INSTRUCTION NO. 09/2021

ON CORPORATE GOVERNANCE AND INTERNAL CONTROL OF AUTHORISED INSURANCE COMPANIES

The Banco Central de Timor-Leste (BCTL) recognizes the importance of insurance companies to establish and implement a corporate governance framework which provide for sound, prudent management and oversight of the insurance company's business.

Corporate governance should promote effective oversight of policies and accountability of the insurance company's Board of Directors, management and key persons in control functions in managing the insurance company's business.

The ultimate objective of implementing an effective corporate governance framework by insurance companies is to protect the interests of the policyholders and stakeholders of those entities.

This Instruction sets forth the minimum standards, policies and measures for the corporate governance of licenced insurance companies.

Additionally, considering that, in line with the international provisions on this matter, the Law no. 6/2005, of 7 July (Insurance Law), in its article 39 paragraph 1, requires that the insurance companies should adopt patterns of governance and internal monitoring systems allowing them to secure their compliance with legal and regulatory obligations.

The Governing Board of Banco Central de Timor-Leste, pursuant to the authority granted in Article 31 paragraph 1 of Law no. 5/2011 of 15 June, and in Articles 3 and 4 of Law no. 6/2005 of 7 July, hereby resolves to approve the following Instruction:

CHAPTER I
GENERAL PROVISIONS

Article 1
Applicability

1. This Instruction applies to all authorized insurance companies with head office in Timor-Leste.

2. For branches of overseas insurance companies which are required by their competent authorities to apply equivalent standards, policies and measures of corporate governance, the BCTL requires such branches to strictly observe those comparable guidelines, standards and measures as implemented in the head office by the home regulator.

3. BCTL maintains oversight and/or management accountabilities and structures at the branch taking into account the nature, scale and complexity of the operations of the branch and any group-wide risks that affect the branch.

4. Insurance groups should have and implement group-wide governance policies for their subsidiaries.

5. It is requested that where an insurance company adopts group-wide corporate governance policies and standards, such group-wide policies and standards should also meet those requirements and objectives of these standards at the local entity level, considering the nature, scale and complexity of the operations of the local entity and any group-wide risks that affect the entity.

Article 2
Definitions

In this Instruction the terms below shall have the following meaning:

a) "Arm's length transactions" indicate transactions between two independent parties in which both are acting in their own self-interest;

b) "Board of Directors" refers to the panel of individuals elected by the shareholders to represent them in the management of the insurance company;

c) "BCTL" refer to the Banco Central de Timor-Leste;

d) "Control Functions" refers to properly authorized functions, whether in the form of a person, unit or department, serving a control or checks and balances function from a governance standpoint and which carry out specific activities including risk management, compliance, actuarial matters and internal audit;

e) "Corporate Governance" comprises systems (such as structures, policies and processes) through which an insurance company is managed and controlled;

f) "Financial Reports" refers to both general purpose financial reports and supervisory financial reports;

g) "Independent Non-Executive board" means a member of the board of directors who (1) do not have a material relationship with the company, and (2) is not part of the company's executive team, and (3) is not involved with the day-to-day operations of the company;

h) "Internal Controls" refers to various operational procedures by which an insurance company maintains compliance with Board policies. Such procedures include the regular reporting of key financial data, the adherence to tolerance limits and the use of feedback loops. The internal controls should address checks and balances such as cross checking, dual control of assets and double signatures;

i) "Key Persons" refers to persons responsible for heading control functions;

j) "Remuneration" refers to salary, allowances, per-diems and other benefits in cash or other kind;

k) "Risk Appetite" refers to the amount of risk an insurance company is willing to accept in the aggregate, relative to financial capacity to assume losses and to align with and support its strategic and financial objectives;

l) "Risk Management" refers to the process whereby the insurance company's management acts to assess and control the impact of past and potential future events that could be detrimental to the insurance company. These events can impact both the assets and the liabilities of the insurance company's balance sheet, and the insurance company's cash flow;

m) "Management" refers to the individuals or body responsible for managing the business on a day-to-day basis in accordance with strategies, policies and procedures set out by the Board;

n) "Solvency" refers to the ability of an insurance company to meet its obligations to policyholders when they fall due. Solvency indicates capacity adequacy but also involves other aspects of a solvency regime, for example, technical reserves;

o) "Stakeholders" include individuals, groups or organizations that have interest or concern in the insurance company's business, as its shareholders, employees, creditors, suppliers and the own community; and

p) "Suitability" refers to necessary qualities that must be exhibited by a person performing the duties and carrying out the responsibilities of his/her position with an insurance company. Depending on his/her position or legal form, these qualities could relate to a proper degree of integrity, personal behaviour and business conduction, soundness of judgment, degree of knowledge, experience and professional qualification and financial soundness.

CHAPTER II
ORGANIZATION BODIES

Article 3
Structure of Board of Directors

1. The board of directors is composed of at least three (3) members and no more than seven (7) members with an odd number of board of members and the number of non-executive members shall not be more than the number of executive member, elected for a term of office not exceeding two years, renewable for equal periods of time.

2. Members of the board of directors of insurance companies shall reside in Timor-Leste.

3. The Managing Director is elected from executive board members and must be a permanent resident of Timor-Leste.

Article 4
Corporate Governance of the Board of Directors

1. The insurance company's Board is required to have on an on-going basis:

   a) an appropriate number and mix of individuals to ensure that there is an overall adequate level of knowledge, skills and expertise at the Board level commensurate with the governance structure and the nature, scale and complexity of the insurance company's business;

   b) appropriate internal governance practices and procedures to support the work of the Board in a manner that promotes the efficient, objective and independent judgment and decision making by the Board; and

   c) adequate powers and resources to be able to discharge its duties fully and effectively.

2. The Board of an insurance company should have enough members who have relevant expertise among them as necessary to provide effective leadership, direction and oversight of the insurance company's business to ensure it is conducted in a sound and prudent manner.

3. The Board should collectively and individually have, and continue to maintain, including through professional training, necessary skills, knowledge and understanding of the insurance company's

business to be able to fulfil their roles.

