



CORPORATE GOVERNANCE: INSURANCE COMPANIES IN PARTICULAR

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Abstract:

Corporate governance in insurance companies refers to the set of rules and procedures that ensure transparent and responsible management while protecting the rights of shareholders and policyholders. Governance focuses on the structure and role of the Board of Directors, risk management, internal control systems, and compliance with legal and disclosure requirements. These principles help strengthen trust, reduce risks, and promote stability within the insurance sector.

The research problem is to what extent do governance principles contribute to enhancing transparency and risk management in insurance companies, and how do they impact the protection of client's rights and the overall stability of the insurance sector?

Keywords: Corporate governance- insurance companies-risk management-internal control- transparency- policyholder protection- financial disclosure.

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Introduction :

The insurance sector is one of the economic elements of any country as a factor of economic growth and development, a measure of the civilisation of countries, and the best way to deal with the various types of risks and the best way to face the damages and losses that result from the various types of hazards. It exerts an influence over numerous economic variables and, more importantly, serves to mobilize savings for the financing of productive investments, which constitute a cornerstone of economic progress. In the aftermath of independence, Algeria—like many other Third World nations—adopted a development model characterized by state monopoly over economic activities, including the insurance sector. The role of this sector remains substantial, owing to its tangible contribution to economic activity and its involvement in the execution of development plans pursued by the Algerian state.

The government set up several national companies to cover the various risks inherent in economic life. Following Algeria's adoption of a reform policy, it became necessary to restructure the sector by opening it up to private entities, in line with Ordinance 95-07.¹ This move paved the way for greater competition in the insurance market and improved the quality of services offered to Algerian consumers.

The insurance operations are carried out by both public and private companies, known as insurance companies, which play a significant role in ensuring social stability for members of society. Like other companies, insurance firms aim to maximize their profitability in order to strengthen their financial position, while also satisfying their clients by meeting their obligations on time, maintaining customer loyalty, and preserving their reputation in the market. Especially with the challenges of the current period, which come with greater integration into the global economy and the adoption of liberalization policies, it has become essential to improve management practices and strengthen regulatory systems for insurance companies in order to adapt to this new environment. Particularly, in light of the challenges of the current phase, which is followed by greater openness to global economies and the implementation of liberalization policies, it has become an imperative to develop management methods and techniques, as well as supervisory systems for insurance companies, in order to strengthen them and align with this new economic environment. Like other businesses and financial institutions, insurance companies are always looking for ways to carry out their activities in a manner that helps them achieve their goals.

¹ Ordinance No. 95-07 of January 25, 1995, relating to insurance, Official Gazette No. 13, published on March 8, 1995 .



This is done by implementing new mechanisms for oversight and strengthening the role of governance, following good management practices in line with global standards. This approach benefits not only the insurance companies themselves but also all stakeholders involved, including (shareholders, clients, employees, the state, and others).

From this perspective, the following issue arises: How can governance influence the efficiency of insurance companies, and what means are used to achieve this?

To address this issue, we will first explain how insurance companies are established in Algeria and the regulatory system overseeing them, then define corporate governance and apply the mechanisms and principles of corporate governance to insurance companies.

THE FIRST TOPIC : THE ESTABLISHMENT OF INSURANCE COMPANIES AND THE REGULATORY SYSTEM OVERSEEING THEM

The insurance sector has experienced substantial growth and development, particularly since the enactment of Order 95-07 in January 1995. This regulation allowed private enterprises to enter the insurance market and establish insurance and/or reinsurance companies in two forms²: as joint-stock companies, when the objective is to generate profit, or as mutual companies, when the objective is non-commercial. This research focuses on the former.

The Algerian legislator requires that the establishment of joint-stock insurance companies comply with the general provisions set forth in the Algerian Commercial Code. In addition to these general rules, specific provisions must also be observed—where applicable—as stipulated in the law governing insurance, as well as in the relevant regulatory texts and decisions that oversee and regulate insurance activities.

