CORPORATE GOVERNANCE RULES IN THE FUNCTION OF LONG TERM SAFETY OF INSURER

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Abstract:
Spreading corporate culture and accepting corporate governance rules are preconditions for performing insurance activity of insurer in accordance with contemporary market business and providing adequate market appearance. Moreover, corporate governance rules obtain transparency in announced information about accepted risks of insurer. Corporate governance rules and pillars insist on improvement of risk management and internal audit within the company. Accordingly, establishment of adequate risk management is precondition for objective, reliable, comprehensive and objective reporting. Subject of this research is to determine the level of transparency in disclosing information in insurance sector in Republic of Serbia. The aim of research is to obtain data what can be improved in the process of implementing the Third Pillar of Solvency II.

Key words: corporate governance, risks, disclosure, public information, insurance.

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1. INTRODUCTION

Adequate insurer reaction on identifying risks, especially those estimated at high level, spreading corporate culture and applying the principles, rules and standards of corporate governance, are crucial for efficient and effective decision making of company’s board.

Corporate governance represents defined structures and processes for managing and controlling legal entities [4]. OECD’s frame for corporate governance is based on four values [4]: objectiveness, commitment, transparency and responsibility. Potential benefits from good corporate governance are: improved operative efficiency, obtained access to equity markets, lower price of equity, and better reputation of the company, its members of managing board and managers. Accordingly, board of insurance company should create conditions for permanent analysis of surrounding, market researches, collection of all relevant information for performing business and decision making, i.e. activities connected to risk (internal and external) identification (such as macroeconomic factors, socio-political trends, wishes and needs of insured, regulation, forecasting of future, etc.). All of those activities are in the function of execution of defined targets and strategies of insurer. Moreover, they should provide operative performance with lower exposures to risks. Finally, suitable organizational structure of insurance company, proactive approach in human resources management and level of development of internal control and financial management are guarantee for performing insurance business with defined target [3].

Project Solvency II brings a qualitatively different approach to risk management and totally new financial reporting concept. It has characteristics of corporate governance. Three pillars of Solvency II (area of implementation) are [5]: 1) quantitative requests, 2) supervisory process and 3) market discipline. Implementation of Solvency II, especially the second (risk management, internal audit, ORSA – Own Risk and Solvency Assessment, supervisory) and the third (disclosure requirements and transparency) pillar provides indirect benefits for corporate governance in insurance company [1, 2, 3].

Subject of this research is to identify what can be improved in further process of implementation of Solvency II. Data base for research are public information available on web sites of insurance companies and National Bank of Serbia in 2013 [7, 9].

2. SPREADING CORPORATE CULTURE AND CORPORATE GOVERNANCE

“Corporate culture is based on preconditions, beliefs, values and way of behaviour which employees developed and accepted as common experience. They express it through symbols, routing their behaviour and meaning in business” [4]. Spreading of corporate culture and human resource management is a precondition for successful execution of company’s targets. It helps employees to understand their own tasks, role and importance in the process of achieving aims in the most adequate way. Moreover, it protects interests of all stakeholders. Finally, introduction of corporate governance will provide growth and development of the company, where interests of customers, third parties and state will not be damaged.

Insurer accepts and announced policies connected to stakeholders in order to establish adequate exchange of information. Moreover, one of expending corporate governance elements is to provide freedom to the third parties to inform about activities which are not in accordance with law, statutory acts and rules of insurance competence. Finally, insurance companies should be responsible toward insured and public for their acts if they would like to keep favourable business reputation.
in favour of insured. Finally, introduction of system of internal elements on this risk are requirement, training of employees are very important risk. Elements and factors which have will be taken or taken are crucial for establishing adequate principles in taking responsibilities regarding activities which connected state's decisions. Moreover, understanding procedures, rules and importance of internal audit are defined by Law on Insurance and Decisions on Internal Controls and Audits. Executive bodies are defined by Law on Insurance and Decisions on Internal Controls and Audits. Qualifications and competences of board members are defined by Law on Insurance and Decisions on Internal Controls and Audits. Qualifications and competences of board members are defined by Law on Internal Controls and Audits.

<table>
<thead>
<tr>
<th>Element of Corporate Governance (IFC)</th>
<th>Area of coverage</th>
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<td>General management structure of shareholder company</td>
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<td>Assembly of shareholders; Bodies (Management, Executive), Head of Risk Management Division; Head of Asset and Liability Management Unit; Certified Actuarial; Compliance Manager; Heads of organizational units</td>
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<td>General regulation of the company</td>
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<td>Qualifications and competences of board members are defined by Law on Insurance and Decisions on Internal Controls and Audits</td>
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<td>Equity influence on corporate governance</td>
<td>General terms connected to initial equity; increase of the equity; protection of equity; obligatory and statutory reserves</td>
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<tr>
<td>Importance of corporate transaction</td>
<td>High value of assets - way of getting and using; Acquiring control equity – participation; Legal acts where exist personal interest</td>
<td>It is defined by Law on Legal Entities, Law on Insurance, Law on Equity Market</td>
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<tr>
<td>Information transparency</td>
<td>Definition, principles, announcement vs. transparency; business secret and inside information; obligatory public information (financial and business results, targets, control packet ownership and voice right, information about board members, employees and other risk owners of the business; report on corporate governance; voluntary announcement (internet sites of societies; means of public reporting);</td>
<td>Law on Legal Entities, Law on Equity Markets and National Bank of Serbia (regulates and controls it).</td>
</tr>
<tr>
<td>Acts of supervisory and auditing</td>
<td>Internal audit bodies; Commission for auditing; Business of internal auditing; System of internal controls in comparable practice; Auditing Commission; Activates are regulated by Law on Auditing, Law on Insurance, International Frame for Professional Practice; Plan, Programme and Instruction for Operative Work of Internal Audit.</td>
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</table>