4. The Board should have, or have access to, knowledge and understanding of areas such as the lines of insurance underwritten by the insurance company, actuarial and underwriting risks, finance area, accounting, the role of control functions, investment analysis and portfolio management and obligations relating to fair treatment of customers.

5. Board members should have the commitment necessary to fulfil their roles, demonstrated by, for example, enough allocation of time to the affairs of the insurance company and reasonable limits on the number of external Board memberships held at the other companies.

6. Board members should avoid commercial or business interests which conflict with that of the insurance company, where it is no reasonably possible to avoid conflicts of interests, such conflicts should be effectively managed.

7. Procedures should be in place to address conflicts of interests which could include disclosure of potential conflicts of interests, requirements for arm's length transactions and, where appropriate, prior approval by the Board or shareholders of such transactions.

Article 5
Roles and Responsibilities of the Board of Directors

1. The insurance company's Board is required to set and oversee the implementation of the insurance company's business objectives and strategies for achieving those objectives, including its risk strategy and risk appetite, in line with the insurance company's long-term interests and viability.

2. The Board should adopt a rigorous process for setting (including approving) and overseeing the implementation of the insurance company's overall business objectives and risk strategies, considering, on one hand, the long-term financial safety and soundness of the insurance company as a whole and, on the other, the legitimate interest of its stakeholders, including fair treatment of customers. These objectives and strategies should be adequately documented and properly communicated to its Management, Key Persons in Control Functions and all relevant other staff of the insurance company.

3. The Board should ensure that the insurance company's overall business objectives and strategies are reviewed at least annually to guarantee that they remain appropriate in light of any changes in internal or external business and operating conditions.

4. The Board should ensure more frequent reviews, for instance when an insurance company embarks on a significant new business initiative (e.g. a merger or acquisition, or a material change in the direction with respect to the insurance company's product portfolio, risk or marketing strategies), or upon the introduction of a new type or class of risk or product or a decision to market products to a new class or category of clients, or following the occurrence of significant internal or external events which may potentially have a material impact on the insurance company (including the financial condition, objectives and strategies of the insurance company) or the interests of its stakeholders.

5. The Board should establish clear and objective performance goals and measures, both for the

insurance company and its Management, to promote the effective implementation of the insurance company's business objectives and risk strategies, taking due account of, among other things, the insurance company's long-term interests and viability.

6. The Board should also assess at suitable intervals, whether those performance goals are achieved against the set performance measures for the Management.

Article 6
Appropriate allocation of oversight and management responsibilities

1. The insurance company's Board is required to:

    a) ensure that the roles and responsibilities allocated to the Board, Management and Key Persons in Control Functions are clearly defined to promote an appropriate separation of the oversight function from the management responsibilities; and

    b) provide adequate oversight of the Management.

2. The Board should ensure that the insurance company has a well-defined governance structure which provides for the effective separation between oversight and management functions.

3. The Board is responsible for providing the overall strategy and direction for the insurance company and overseeing its proper overall management.

4. The Board should ensure that is a clear allocation of roles and responsibilities to the Board as a whole, to committees of the Board where they exist, and to the Management and Key Persons in Control Functions to ensure proper oversight of the management of the insurance company. The allocation of roles and responsibilities should also clearly identify the individual and collective accountabilities for the discharge of the respective roles and responsibilities.

5. In order to provide effective oversight to the Management, the Board should:

    a) ensure that there are adequate policies and procedures relating to the engagement, dismissal and succession of the Management, and be actively involved in such processes;

    b) monitor whether the Management is managing the affairs of the insurance company in accordance with the strategies and policies set by the Board, including the insurance company's risk appetite, and meeting the performance goals set by the Board; and

    c) regularly meet with the Management to discuss and review critically the decisions made, information provided, and any explanations given by the Management relating to the business and operations of the insurance company.

6. As a part of its regular monitoring and review of the insurance company's operations, the Board should review whether the policies and procedures, as set by the Board, are being properly implemented and are operating as intended.

7. Particular attention should be paid as to whether the responsibilities for managing and implementing the policies of the Board have been effectively discharged by those responsible. For this purpose, the Board should obtain reports, at least annually, and such reports may include internal or external independent reports as appropriate.

Article 7
Board effectiveness and internal governance

1. The Board should review, at least annually, its own performance to ascertain whether members collectively and individually remain effective in discharging the respective roles and responsibilities assigned to them and identify opportunities to improve the performance of the Board as a whole.

2. The Board should implement appropriate measures to address any identified inadequacies, including any training programs for Board members.

3. The Board may also consider the use of external expertise from time to time to undertake its performance assessment where appropriate in order to enhance the objectivity and integrity of that assessment process.

4. The Board should have appropriate practices and procedures for its own internal governance and ensure that these are followed and periodically reviewed to assess their effectiveness and adequacy. These may be included in organizational rules or by-laws and should set out how the Board will carry out its roles and responsibilities. They should also cover a formal and documented process for nomination, selection and removal of Board members, and a specified term of office as appropriate to the roles and responsibilities of the Board members, particularly to ensure the objectivity of decision making and judgment. Appropriate succession planning should also form part of the Board's internal governance practices.

Article 8
Chair of the Board of Directors

1. The chairman of the board shall be elected from an independent non-executive board member.

2. The Chair of the Board shall have the role of providing leadership to the Board for its proper and effective functioning.

3. Chair of the Board should generally encompass responsibilities on setting the Board's agenda, ensuring that there is adequate time allocated for the discussion of agenda items, especially if they involve strategic or policy decisions of significant importance, and promoting a culture of openness and debate by facilitating effective participation of non-executive and executive members and communication between them and also with the Management and Key Persons in Control Functions.

Article 9
Independence and objectivity

The Board should establish clear and objective independence criteria which should be met by a sufficient number of members of the Board to promote objectivity in decision making by the Board.

Article 10
Board powers

1. To be able to discharge its roles and responsibilities properly, the Board should have well-defined powers, which are clearly set out either in the legislation or as part of the constituent documents of the insurance company (such as the constitution, articles of association or organizational rules).

