CEO reports annually to the board on executive management succession planning and makes available, on a continuing basis, his recommendation on succession in the event that he becomes disable.



Commonsense CG Principles

- No board should be beholden to the CEO or management.
- Diverse boards make better decisions, so every board should have members with complementary and diverse skills, backgrounds and experiences.
- Every board needs a strong leader who is independent of management.
- Effective governance requires constructive engagement between a company and its shareholders. So institutional investors ... should have access to the company, its management, and in some instances the board.



ICGN Stewardship Principles

Principle 1: Investors should keep under review their own governance practices to ensure consistency with the aims of national requirements and the ICGN Global Stewardship Principles and their ability to serve as fiduciary agents for their beneficiaries and clients.

Principle 2: Investors should commit to developing and implementing stewardship policies which outlines the scope of their responsible investment practices.

ICGN Stewardship Principles

Principle 3: Investors should exercise diligence in monitoring companies held in investment portfolios and in assessing new companies for investment.

Principle 4: Investors should engage with investee companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients and should be prepared to collaborate with other investors to communicate areas of concern.

ICGN Stewardship Principles

Principle 5: Investors with voting rights should seek to vote shares held and make informed and independent voting decisions, applying due care, diligence and judgement across their entire portfolio in the interests of beneficiaries or clients.

Principle 6: Investors should promote the long-term performance and sustainable success of companies and should integrate material environmental, social and governance (ESG) factors in stewardship activities.

ICGN Stewardship Principles

Principle 7: Investors should publicly disclose their stewardship policies and activities to beneficiaries or clients on how they have been implemented so as to be fully accountable for the effective delivery of their duties.

2017 Corporate Governance Conference: Competing Against Risk



AN INITIATIVE OF



**FINANCIAL EXECUTIVES INSTITUTE
OF THE PHILIPPINES**



**The Institute of
Internal Auditors
Philippines**



Institute of Corporate Directors



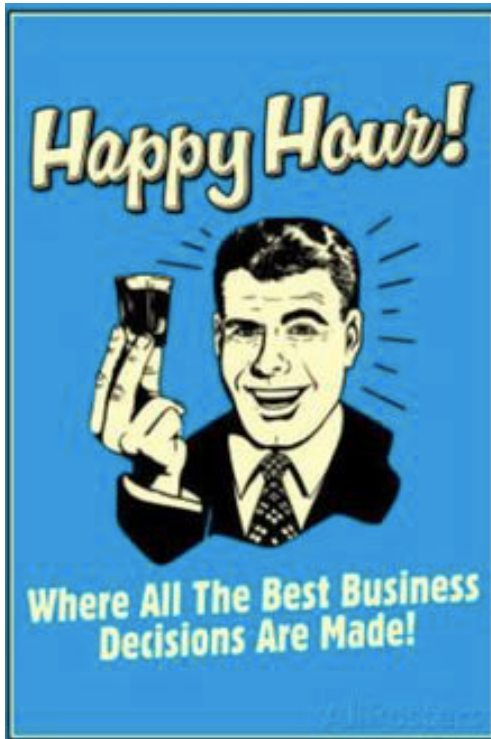
Management Association of the Philippines

TUESDAY SEPTEMBER 26, 2017

8:00 AM - 5:00 PM

DUSIT THANI MANILA





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