FIRST REQUIREMENT: LEGAL PROVISIONS GOVERNING THE INCORPORATION OF JOINT-STOCK INSURANCE COMPANIES

The Algerian legislator mandates that the incorporation of a joint-stock insurance company comply with the procedures and legal provisions set forth in

² **Article 215 of Ordinance No. 95-07, previously cited:**

"Insurance and/or reinsurance companies are subject, in their formation, to Algerian law. They must take one of the following legal forms: a joint-stock company or a mutual company."



commercial law. Such a company may be incorporated either through immediate incorporation³-without public solicitation of capital-or through successive incorporation, which involves public subscription⁴ in cases where the minimum capital requirement for incorporation has not been initially fulfilled.

A joint stock insurance company is established in accordance with the general provisions for the establishment of joint stock companies by a number of not less than the minimum number of seven (7) members set by the Commercial Code, and the founder must have full legal capacity, although permission may be obtained from a judge in case of lack of capacity, and the founder must subscribe to the company's capital and be of good character in order to establish credit in the company.

The company must also be registered in the Commercial Register to acquire legal personality. A management structure must be established to fulfil the company's primary objective. This structure includes a board of directors and a president, supported by general managers, each responsible for specific duties aligned with the company's purpose.

However, insurance companies differ from other joint-stock companies in that they are subject to specific provisions. These include capital and financial requirements, as well as the obligation to obtain official accreditation in order to operate.

Firstly: Insurance Company Capital and Financial obligations :

An insurance and/or reinsurance company requires substantial financial resources at the time of its establishment, as it is responsible for providing guarantees to its clients. For this reason, the Algerian legislator has imposed financial requirements that must be strictly observed. A minimum capital is mandated, which varies depending on the type of insurance activity the company undertakes.

1- Personal and Capitalisation Insurance Companies:

Personal and capitalisation insurance companies are required to maintain a minimum level of capital, as they cover individuals against risks that may affect their life, physical integrity, or ability to work—such as death, illness, accidents, and disability. When such a risk materialises, the insurance company is obligated to pay the full amount agreed upon in the contract⁵.

³ Article 605 of the Commercial Code.

⁴ Article 595 of the Commercial Code.

⁵ Mohamed Hussein Mansour, *Insurance Provisions – Principles and Pillars of Insurance, Insurance Contract, Compulsory Insurance for Liability Related to Building and Car Accidents*, no edition, Dar Al-Jami'a Al-Jadida Publishing, Alexandria, no publication year, p. 29.



Therefore, the Algerian legislator, in Article 2, Paragraph 1 of Executive Decree No. 09-375, established the minimum capital requirement for insurance and/or reinsurance companies, regardless of non-cash shares, as follows: one billion (1) dinars for joint-stock companies engaged in personal insurance and capitalisation operations⁶.

2- Regarding damage insurance companies :

The Algerian legislator, pursuant to the provisions of Article 02 of Decree No. 09-375 previously referred to, has imposed on property and casualty insurance companies a minimum capital requirement as follows: « one billion dinars for joint-stock companies engaged in property and casualty insurance." This is because property and casualty insurance requires substantial funds to cover the losses incurred by the insured in their financial liability, that is, to provide monetary compensation proportionate to the insured object.

3- With regard to the capital of reinsurance operations :

A reinsurance company for property and casualty risks requires a capital greater than that of personal or property insurance companies, Therefore, Article 02 of Executive Decree No. 09-375 set the minimum capital for such a company as follows: '... five billion (5) dinars for joint-stock companies exclusively engaged in reinsurance operations.

This concerns the company's capital. As for other financial obligations, insurance companies are required to establish mandatory financial reserves. These reserves must be set aside from profits before any distribution to shareholders, in order to cover potential losses, financial and regulatory obligations faced by management⁷—particularly to meet and cover financial commitments towards the insured. There are four types of reserves:

a- Account reserve :

It is the amount set aside by the insurer at the end of each financial year to cover potential liabilities and risks that may arise under life insurance contract⁸s. It consists of three elements:

- An element to face the death of the insured at any time.

- An element to face the increased risk of death due to old age, so it is deducted from the first years' premiums to be added to the last years' premiums to face the risk of death.

⁶ Executive Decree No. 09-375 of November 16, 2009, amending and supplementing Executive Decree No. 95-344 of October 30, 1995, relating to the minimum capital of insurance companies, Official Gazette No. 67, dated November 19, 2009.