2. These should, at a minimum, include the power to obtain timely and comprehensive information relating to the management of the insurance company, including direct access to relevant persons within the organization for obtaining information such as the Management and Key Persons in Control Functions.

Article 11
Access to resources

The management will allocate funding and other resources to enable the members of the Board of directors to carry out their respective roles and responsibilities efficiently and effectively.

Article 12
Delegations

1. The Board may, as appropriate to the nature, scale and complexity of the insurance company's business, delegate some of the activities or tasks associated with its own roles and responsibilities. Notwithstanding such delegations, the Board as a whole retains the ultimate responsibility for the activities or tasks delegated, and the decisions made in reliance on any advice or recommendations made by the persons or committees to whom the tasks were delegated.

2. Where the Board makes any delegations, it should ensure that:

   a) the delegation is appropriate;

   b) the delegation is made under a clear mandate with well-defined terms such as those relating to the powers, accountabilities and procedures associated to the delegation, and is supported by adequate resources to effectively carry out the delegated functions;

   c) there is no undue concentration of powers giving any one person or group of individuals unfettered and inappropriate level of powers capable of influencing the insurance company's business or management decisions;

   d) it has the ability to monitor and require reports on whether the delegated tasks are properly carried out; and

   e) it retains the ability to withdraw the delegation if it is not discharged properly and for due purposes by the delegate, and for this purpose have appropriate contingency arrangements in place.

Article 13
Duties of individual Board members

1. The individual members of the Board are required to:

   a) act in good faith, honestly and reasonably;

   b) exercise due care and diligence;

   c) act in the best interests of the insurer and policyholders, putting those interests of the insurance company and policyholders ahead of his/her own interests;

   d) exercise independent judgement and objectivity in his/her decision making, taking due account of the interests of the insurance company and policyholders; and

   e) not use his/her position to gain undue personal advantage or cause any detriment to the insurance company.

2. The specific duties identified above are designed to address conflicts of interest that arise between the interests of the individual members of the Board and those of the insurance company and

policyholders.

3. The insurance company should include these duties as part of the Board charter or mandate containing the terms of engagement of the individual Board members.

4. The individual Board members should understand the nature and scope of their duties and how they impact on the way in which the member discharges his/her respective roles and responsibilities. A Board member should consider his/her ability to discharge the roles and responsibilities in a manner as would be expected of a reasonably prudent person placed in a similar position. Each member should act on a fully informed basis and, for this purpose, continually seek and acquire information as necessary.

5. Where a member of the Board of an insurance company has common membership on the board of any other entity or outside the insurance company's group, there should be clear and well-defined procedures that require the member of the insurance company's Board to act in the best interests of the insurance company, putting the insurance company's and policyholders interests ahead of that of any other entity or that of his/her own.

6. These may be included appropriate disclosure and, in some instances, shareholder approval of such overlapping roles.

7. In the event of a material conflict with the interest of the insurance company, the member should disclose such conflicts promptly to the Board of the insurance company and its stakeholders as appropriate and be required to decline to vote or take any decisions in any matters in which he/she has an interest.

Article 14
Risk management and internal control systems and functions

1. The insurance company's Board should provide oversight in respect of the design and implementation of sound risk management and internal controls systems and functions.

2. It is the Board's responsibility to ensure that the insurance company has appropriate systems and functions for risk management and overall internal controls and to provide oversight to ensure that these systems and the functions that oversee them are operating effectively as intended.

3. These systems and functions should cover not only prudential risks but also conduct of business risks.

Article 15
Remuneration policy and practices

The Board of the insurance company is required to:

a) adopt and oversee the effective implementation of a remuneration policy, which does not induce excessive or inappropriate risk taking, is in line with the identified risk appetite and long-term interest of the insurance company, and has proper regard to the interest of its stakeholders; and

b) ensure that such a remuneration policy, at a minimum, covers those individuals who are members of the Board, Management, Key Persons in Control Functions and other employees whose actions may have a material impact on the risk exposure of the insurance company.

Article 16
Overall remuneration strategy and oversight

1. As a part of effective risk management, an insurance company should adopt and implement a prudent and effective remuneration policy. Such a policy should not encourage individuals, particularly members of the Board and Management, and Key Person in Control Functions, to take inappropriate or excessive risks, especially where performance based variable remuneration is used.

2. The Board, particularly members of the remuneration committee where one exists, should collectively have the requisite competencies to make informed and independent judgments on the suitability of an insurance company's remuneration policy. Such competencies should include things such as sufficient understanding of the relationship between risk and remuneration practices. The remuneration committee, where established, should have an adequate representation of independent non-executive members to promote objectivity in decision-making.

3. The Board should ultimately be satisfied that the overall remuneration policy and practices are consistent with the identified risk appetite and the long-term interests of the insurance company and its stakeholders. For this purpose, appropriate consideration should be given by the Board to relevant elements of the remuneration policy and structure, such as:

   a) the components of the overall remuneration policy, particularly the use and balance of fixed and variable components and the provision of other benefits;

   b) the performance criteria and their application for the purposes of determining remuneration payments;

   c) the individual remuneration of the members of the Board and Management, including the Managing Director, and

   d) any reports or disclosures on the insurance company's remuneration practices provided to the regulator or the public.

4. The Board should ensure that in structuring, implementing and reviewing the insurance company's remuneration policy, the decision-making process identifies and manages conflicts of interests and is properly documented. Any member of the Board should not be placed in a position of actual or perceived conflicts of interests in respect of remuneration decisions.

5. The Board should also ensure that the relevant Key Persons in Control Functions are involved in the remuneration policy-setting and monitoring process to ensure that remuneration practices do not create incentive for excessive or inappropriate risk taking, are carried out consistently with established policies and promote alignment of risks and rewards across the organization.

