RESPONSE TO CP41
CORPORATE GOVERNANCE REQUIREMENTS FOR CREDIT INSTITUTIONS AND INSURANCE UNDERTAKINGS

Introduction

The Allianz Group considers CP41 as one of the most significant contributions to Irish corporate governance and we welcome and support the initiative of CP41 in seeking to develop a robust model of corporate governance. This is clearly in the long term interest of all stakeholders. It is also of particular interest to those companies who have been working at continuous improvement of the corporate governance process. The Allianz Group is committed to the highest standards of corporate governance and also to a strong compliance culture.

The application of one rigorous standard of corporate governance across the entire banking and insurance industry as outlined in CP41 may not however be appropriate given the wide variation in the size, complexity and ownership of entities within the Insurance and Banking industry. Our main concern regarding CP41 is the issue of proportionality. The requirements of CP41 may only be appropriate for a relatively small number of regulated entities and if the consultation paper is implemented as drafted, we envisage that the majority of entities will be seeking exemptions. This may lead to an inefficient use of scarce regulatory resources.

The issues which arise for us are largely around the detail and, in particular, how the proposed regulations will apply to companies which are subsidiaries and whose parent company are themselves regulated by a competent European or International regulator. The paper appears to be aimed at large, complex, independent companies. In practice, these are only a small proportion by number of the universe of regulated credit institutions and insurance undertakings in Ireland. One of our main concerns with CP41 is that it sets the 'bar' too high for the vast majority of insurance companies operating within the industry and thereby is effectively regulating for the 'exception and not the rule'.

One solution is to consider different models reflecting ownership structure, risk factors, location and regulation of the parent company shareholder. The objective of different models is that appropriate regulation is applied and reflects the risks associated with the entity. In practice, if the Regulator is to apply proportionality, such models as appropriate will have to emerge and this would be best done at the outset.

Other Issues

A. Frequency of Board Meetings (11.1)

The paper specifies monthly Board meetings with a possible reduction with the Regulator's written consent. In our experience, it is better to have less frequent meetings which cover business and governance matters at a broad level. Monthly

meetings run the risk of pulling the Board down to unnecessary detail in order to fill an agenda. In particular, we believe that quarterly Board meetings are more appropriate. Obviously there needs to be scope for meeting more frequently in an emergency situation and the Financial Regulator should have the authority to insist on this and apply a higher standard to a company in such an emergency.

Having too frequent Board meetings can also run the risk of reducing the level of parent company senior management participation as non executives. In addition, there could also be an adverse knock on effect in foreign direct investment into 'Ireland Inc.' arising from this change of representation.

B. Committees

The Committee structures suggested seem sensible for most companies, especially given the scope to have the whole Board act as a risk committee. We would like clarification that, for subsidiaries, external supervision of internal audit, compliance and risk may come from the parent if it, itself, is a regulated credit institution or insurance undertaking.

C. Number of Board Memberships

The paper proposes (4.5) that individuals should not hold more than three directorships of credit institutions and insurance undertakings (except for multiple subsidiaries of the same parent). This may be unnecessarily restrictive for companies with an ownership structure under which the parent or major shareholder is from appropriately regulated territories. There is a considerable downside in being too restrictive in the number of directorships permitted –

a. The pool of experienced people is very limited and the number of companies is considerable. The pool may expand but this may take quite a long time as most experienced people are currently required for management roles.
b. The fees for directorships would need to increase significantly from the current level.

At the moment, in advance of any new director being appointed to the board of an insurance undertaking they are required to meet the Financial Regulator's *'Fit and Proper Requirements*'. As part of this process, each new applicant is (amongst other things) required to provide details of all directorships held. We consider this to be the appropriate time for the Regulator to determine whether the number of directorships held by a particular director is excessive or inadequate. Furthermore, the prescribing of minimum and maximum limits may not be appropriate considering the wide variation in size and complexity of insurance companies operating in Ireland and also given the capability of each particular director.

It is in the interests of everyone that there be a pool of full time experienced independent non executive directors. If the restrictions as suggested were to apply to all companies, this pool would probably need to increase substantially. This is simply not practical and may even be prohibitively expensive, even if, as has been suggested,

the overseas pool of non executives is accessed. Moreover, holding several directorships may be an advantage in sharing experience of areas for instance such as corporate governance. Therefore, we believe that the proposal (4.6) that individuals should not hold more than five directorships in total is too restrictive and as suggested, could be dealt with in the regulatory application and approval process for new directors.

D. Board Composition

The composition of the board and the balance between Non-Executive Directors and Executive Directors and the requirement, if any, for Independent Chairman and Non-Executive Directors should be determined based on ownership and complexity of the company.

E. Chairman

The comments in (C) above also apply to the role of chairman. The paper (5.8) seems to suggest that a chairman should effectively be full time since they cannot hold other directorships without permission. We are opposed to the concept of a full time non executive chairman for any but the very largest companies. Were this proposal to be implemented, fees for a chairman would most likely have to rise a multiple from their current levels. It should be possible for individuals to chair a number of companies and the restrictions in this regard appear excessive. We also suggest that the Financial Regulator could deal with this issue by the introduction of a regulatory application and approval process for the role of chairman, similar to the process for new directors.

F. Summary

There are many regulated companies in Ireland. To try to implement proportionality by having every company apply to the Regulator for their particular case seems to be an inefficient use of scarce regulatory resources. Accordingly, it may be more prudent to consider having a number of 'models' at the outset. Our main concerns relate to the proposals regarding frequency of meetings, numbers of directorships and requirements and limitations in respect of the role of Chairman. Finally, it should also be noted that for the most part, the majority of Insurance companies operating in Ireland appear well run and are already subject to strict corporate governance standards and in our particular case are also subject to rigorous group corporate standards.