⁷ Mostafa Kamal Taha, *Fundamentals of Commercial Law – A Comparative Study (Commercial Transactions, Merchant, Commercial Establishment, Commercial Companies, Industrial Property)*, 1st edition, Al-Halabi Legal Publications, Lebanon, 2006, p. 514.

⁸ Abdelkader Al-Atir, *Land Insurance in Legislation*, Fifth Edition, Dar Al-Thaqafa for Publishing and Distribution, Amman, 2010, p. 85.



- The final element is what is deducted from the premium and set aside for savings, which at the end of the contract is paid to the insured.

b- Capital formation reserve:

This reserve is realised as a result of insurance companies investing in their community account reserves. These reserves are allocated to counter monetary fluctuations, which often lead to a decrease in the currency or value of money.⁹

c- Premiums paid reserve:

This type of reserve is called the current risk reserve, which is the amount that the insurer allocates at the end of each financial year to meet the liabilities that may arise after the end of the year for insurance contracts that were issued before that date and are still valid, except for life insurance contracts¹⁰. Since the financial year begins on 1 January and ends on 31 December, all prepaid premiums that expire in the following year are retained by insurance companies in order not to disturb the budget for the current year and the following year¹¹.

d- Reserve for unresolved incidents:

It is also referred to as the reserve for claims under settlement and represents funds set aside to cover incidents that have occurred but have not yet been reported or identified¹². The purpose of this reserve is to ensure that the budget of the year in which such incidents occurred bears the compensation due to it, so that it is paid in that year without transferring it to the budget of the following year.

Secondly: Provisions concerning the issuance of accreditation :

Article 204 of Ordinance 95-07 on insurance provides that insurance and/or reinsurance companies cannot engage in any insurance activity until they have obtained accreditation, which requires the fulfilment of certain conditions that the company must follow. This accreditation is issued in the form of a decision¹³ by the Minister in charge of Finance after consulting the National Insurance Council by providing the conditions specified in Article 06 of Executive Decree No. 96-267¹⁴.

The National Insurance Council includes representatives of all stakeholders in the insurance industry, including the head of the Insurance Supervisory Committee, the Director of Insurance at the Ministry of Finance, a representative

⁹ Ghazi Khaled Abu Arabi, *Insurance judgments- A Comparative Study*, Dar Wael Publishing House, Jordan, 2011, p.112.

¹⁰ Al-Attir Abdul Qader, op. cit., p. 86.

¹¹ Ghazi Khaled Abu Arabi, op. cit., p.114.

¹² Al-Attir Abdelkader, ibid, p.86.

¹³ Bilal Noura, *Regulation of the Insurance Sector*, Master's thesis in Law, Specialisation in General Business Law, Abdelrahmane Meira University, Bejaia, 2012, p. 48.

¹⁴ Article 06 of Executive Decree No. 96-267 dated 3 August 1996 setting out the terms and conditions for granting insurance and/or reinsurance of credit, J.R. No. 47 of 1996, amended and supplemented by Executive Decree No. 07-152 dated 22 May 2007, J.R. No. 35 of 2007.



of the Bank of Algeria with at least the rank of general manager, and an insurance expert appointed by the Minister of Finance.

In addition, the council includes a representative of the National Economic and Social Council, four representatives of insurance companies at the executive level, representatives of policyholders, and representatives of employees in the insurance sector. The council is chaired by the Minister in charge of Finance¹⁵.

This Board includes committees, including the Accreditation Committee, whose role is to give its opinion on the granting or withdrawal of accreditation¹⁶ based on a file submitted to it by the Insurance Directorate of the Ministry in charge of Finance within 15 days after the Committee is notified by the Insurance Directorate of the Ministry in charge of Finance, and records its opinion in a report sent by the Chairman to the Minister in charge of Finance¹⁷.

In addition, the role of the Insurance Supervisory Commission (ISC) in granting accreditation is to verify information about the sources of funds used to establish or increase the capital of the insurance or reinsurance company, which is a mandatory procedure to ensure the legality of the source of funds¹⁸.

If any ambiguity or suspicion arises regarding the source of funds, the entity notifies the competent financial intelligence unit, which is responsible for analyzing and processing the information it receives and identifying the origin of the company's funds. The unit forwards the file to the Public Prosecutor whenever the reported facts are likely to be related to a money laundering offense.