6. The potential for conflicts of interests that may compromise the integrity and objectivity of the staff involved in control functions should be mitigated. This can be achieved by a variety of means, such as making their remuneration:

   a) predominantly based on the effective achievement of the objectives appropriate to such control functions. Performance measures for staff in control functions should represent the right balance between objective assessments of the control environment (e.g., the conduct of the relationship between the control functions and executive management) and outputs delivered by the control functions, including their impact, quality and efficiency in supporting the oversight of risks. Such output measures may include recommendations made and implemented to reduce risks, reduction in number of compliance breaches and measures adopted to promptly rectify identified breaches, results of external quality reviews and losses recovered or avoided through audits of high-risk areas;

b) not linked to the performance of any business units which are subject to their control or oversight; and

c) adequate as an overall package to attract and retain staff with the requisite skills, knowledge and expertise to discharge those control functions effectively and to increase their competence and performance.

7. Where any control function is outsourced, the remuneration terms under the agreement with the service provider should be consistent with the objectives and approved parameters of the insurance company's remuneration policy.

Article 17
Variable remuneration

1. Variable remuneration should be performance-based using measures of individual, unit or group performance that do not create incentives for inappropriate risk taking.

2. To better align performance-based incentives with the long-term value creation and the time horizon of risks to which the insurance company may be exposed, due consideration should be given to the following:

a) there should be an appropriate mix of fixed and variable components, with adequate parameters set for allocating cash *versus* other forms of remuneration such as shares;

b) a variable component linked to performance that is too high relative to the fixed component may make it difficult for an insurance company to reduce or eliminate bonuses in a financial year in which this entity presents a negative performance;

c) the reward for performance should include an adjustment for the material current and future risks associated with performance. Since the time horizon of performance and associated risks can vary, the measurement of performance should, where practicable, be set in a multi-year framework to ensure that the measurement process is based on longer term performance;

d) if the variable component of remuneration is significant, a major part of it should be deferred for an appropriate specified period. The deferral period should take account of the time frame within which risks associated with the relevant performance (such as the cost of capital required to support risks taken and associated uncertainties in the timing and the likelihood of future revenues and expenses) may materialize. The deferral period applied may vary depending on the level of seniority or responsibility of the relevant individuals and the nature of risks to which the insurance company is exposed;

e) the award of bonuses should contain provisions that enable the insurance company, under certain circumstances, to apply *penalty or refund clauses* in the case of subdue or negative financial performance of the insurance company which is attributed to the excessive risk taking of the staff concerned; and

f) guaranteed bonuses should generally not be offered, as they are not consistent with sound risk management and performance-based rewards.

3. The variable component should be subject to prudent limits set under the remuneration policy that are consistent with the insurance company's capital management strategy and its ability to maintain a sound capital base taking account of the internal capital targets or regulatory capital requirements of the insurance company.

4. The performance criteria applicable to the variable components of remuneration should promote a complete assessment of risk-adjusted performance. For this purpose, due consideration should be given to the need for performance criteria to:

a) be clearly defined and be objectively measurable;

b) be based not only on financial but also on non-financial criteria as appropriate (such as compliance with regulation and internal rules, achievement of risk management goals, as well as compliance with market conduct standards and fair treatment of policyholders and claimants);

c) take account of not only the individual's performance, but also the performance of the business unit concerned where relevant and the overall results of the insurance company and the group; and

d) not treaty growth or volume as a criterion in isolation from other performance criteria.

Article 18
Severance payments

1. Where an insurance company provides discretionary pay-outs on termination of employment ('severance payments', sometimes also referred as "golden parachutes"), such payments should be subject to appropriate governance controls and limits.

2. In any case, such pay-outs should be aligned with the insurance company's overall financial condition and performance over an appropriate time horizon. Severance payments should generally not be payable in the case of failure or threatened failure of the insurance company, particularly to an individual whose actions have contributed to the failure or potential failure of the insurance company.

Article 19
Reliable and transparent financial reporting

1. The company's Board must ensure that there is a reliable financial reporting process for both public and supervisory purposes which is supported by clearly defined roles and responsibilities of the Board, Management and the external auditor.

2. The Board is responsible for having adequate systems and controls to ensure that the financial reports of the insurance company show a balanced and accurate assessment of the insurance company's business and its general financial health and viability as a going concern. In discharging this responsibility, the Board should carry out specific oversight functions. To increase its effectiveness, the insurance company should have an Audit Committee of the Board for this purpose. The Board, as a whole, carries out these functions which include:

a) overseeing the financial statements, financial reporting and disclosure processes;

b) monitoring whether accounting policies and procedures of the insurance company are operating as intended;

c) overseeing the audit process (encompassing external audit and reviews by internal audit of the insurance company's financial reporting controls) and reviewing the auditor's plans and material findings;

d) overseeing the processes for hiring, removing and assessing the performance and independence of the external auditor to ensure the appointed external auditor has the necessary knowledge, skills, expertise, integrity and resources to conduct the audit;

e) investigating the circumstances relating to the resignation or removal of an external auditor, and ensuring prompt actions are taken to mitigate any identified risks to the integrity of the financial reporting process.

3. It is particularly important that the Board safeguards and promotes an effective relationship with the external auditor and, for this purpose, ensures that:

a) the terms of engagement of the external auditor are clear and appropriate to the scope of the audit and resources required to conduct the audit and specify the level of audit fees to be paid;

b) the auditor undertakes a specific responsibility under the terms of engagement to perform the audit in accordance with applicable auditing standards;

c) there are adequate policies and a process to ensure the independence of the external auditor, including policies and processes that address the auditor's compliance with applicable ethical and professional standards, restrictions and conditions for the provision of non-audit services which are subject to approval by the Board, partner or firm periodic rotation as appropriate, and safeguards to eliminate or reduce to an acceptable level identified threats to the independence of the external auditor;

d) there is adequate dialogue with the external auditor on the scope and timing of the audit to understand the issues of risk, information on the insurance company's operating environment which is relevant to the audit, and any areas in which the Board may request for specific procedures to be carried out by the external auditor, whether as a part or an extension of the audit engagement;

e) there is unrestricted access by the external auditor to information and persons within the insurance company as necessary to conduct the audit; and

f) there is an evaluation of the effectiveness of the external audit process at the end of the audit cycle.

