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30 June 2010

"Corporate Governance"
Prudential Policy Unit
International Credit Institutions
Financial Regulator
P O Box 9138
College Green
Dublin 2

CP41 Corporate Governance Requirements for Credit Institutions and Insurance Undertakings

Dear Sir/Madam,

We welcome the publication of the Corporate Governance Consultation paper and the formalisation of Corporate Governance standards for Credit Institutions and Insurance Undertakings.

Hannover Re has operated in Ireland since 1992 and has been very involved with DIMA consultations with the Financial Regulator ("FR"). When the FR published the paper "Corporate Governance for Reinsurance Undertakings" in December 2007, we embraced the requirements and implemented the measures in a timely manner. We also appointed two Independent Non Executive Directors to our Board in April 2009.

Having worked diligently in this regard and noting that certain measures in the guidelines with respect to INEDs only take effect from 30 June 2010, we propose a separate consultation with the reinsurance sector to enhance the existing requirements described in the guidelines to address any specific concerns the FR may have in relation to the reinsurance sector and to clarify the applicability of certain requirements currently in the guidelines which are not included in CP41.

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Alternatively, subject to clarity from the FR relative to what it considers to be (a) a "major institution" and (b) "institutions with lesser economic significance and lower risk activities", the reinsurance sector could be de-scoped from certain sections of CP41.

It has been stated by Mr Matthew Elderfield that the proposed requirements under CP41 may not be appropriate for the funds sector as the funds sector poses a different risk profile than that of banks and insurance companies without the same sort of prudential risks and with important differences in governance arrangements. Given the nature of the business of reinsurance and in particular that reinsurance transactions are conducted in a wholesale or "business to business" environment as well as the fact that many local reinsurers are wholly owned subsidiaries of large international groups, it is clear that reinsurers also have a different risk profile and therefore a similar approach should be adopted in the reinsurance sector.

Consideration should be given to the potential impact of CP41 on international reinsurers' decisions to establish in Ireland specifically in relation to the acceleration of Solvency II implementation in conjunction with the requirements relative to the composition of the Board as outlined below.

In relation to the current consultation paper, CP41, we would like to express our specific concerns for implementation in the following three areas:-

- In the current proposal, the Chairman of the Board shall be one of the Independent Non Executive Directors. Our current Chairman is a "non executive" in that he is a member of the Executive Board of Hannover Re and is on our Board to protect and secure Hannover Re's investment in our entities. Hannover Re would not be prepared, given our corporate structure, to delegate this responsibility to an independent director.

  The imposition of an independence requirement on the Chairman may reduce rather than enhance the proper functioning of the Board. This requirement would exclude the possibility of a Group employee filling the role, despite having greater knowledge of the Group decision-making process and Group strategy than an external candidate. Further, within a Group construct, and particularly if strategy is determined at Group level, there are de facto limits to the effect and power of an Independent Chairman at a subsidiary level and thus such an imposition may deliver an illusory form of governance, an appearance of control, without altering the substance of how the entity is governed.

The key benefit of independent directors is their perspective and that they pose a significant antidote to excessive "Group think". This does not necessarily require that the independent voice is that of the Chairman.

The Chairman of the Board is an important link to the Group and facilitates important two-way communication, as an executive within the Group. This would no longer be possible to the same extent if the Chairman must be independent.

- The requirements state that there shall be a balance between independent and all other directors. Hannover Re would not support a change in the balance towards Independent Non Executive Directors.

  An "appropriate balance" would be more suitable in the reinsurance sector having regard to the wholesale nature of the business. To do otherwise would impose restrictions on the reinsurance sector given the specialised nature of the business and the limited pool of individuals with the appropriate expertise from which to choose from and may result in choices being made for incorrect reasons. Further, as a consequence of the proposed regulations relative to the maximum number of directorships, our existing Independent Non Executive Directors may have to re-consider their current directorships, potentially resulting in the loss of one or both of our Independent Non Executive Directors. Limiting the number of directorships is quite restrictive having regard to the limited pool of individuals and the lower time commitments required of directors in the reinsurance sector.

  Under the 'Requirements for Corporate Governance for Reinsurance Undertakings' issued in December 2007 we found that it was difficult to search for, and find, suitably experienced individuals for the INED positions as there was, and continues to be, a limited pool of suitably qualified individuals from which to choose from.

- The current proposal requires the holding of monthly Board meetings which is subject to exception. Reinsurance undertakings should automatically qualify for this exemption. The holding of monthly Board meetings would be disproportionate to our business. It would create a significant imposition on our business without adding any obvious value. Quarterly Board meetings are currently held and continue to be appropriate within the reinsurance sector as it compliments our business and reporting requirements. Holding monthly Board meetings within the reinsurance sector exposes the risk of such meetings becoming "box-ticking" exercises and will likely affect Group management's involvement.

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In light of the above comments we feel that full implementation of CP41 would be excessive for the reinsurance sector.

Please see appendix attached providing our detailed comments and analysis of CP41 for your consideration.

Yours faithfully

Debbie O'Hare
Managing Director