The appointment of managing directors and chief administrators of insurance companies is also subject to the express approval of the Insurance Supervisory Commission by attaching a list of chief administrators and managing directors, specifying their name, surname, nationality, date and place of birth, accompanied by documents proving their professional qualifications and a copy of their judicial record.

The decision to grant, amend, or revoke accreditation is issued by the Minister in charge of Finance and published in the Official journal of the People's

¹⁵ Bourab Arzgui, Control of insurance contracts, Master's thesis in private law, specialised in contract law, Faculty of Law and Political Science, Mouloud Mammeri University, Tizi Ouzou, 2015, p. 76.

¹⁶ Article 07 of Executive Decree 95-339 of 30 October 1995 on the powers, organisation, composition and functioning of the National Insurance Council, J.R. No. 65 of 31 October 1995.

¹⁷ Article 2.6 of the Decree dated 11 February 1996, defining the composition, organisation and functioning of the Accreditation Commission, J.R. No. 34, dated 05 June 1996.

¹⁸ Erzel El Kahneh, 'Insurance Companies in the Face of Money Laundering', The Researcher's Journal for Academic Studies, Faculty of Law, El Hadj Lakhdar University, Batna, Algeria, Issue 4, 2014, p. 73.



Democratic Republic of Algeria¹⁹. This decision may be appealed before the Council of State in accordance with the applicable legislation²⁰.

Article 204 of Law 06-04 emphasises the possibility for insurance or reinsurance companies to combine the insurance operations provided for in Article 203²¹ of the same law, and insists on the need to comply with the provisions of this article within 5 years of the promulgation of this law.

For its part, the opening of branches of foreign insurance companies in Algeria requires a licence from the Minister in charge of Finance, which means that the representative offices of these companies are required to comply with the law and regularise their status within one year from the date of publication of this law.

SECOND REQUIREMENT: MONITORING OF INSURANCE COMPANIES

Monitoring is defined as an organised effort to set performance standards that are consistent with established planning objectives, instructions and principles for the purpose of detecting weaknesses and errors in order to remedy them and avoid their recurrence²².

Firstly: Objectives and Basis of Control²³:

The objectives of the control are:

- To ensure that administrative work is carried out within the framework of the law and according to the outlined plan, whether in legal, financial, or operational aspects.
- Identify obstacles to the progress of administrative work, detect risks, deviations, and misconduct by employees that may affect the efficiency of executive performance.

¹⁹ Article 218 of Ordinance No. 95-07 of January 25, 1995, relating to insurance, as amended and supplemented.

²⁰ Article 36 of Law No. 06-04 of February 20, 2006, relating to insurance, which amends Article 218 of Ordinance No. 95-07 of January 25, 1995.

²¹ Article 203 of Law No. 06-04 "Insurance or reinsurance companies are companies that undertake the underwriting and execution of insurance and/or reinsurance contracts as defined in the applicable legislation, distinguishing in this regard between

1- Companies that take on obligations whose fulfilment is linked to the duration of human life, the health or physical condition of persons, capitalisation and assistance to persons.

2- Insurance companies of any nature whatsoever and other than those mentioned in the first clause, "within the meaning of this Order" means insurance and reinsurance organisations and mutuals.

²² Hussein Abdel Aal Mohamed, Administrative Control between Administrative Science and Administrative Law, Dar Al-Fikr Al-Jami'i, Alexandria, 2004, p. 75.

²³ Mr Mohamed El-Gohary, The Role of the State in Monitoring Investment Projects, University Thought House, Alexandria, first edition, 2009, p. 47.



- Ensure that leaders are aware of the adequacy of the necessary information about the administrative levels they supervise so that coordination, guidance and decision-making processes can take place in a proper manner that achieves the policy objectives.

As for the principles of control should be ²⁴:

- compatible with the nature of the activity, the circumstances, and the requirements of administrative work. This is what gives the applied methods of control in an insurance company a certain degree of specificity, due to the unique nature of technical operations and the impact of the production cycle in insurance companies on damages, on the one hand, and the legal and regulatory risks associated with assets and investment options of these companies, on the other hand.

It must also be exercised in a timely manner to enable corrective and remedial actions to be taken, while following objective criteria in the approved control.