4. The Board should also understand the external auditor's approach to internal controls relevant to the audit. This includes evaluating the relationship between the external auditor, the internal audit function and the actuarial function in order to establish the degree of assurance that the Board can draw from the external auditor's report.

5. The Board should require that any information regarding internal control weaknesses or deficiencies which the external auditor becomes aware of is promptly communicated to the Board, to ensure that significant findings and observations regarding weaknesses or deficiencies in the financial reporting process are promptly rectified which should be supported by a formal process for reviewing and

monitoring the implementation of recommendations by the external auditor.

6. Appropriate actions should be taken by the Board where doubts arise as to the reliability of the external auditor's opinion as an independent attestation of the insurance company's internal financial reporting and control processes.

7. There should be regular meetings between the Board and the external auditor during the audit cycle.

Article 20
Transparency and communications

1. The insurance company's Board is required to have systems and controls to ensure the promotion of appropriate, timely and effective communication with the BCTL and relevant stakeholders on the governance of the insurance company.

2. Communications with the BCTL and other stakeholders should promote effective engagement of the BCTL and stakeholders on the governance of the insurance company to enable informed judgments about the effectiveness of the Board and Management in governing the insurance company.

3. Subject to any reasonable commercial sensitivities, or applicable privacy or confidentiality obligations, the insurance company's communication policies and strategies should include providing to the insurance company's stakeholders information such as the following:

    a) the insurance company's overall strategic objectives, covering existing or prospective lines of business and how they are being or will be achieved;

    b) the insurance company's governance structures, such as allocation of oversight and management responsibilities between the Board and the Management, and organizational structures, including reporting lines;

    c) members of the Board and any Board committees, including their respective expertise, qualifications, track-record, other positions held by such members, and whether such members are regarded as independent;

    d) processes in place for the Board to evaluate its own performance and any measures taken to improve the Board's performance;

    e) the general design, implementation and operation of the remuneration policy;

    f) major ownership and group structures, and any significant affiliations and alliances; and

    g) material related-party transactions with the insurance company.

4. The BCTL may require more detailed and additional information relating to the insurance company's corporate governance for supervisory purposes.

5. Disclosures of information on remuneration should be sufficient to enable stakeholders to evaluate how the remuneration system relates to risk and whether it is operating as intended. Relevant information may include:

    a) the operation of risk adjustments, including examples of how the policy results in adjustments to remuneration for employees at different levels;

b) how remuneration is related to performance (financial results and other performance metrics) over time; and

c) valuation principles in respect of remuneration instruments.

6. Appropriate quantitative information should also be made available to enable the BCTL and stakeholders to evaluate the financial impact of the remuneration policy. Such information may include:

   a) the total cost of remuneration awarded in the period, analysed according to the main components such as basic salary, variable bonus and long-term awards;

   b) the total amount set aside in respect of deferred remuneration;

   c) adjustments to net income for the period in respect of remuneration awarded in previous periods;

   d) the total costs of all sign-on payments in the period and number of individuals to whom these relate; and

   e) the total costs of all severance payments in the period and number of individuals to whom these relate.

7. These amounts should be analysed by type of instrument (e.g., cash, shares, share options, etc.) as applicable, and in a manner consistent with the key elements of the remuneration policy.

8. Disclosure of information on governance should be made on a regular (for instance at least annually) and timely basis.

Article 21
Auditing Board

1. The auditing board is composed by at least three (3) members elected, none of them serves as members of the Board of Directors.

2. The members' term cannot exceed two years, renewable for equal periods of time, and the responsibilities will include:

a) Support the board in ensuring that there is a reliable and transparent financial reporting process within the company.

b) Oversee the effectiveness of the internal audit function of the insurance company. At a minimum, this must include;

   i. reviewing and approving the audit scope, procedures and frequency;

   ii. reviewing key audit reports and ensuring that senior management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions;

   iii. noting significant disagreements between the chief internal auditor and the rest of the management team, irrespective of whether these have been resolved, in order to identify any impact, the disagreements may have on the audit process or findings; and

iv. establishing a mechanism to assess the performance and effectiveness of the internal audit function.

c) Foster a quality audit of the insurer by exercising oversight over the external auditor, in accordance with the expectations set out in the policy document on External Auditor. At a minimum, this must include;

i. making recommendations to the board on the appointment, removal and remuneration of the external auditor;

ii. monitoring and assessing the independence of the external auditor including by approving the provision of non-audit services by the external auditor;

iii. monitoring and assessing the effectiveness of the external audit, including by meeting with the external auditor without the presence of management at least annually;

iv. maintaining regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to the board audit committee on significant matters; and,

v. ensuring that senior management is taking necessary corrective actions in a timely manner to address external audit findings and recommendations.

d) Review and update the board on all related party transactions;

e) Review the accuracy and adequacy of the chairman's statement in the directors' report, corporate governance disclosures, interim financial reports and preliminary announcements in relation to the preparation of financial statements;

f) Monitor compliance with the board's conflicts of interest policy;

g) Review third-party opinions on the design and effectiveness of the financial institution's internal control framework; and

h) reporting to the Board and the BCTL on significant issues concerning the financial reporting process, including the circumstances relating to the resignation or removal of the external auditor and the actions taken to address or mitigate identified reporting risks.

CHAPTER III
SUPPORT COMMITTEES TO THE BOARD OF DIRECTOR

Article 22
Establishment of Board Committees

1. To support the effective discharge of the responsibilities of the Board, the Board should assess whether the establishment of committees of the Board is appropriate.

2. Committees that a Board may commonly establish, depending on the nature, scale and complexity of operations of the insurer, include nominations, remuneration, ethics/compliance, handling customers' complaints and risk management committees.

3. Where committees are appointed, they should have clearly defined mandates, authority to carry out their respective functions, and the degree of independence and objectivity as appropriate to the role of

the committee.

4. If the functions of any committees are combined, the Board should ensure such a combination does not compromise the integrity or effectiveness of the functions combined. In all cases, the Board remains ultimately responsible for matters delegated to any such committees.