Table 1: Parallel review of accepted and implemented elements of corporate governance in insurance companies in Serbia
[Source: created by the authors based on the available data in references 1, 2, 3, 4, 5, 7 and 8]

Employees should get all necessary help in the process of understanding procedures, rules and importance of internal audit in achievement of company’s targets. It is provided by permanent improvement of corporate governance system. Moreover, activities connected to support in providing ethical standard and principles in taking responsibilities regarding activities which will be taken or taken are crucial for establishing adequate corporate governance system. Generally speaking, human resources are very important risk. Elements and factors which have elements on this risk are requirement, training of employees and their motivation for work, way of delegating right, commitments, responsibilities and capabilities of the company to keep the most competent employees and managers. Accordingly, principles of ethic responsibility of all employees should be in the function of company’s interest and progress, especially in favour of insured. Finally, introduction of system of internal audit guarantees performance of insurer in accordance with ethic codex and principles of ethic responsibility.

3. DISCLOSURE REQUIREMENTS

Insurance companies are doing business in accordance with international principles of corporate governance, which means that hey announced relevant information and data. However, insurer takes care not to ruin own competitiveness position on insurance market.

Insurers are obliged to announce financial reports prepared in accordance with ISAR, their targets in future period, policies which company applies in business, relevant visible risks to whom insurer is exposed or will be, control pocket ownership and right voice, as well as possible changes in ownership structure. However, there is information which is not transparent in insurers’ business, such as information about policies and practices in recruiting board members and key staff, their qualification, process of recruitment, their participation in business of other companies which perform business in the country and abroad, which criteria were applied in hiring independent board
members, possible conflict of interest between board members, general manager and other heads (especially with persons who are in charge of independent functions, such as internal audit, actuarial, risk and compliance managers), in order to provide truth information to shareholder. Insurers should disclose in their annual risk management reports data on inadequate Asset and Liability Management, covering especially insurance risk, market risk, risk of term and structural imbalances of assets and liabilities, investment risk, operational risk (including strategic risk), legal and reputational risk. Moreover, insurers should provide transparency in announcing data connected to investment risk and success in doing business, especially data about investment targets, investment policies, investment management, and term and structural balance of assets and liabilities.

International Accounting Standards and International Standards of Accounting Reporting improved practice of Serbian insurance companies, such as information on development of collection per premium, development of damages, discrepancies between real and expected damages, basis for calculating return on investment, estimated time and value of net cash income and outcome, sensitivity of financial result and equity on movements in risk factors. However, Solvency II rules introduced huge qualitative changes i.e. disclosure requirements in terms of volume and quality.

4. CONCLUSIONS

Research results confirmed that Serbian insurers have formally fulfilled disclosure requirements, but they should improve quality of core information for all stakeholders. Serbian insurers should improve corporate governance and practice of announcing rules of corporate governance, especially information connected to business policies, strategies, transactions with controlled entities, criteria and practice for hiring board members, their fees and bonuses, and investment policies.

Key point which should be further improved in accordance with the third pillar of Solvency II are acceptance of the additional commitments in the case when test of provision and premium satisfaction indicate these have been underestimated, and the method of calculation solvency capital requirement.
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PRAVILA KORPORATIVNOG UPRAVLJANJA U FUNKCIJI DUGOROČNE SIGURNOSTI OSIGURAVAČA

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Apstrakt:
Širenje korporativne kulture i prihvatavanje pravila i principa korporativnog upravljanja su osnovne pretpostavke za obavljanje delatnosti osiguravača u skladu sa standardima savremenog tržišnog privredovanja i obezbjeđivanja adekvatnog tržišnog nastupa. Konačno, pravila korporativnog upravljanja predstavljaju svojevrsnu garanciju transparentnosti u postupku obelodanjivanja informacija i smanjenja rizika u poslovanju osiguravača. Pravila i principi na kojima se temelje politike korporativnog upravljanja, nedvosmisleno insistiraju na unapređenju procesa upravljanja rizicima i sistema internih kontrola. Zbog toga organizacija i uspostavljanje sistema upravljanja rizicima u budućnosti mora biti jedan od prioriteta i ujedno uslov za objektivno, pouzdano, sveobuhvatno i istinito izveštavanje. Predmet ovog rada je utvrđivanje nivoa transparentnosti u obelodanjivanju podataka u sektoru osiguranja Republike Srbije. Cilj rada je da ukaže šta bi moglo da se unapredi u procesu dalje primene trećeg stuba Solventnosti II.

Ključne reči: korporativno upravljanje, riziči, obelodanjivanje, osiguranje.