The control system must be flexible and adjustable according to the changing circumstances of the work, be clear and simple, and be cost-effective so that it does not constitute an economic disadvantage and a cost to the organisation.

Types of control: Control is divided into several types, depending on whether it is an ex ante or ex post procedure, the entity conducting the control, or whether it is self-censorship within the company or external.

Secondly: Types of control:

Control is divided into several types, depending on whether it is an ex ante or ex post procedure, the entity conducting the control, or whether it is self-censorship within the company or external.

1- Monitoring Based on the Timing of Its Practice:

The applicable criterion is the time or period during which the monitoring is carried out.

a- the prior control :

Prior control presupposes that the controlling authority has the authority to pre-approve the company's actions²⁵ and helps in the proper implementation of financial, economic and social policy. Accurate application of the laws, regulations and financial instructions issued by the custodian ministry helps prevent errors or concealment of the financial position of the company to all those who deal with it.

b- Control during implementation:

This type of control is carried out by the relevant departments and management units to ensure that operations are running smoothly and in

²⁴ Abdul Karim Abu Mustafa, Management and Organisation (Concepts, Functions, Processes), University House, Alexandria, 2001, pp. 248-249.

²⁵ Hussein Abdel-Al Mohamed, op. cit. p. 97.



accordance with established plans and policies. It is characterized by its continuity, comprehensiveness, and ability to detect errors, deficiencies, or negligence as soon as they occur. It also allows for prompt corrective actions to be taken before issues escalate. This form of control is embodied in the role of the company's accounts representative and the internal audit inspector, who assess and evaluate the internal control procedures established by senior management²⁶.

c- Subsequent control:

It is the examination and review of financial transactions in their entirety that have already taken place to detect financial irregularities, or a comparison between accounts and systems of the same nature. It allows comparing expenses and costs for different years to identify the reasons for increases or decreases, and detects and resolves many errors that may not be detected individually and only become clear after they are collected, and puts the company's administrative, financial and technical staff in a position of efficiency and accuracy.

2- Control based on the responsible authority:

According to the criterion of the authority carrying it out, control is divided into **internal control** and **external control**.

Internal control:

Internal control is a self-regulatory mechanism exercised within administrations, institutions, and affiliated bodies, from higher to lower authority levels, following the administrative hierarchy. It is carried out by superiors over subordinates through the issuance of orders, directives, and instructions, and by overseeing their implementation.²⁷

It includes all forms of control that an organization or institution exercises over its own operations and activities, covering all levels of its organizational structure.

There are two types of internal control:

Accounting Control: This is the process of safeguarding assets, ensuring the accuracy and integrity of accounting records, and reconciling the assets in the company's books and records with the assets in the company's various divisions.

Management Control: It aims to verify the efficient performance of the company's operational processes and verify compliance with the laws, regulations, and policies set by the company's management. Administrative control is related to the operational departments of the company and not the financial department due to the fact that administrative control is not directly related to the financial records and books.

²⁶ Ali Anwar Al-Askari, *Financial Oversight of Public Funds (in Confrontation with Illicit Activities)*, Bostan Al-Ma'rifa Library, Alexandria, 2008, p. 226.

²⁷ Hussein Abdel Aal Mohamed, *Op. cit.*, p. 182.

**External control:**

External control is carried out by independent and specialized bodies that ensure the executive administrative apparatus of the company complies with established rules and procedures.

Executive Decree No. 95-342, relating to regulated liabilities, requires insurance and reinsurance bodies to establish a register of reserves and technical provisions on the liabilities side of their balance sheets. This obligation is particularly emphasized for foreign companies, which must provide justification for their estimated statutory liabilities—whether related to reserve items, technical provisions, or technical debts. These liabilities must be substantiated through supporting documents such as bonds, deposits, transferable securities, real estate, or other assets.

The **Insurance Supervisory Committee** has the authority to request expert assessments for the partial or full valuation of the aforementioned assets, in order to enable effective state oversight. In this context, **Article 225 of Law No. 06-04** requires insurance and reinsurance companies, as well as insurance intermediaries, to keep books and records. This obligation is detailed in the **decree dated July 3, 1996**, which specifies the list of required books and records books that these companies are required to keep include: The daily book, the thick general book, the budgets book, and the daily balance, while the records are specified in Article 31 of the same decree, namely: Article 226 of Law 06-04 stipulates that insurance and reinsurance companies must submit to the Commission a budget and activity report, a schedule of accounts and various statistics, which must then be published.