Article 23
Nomination Committee

Responsibilities of the nominations committee may include:

a) making recommendations to the board with regard to the nomination for appointment or reappointment of members of the board consistent with appropriate criteria established in their profiles and any succession plan, aiming that the board individually and collectively continues to maintain target skill levels and independence.

b) providing advice to the board in respect of its member's responsibilities;

c) propose a mechanism for the formal assessment of the effectiveness of the board as well as the contributions of individual members;

d) making recommendations to the board with respect to succession planning for the managing director and other members of senior management and with respect to management development principles;

e) provide opinion on the management development status and succession plans for key positions, as well as general talent management of the insurer (also see the section, Board accountability for management, below); and

f) ensuring that all member of board committees receive appropriate ongoing training as required for them to fulfil their role requirements.

Article 24
Remuneration Committee

Responsibilities of the remuneration committee may include:

a) Proposing a remuneration approach and related policies for the insurance company usually covering:

   (i) remuneration policy remuneration governance and structure, including the approval policy for the level and composition of compensation; and

   (ii) components of compensation, such as the amount of the fixed remuneration, other variable remuneration, pension rights, redundancy pay and other forms of compensation and benefits, as well as the performance criteria and their application.

b) Preparing a remuneration report or other required or voluntary disclosures on compensation practices;

c) Reviewing and making recommendations regarding the specific remuneration of board members, the managing director, and management; and

d) Ensuring that the remuneration approach is consistent with performance and the risk management framework of the insurance company.

Article 25
Compliance Committee

Responsibilities of this type of committee may include:

a) monitoring the compliance function and the insurance company's risk profile in respect of compliance with laws and regulations and internal policies, including that entity 's code of ethics or conduct;

b) receiving reports on the above and on proactive compliance activities aimed at increasing the insurance company's ability to meet its legal and ethical obligations (such as communications and training of the board, management and other employees on compliance), as well as reports on identified weaknesses, lapses, breaches or violations and the controls and other measures in place to help detect and address the same;

c) supervising and monitoring matters reported using the insurance company's whistle blowing or other confidential mechanisms for employees and others to report ethical and compliance concerns or potential breaches or violations;

d) advising the board on the effect of the above on the insurance company's conduct of business and helping the board set the correct message from the top by communicating, or supporting the communication, throughout the insurance company of the importance of ethics and compliance;

e) approving compliance programmes, reviewing their effectiveness on a regular basis and signing off on any material compliance issues or matters;

f) identifying and understanding laws and regulations that may apply to the insurance company and changes that may have an impact on the operations of this entity;

g) conducting compliance risk analyses;

h) preparing for board approval a code of conduct and managing the implementation of and compliance with the code;

i) preparing compliance policies, procedures, and controls, and administering them;

j) devising communications, training, and other strategies to increase sensitivity to the importance of compliance and ethics, as well as employee awareness of and competence in specific areas of legal and supervisory obligation;

k) putting in place mechanisms to encourage and facilitate employee reporting of compliance concerns or potential violations; these mechanisms are accompanied by a policy of non-retaliation against employees who report in good faith;

l) designing ways to help detect, investigate and address any compliance deficiencies or violations and assisting employees in respect of specific obligations under applicable laws, regulations and internal procedures;

m) regularly reviewing the adequacy of the compliance system and overall compliance efforts; and

n) regular reporting to the board in respect of progress on all of the above, as well as on specific compliance issues or violations.

Article 26
Risk Management Committee

The duties of the risk management function include:

a) assisting the board in the effective operation of the risk management system by performing specialist analyses and quality reviews;

b) maintaining a group-wide and aggregated view on the risk profile of the insurance company in addition to the solo and individual risk view;

c) reporting to the board details on the risk exposures and the actions that have been taken (or should be taken) to manage the exposures;

d) advising the board with regard to risk management decisions in relation to strategic and operational matters such as corporate strategy, mergers and acquisitions and major projects and investments;

e) designing and implementing the internal model;

f) testing and validating the internal model;

g) documenting the internal model and any subsequent changes;

h) informing the board and management about the performance of the internal model, suggesting limitations of the risk management framework and the potential impact in practice of these limitations on risk management and updating them on the status of efforts to improve previously identified weaknesses;

i) analysing the performance of the internal model and producing summary reports; and

j) maintaining contact with the supervisor about the model, if necessary and appropriate.

CHAPTER IV
MANAGEMENT

Article 27
Duties of management

1. The Board shall have appropriate policies and procedures to ensure that Management:

    a) carries out the day-to-day operations of the insurance company effectively and in accordance with the insurance company's strategies, policies and procedures;

    b) promotes a cultures of sound risk management, compliance and fair treatment of customers;

    c) provides the Board adequate and timely information to enable the Board to carry out its duties and functions including the monitoring and review of the performance and risk exposures of the insurance company, and the performance of Management; and

    d) provides the relevant stakeholders and the BCTL the information required to satisfy the legal and other obligations applicable to the insurance company or Management.

2. Management should implement appropriate systems and controls to ensure that they can effectively carry out the day-to-day operations management of the business of the insurance company in order to achieve the insurance company's business objectives and strategies and, in particular, in accordance with the established level of risk tolerance and consistent with internal policies. Such systems and controls should encompass:

   a) clear and transparent process for engaging persons with appropriate competencies and integrity to discharge the functions of Management, which include succession planning, on-going training and procedures for termination;

   b) clear lines of accountability and channels of communication between persons in Management and Key Persons in Control Functions;

   c) proper procedures for the delegation of Management functions and monitoring whether delegated functions are carried out effectively and properly, in accordance with the same principles that apply to delegations by the Board;

   d) standards of conduct and codes of ethics for the Management and other staff to promote a culture of sound risk management and compliance, which include procedures for dealing with conflicts of interests, and the effective implementation on an on-going basis of such standards and codes;

   e) proper channels of communications, including clear lines of reporting, as between the individuals performing the functions of the Management and the Board, including provisions dealing with whistle-blower protection, and their effective implementation; and

   f) effective communication strategies with the BCTL and stakeholders that include the identification of matters that should be disclosed, and to whom such disclosure should be made.

3. Management should also ensure that there are adequate procedures for assessing the effectiveness of their performance against the performance objectives set by the Board. For this purpose, annual assessments of their performance against set goals should be carried out, at least annually, preferably by an independent party, a control function, or the Board itself. Any identified inadequacies or gaps should be addressed promptly and reported to the Board.

4. Management should also promote strong internal controls. It should not interfere with the activities that control functions carry out in the rightful exercise of their responsibilities, including that of providing an independent view of governance, risk, compliance and control related matters.

Article 28
Management appointments and removals

1. A managing director shall be elected from among the executive members of the board of directors of the insurance company.

2. A Managing Director must devote the whole of his professional time to the service of the insurance company unless BCTL approves otherwise in writing.

3. BCTL may allow a Managing Director to assume a position of responsibility outside the insurance company if the BCTL is satisfied that the proposed position does not:

   a) create substantial conflicts of interest or demands on the Managing's professional time; and

b) result in the Managing Director holding directorships in more than five entities other than the insurance company.

4. An insurance company must have a robust succession plan for management and clearly defined processes for:

   a) the appointment and removal of the Managing Director and senior officers; and

   b) assessment of the candidates against the minimum requirements set by the insurance company according to the applicable legal and regulatory rules.

5. Each member of management must be assessed against the relevant minimum requirements at least annually by the insurance company.

6. An insurance company must not make an application to BCTL to appoint or reappoint the Managing Director unless the board is wholly satisfied, based on its objective assessment, that the candidate meets the minimum requirements set on the Insurance Law.

7. Unless the written approval of the BCTL has been obtained:

   a) an insurance company must not publicly announce the proposed appointment of the Managing Director; and

   b) a Managing Director whose tenure has expired and is being proposed for reappointment must immediately cease to hold office and act in such a capacity, including by holding himself out as the Managing Director, until the new Managing Director is elected.

Article 29
Supervisory review

1. The BCTL may require the insurance company to demonstrate the adequacy and effectiveness of its corporate governance framework.

2. The Board and Management of the insurance company have to demonstrate that they are meeting the applicable corporate governance requirements, consistent with these standards, on an on-going basis.

3. For the purpose of the preceding paragraph, the BCTL shall assess whether the insurance company's overall corporate governance framework, including remuneration policies and practices, is effectively implemented and remains adequate by undertaking periodic on-site inspections and/or other (including off-site) reviews as appropriate to the nature, scale and complexity of the insurance company's business and its risk profile.

CHAPTER V
INTERNAL CONTROL

Article 30
Risk Recognition and Assessment

1. The insurance companies should establish an effective internal control and risk management system that is capable of recognising and continually assessing material risks that could affect its performance and financial condition.

2. The assessment should cover all risks facing the insurance company on a consolidated basis (including

underwriting risk, reinsurance risk, investment risk, geographical risk, operational risk and legal risk).

3. Internal controls should be revised as necessary to effectively address any new or previously uncontrolled risks.

Article 31
Internal Audit

1. The insurance companies should establish an effective and comprehensive internal audit as part of the of the internal control system which should be carried out by operationally independent and competent staff.

2. The internal audit function should report directly to the board through the audit committee, and its findings and recommendations should be communicated to senior management and all levels of staff concerned.

3. The frequency and extent of internal audit reviews should be commensurate with the nature, complexity and risk of the insurer's activities.

Article 32
Internal control activities

1. The insurance company should develop an internal control culture within the organisation that integrates control activities into the daily operations of this entity.

2. Internal control activities should involve all levels of personnel and should cover the entire spectrum of the control process, including the establishment of control policies and procedures, the verification that the control policies and procedures are being adhered to and the regular evaluation of the effectiveness of internal controls.

3. Internal control deficiencies or breaches, whether identified by business units, internal audit, and other control personnel (e.g., compliance officers), should be reported in a timely manner to the appropriate management level and addressed promptly.

Article 33
Segregation of Duties

1. There should be an appropriate segregation of duties, so staff are not assigned potentially conflicting responsibilities.

2. Insurance companies should observe minimum lines of separation to address potentially conflicting responsibilities in critical areas of operations.

3. The segregation of duties should at least cover the separation between:

   a) approval of the disbursement of funds and the actual disbursement;

   b) operational and internal audit/compliance functions;

   c) the execution and recording of investment transactions;

   d) marketing and underwriting functions;

   e) marketing and claim functions; and

f) underwriting and claim functions.

Article 34
Adoption of adequate and effective system of internal control

1. The management of all insurance companies shall formulate standards of operating policies, procedures and practices to be adopted and applied by the insurance company in the conduct of its business.

2. It is the responsibility of the board to pass and prescribe an adequate and effective system of internal control in the insurance company.

Article 35
Requirements for an effective system of internal control

1. The written standard policies, procedures and practices in the insurance company, flexible to allow corrections and edits as needed, comprise the company's system of internal control.

2. This system must be adequate and effective in relation to the organizational structure, nature and scale of business of the insurance company.

3. At a minimum, the system of internal control must satisfy the following guidelines:

   a) no individual in the insurance company shall have absolute or unfettered power of decision;

   b) no individual shall have the absolute or unfettered control of a transaction. The control of cash and other assets must require at least two signatures of responsible individuals who are subject to accountability;

   c) the actuary and the external auditor must not be officers or employees of the insurance company or of any of its affiliates and subsidiaries to ensure that the calculations of technical provisions and other liabilities are adequate and to provide conservatism in the valuation of insurance company assets and in the determination of profits or losses. The actuary and the external auditor report directly to the board;

   d) related-party transactions are prohibited except as allowed by the BCTL and the applicable law;

   e) the creation and organization of internal audit functions is under the authority and supervision of the board. Internal audit must have full access to all lines and support departments of the insurance company, sufficiently staffed with trained personnel with relevant experience;

   f) the acceptance of risks shall be in accordance with underwriting guidelines prescribed by the board. The guidelines must include the determination of risk retention, single and aggregate, procedures that apply to the disposition of risks beyond the underwriting guidelines, the cession of risks to reinsurers and the acceptance of reinsurance risks;

   g) the investment of insurance company assets shall be in accordance with the policies and guidelines prescribed by the board consistent or as prescribed by the BCTL;

   h) market conduct oversight defining standards on fair treatment of customers, adequate disclosure to customers of policy benefits, risks and responsibilities, the handling of customer's money, separation of principal and agent activities and conflicts of interest;

i) the proper and timely administration of accounting functions to ensure reconciliation of accounts, up-to date accounting records, and the production of accurate and reliable information for management;

j) continuing physical control of and accountability for all assets and investments of the company;

k) establish procedures to recognize, in a timely fashion, potentially disadvantageous or suspicious transactions including the application of adequate system of checks and balances;

l) establish procedures to promptly recognize deviations of regulatory compliance;

m) establish well-defined communication lines within the organization from the lowest ranked employee to management and up to the board with a credible system of feedback;

n) establish procedures to provide the board with adequate oversight over all activities of the insurance company to ensure timely recognition of internal control deficiencies, deviations and/or suspicious transactions;

o) such other requirements as may be prescribed by the BCTL.

Article 36
Authority of the BCTL to review and supplement internal control

1. The board of directors of a licensed insurance company shall give full and open access to the BCTL to review the adequacy and effectiveness of the insurance company's internal control system. The internal audit reports in the insurance company must at all times be accessible to the BCTL at its request.

2. If the BCTL considers it necessary, after conducting a review of the system of internal control, it shall direct the licensed insurance company to incorporate in their system of internal control:

   a) such policies, procedures or practices that are needed to strengthen existing controls prescribing the areas where the BCTL determines the present system is deficient and the controls necessary to correct the deficiencies noted;

   b) if the BCTL determines that the insurance company or failed to adopt and install a system of internal control, or if a purported system of internal control is not in writing, BCTL may suspend the license of the insurance company until such time as the same shall have adopted and installed, in writing, its system of internal control.

Article 37
Corporate governance disclosures

1. An insurance company must disclose information on its corporate governance policies and practices. Such disclosures must include:

   a) the particulars of, and the reasons for, any gaps in relation to the requirements set out in this Instruction; and

   b) a description of the measures taken, or that will be taken, to address the gaps.

2. An insurance company will be deemed to have complied with paragraph 1 to the extent that it has disclosed the information required in that paragraph in accordance with other laws or legal

requirements.

3. The board must ensure that the corporate governance disclosures are accurate, clear and presented in a manner that is easily understood by its shareholders, customers and other relevant stakeholders.

4. An insurance company must ensure that the corporate governance disclosures are:

   a) laid before its annual general meetings as an appendix to the directors' report; and

   b) published on its website.

CHAPTER VI
FINAL PROVISIONS

Article 38
Conflict of duties or interest

1. Board members must avoid positions where their interests and duties would conflict with duties, they owe to the insurance company.

2. Board members shall disclose to the board in a timely manner any potential or apparent conflict of interest.

3. Potential conflicts include, but are not limited to, situations where:

   a) a board member considers accepting a board position in another insurance company;

   b) an insurance company enters into a transaction or makes an investment in other entities in which a board member or a relative may have financial or other interests; and

   c) an insurance company hires a relative or other person with whom the board member has a close connection.

4. The board of director shall establish a written policy to address potential conflicts of interest for purpose of:

   a) identify circumstances which constitute or may give rise to conflicts of interests;

   b) clearly define the process for directors to keep the board informed on any change in their circumstances that may give rise to a conflict of interest;

   c) identify those responsible for maintaining updated records on each director's conflicts of interest; and

   d) articulate how any non-compliance with the policy will be addressed.

5. A director should disclose to the board the nature and extent of his or her interest in a material transaction or material arrangement, and, if such material transaction or material arrangement is being deliberated during a board meeting, to be absent from the meeting during such deliberations.

6. An interested director must make the disclosure by way of a written notice to all members of the board of directors and the company secretary:

a) as soon as practicable after being aware of his or her interest in the material transaction or arrangement; and

b) if the material transaction or arrangement is being deliberated at a board meeting, the disclosure must be made before the start of this meeting.

Article 39
Reporting

1. On or before the 15th day of January of each year, and on such times as may be required by the BCTL, the board of directors and the senior officer of insurance company licensed by the BCTL, shall file and submit to the BCTL a verified statement, signed by them, stating, at a minimum, the following facts:

   a) every member of the board, its senior officer and all officers, employees or individuals connected with the insurance company required to satisfy the "fit and proper" test prescribed by the Insurance Law and these Instructions have continuously remained in fulfilment and satisfaction of the "fit and proper" requirements during the immediately concluded financial year or during the certain period as required by the BCTL and/or, if otherwise, the name of the individual or individuals concerned and the reason or reasons for the non-fulfilment therefor;

   b) the level of adherence to corporate governance principles adopted by them and the corresponding attainment of stated objectives;

   c) that the board continuously maintained its independence from and remained free of external and internal influences during the financial year just concluded or, if otherwise, the nature and degree of interference and the decision or resolution adopted thereby;

   d) such other matters required by the BCTL consistent with the insurance Law and this Instruction.

2. On or before the 15th day of January of each year, and on such times as may be required by the BCTL, the board of directors and the senior officer of an insurance company licensed by the BCTL, shall file and submit to the BCTL a disclosure statement in regard to the following:

   a) the amount of benefits enjoyed by each member of the board during the financial year last concluded or during that certain period required by the BCTL;

   b) the amount of benefits authorized by the board and enjoyed by the senior officer and other officers, of the company for which the board determines their remuneration, during the financial year last concluded or during that certain period required by the BCTL;

   c) related party transaction or transactions with the insurance company; and

   d) such other matters required by the BCTL to be disclosed consistent with the insurance Law and this Instruction.

Article 40
Implementation

For existing insurance companies, the effective implementation shall be within six (6) months after the entry into force of this Instruction.

Article 41
Entry into force

This Instruction shall enter into force on the day of its publication in the Jornal da República.

Approved on 30 September 2021

Abraão de Vasconselos
Governor