THE SECOND TOPIC : CORPORATE GOVERNANCE AND THE APPLICATION OF ITS PRINCIPLES AND FOUNDATIONS TO INSURANCE COMPANIES

Corporate governance is considered the essential means to ensure the proper performance of companies, enabling them to achieve their objectives effectively while taking into account the interests of all stakeholders²⁸. This is achieved by combating internal corruption within companies, preventing its persistence, and working to eliminate it. It also involves promoting the integrity and ethical conduct of all employees-particularly members of the board of directors and executive managers-by addressing both intentional and unintentional misconduct, and by striving to minimize errors through the implementation of preventive systems. Ultimately, corporate governance seeks to maximize the benefits of accounting and internal control systems, especially regarding internal auditing and the alignment

²⁸ Hassan Ahmed Al-Khodri, *Corporate Governance*, first edition, Arabian Nile Group, Cairo, 2005, pp. 7-.



of expenditures with performance. It also emphasizes the importance of external auditing, given that external auditors operate independently and are not subject to pressure from the board of directors or company executives.

FIRST REQUIREMENT: THE CONCEPT OF CORPORATE GOVERNANCE AND ITS DETERMINANTS

There is no single, universally agreed-upon definition of corporate governance, due to the interplay of various economic, financial, social, and ethical factors. This concept is also closely linked to a range of stakeholders involved with the company, including management, shareholders, and other interested parties.

Firstly: Definition of Corporate Governance

Corporate governance has been defined by the Organisation for Economic Co-operation and Development (OECD) as:

"a set of relationships between a company's management, its board, its shareholders, and other stakeholder²⁹."

In addition to the OECD's definition, corporate governance has been described in various ways depending on the perspective of each contractual party within the company—whether management, shareholders, or others. Some of these definitions include:

- *"Corporate governance is a system by which companies are directed and controlled.³⁰"*

- *"It is a set of rules, regulations, and procedures that ensure optimal protection and balance between the interests of company managers, shareholders, and other related stakeholders."*

There is a general consensus that corporate governance consists of a set of procedures that regulate the management and operation of a company. These procedures enhance its financial performance and strengthen its competitive position, thereby reassuring investors of the potential to achieve high returns on their investments.

Experts in the field attribute the emergence of corporate governance to two main factors: the delegation of authority within companies, and the occurrence of financial scandals.

²⁹ Chanafi Kafia, 'Mechanisms and Principles of Governance in Insurance Companies: A Comparative Study between the Algerian Insurance and Reinsurance Company CAAR and AXA Insurance Company', *Journal of the Baghdad College of University Economic Sciences*, No. 45, 2015, p. 337.

³⁰ Tarek Abdel-Al Hammad, *Corporate Governance - Concepts, Principles, Trading*, University House, Alexandria, 2005, p. 09.



As for delegation, or what is known as the "agency theory"³¹, it explains the various conflicts that arise between the contractual parties within the organization and the associated costs. These conflicts drive the parties to reduce such costs in order to achieve the overall goals of the organization, rather than pursuing the objectives of one party at the expense of others. These costs include either those borne by the delegator, referred to as "monitoring costs," or those incurred by the agent to assure the delegator that they are trustworthy and capable of fulfilling their promises. Another cost arises from intentional or unintentional discrepancies in the decisions made by the agent compared to those that should have been made by the delegator, known as the "excess loss cost."

As for financial scandals, governance has gained great importance in the world's economies due to the financial fraud and administrative corruption defined by the world's largest companies, for example, ENRON in the United States, France Telecom in France, AIR FRANCE, LE CREDIT LYONNAIS and PARMALAT in Italy. These financial collapses have led to the emergence of the urgent need to change this situation, including: The American Institute of Certified Public Accountants in 1986 formed the TREDWAY COMMISSION, which issued a report containing a set of recommendations, including those related to the principles of corporate governance, namely attention to the concept of internal control and strengthening the external audit function before the boards of directors of companies to prevent manipulations in the preparation of financial statements. The concept of corporate governance took on its international character after the OECD issued the 'Principles of Corporate Governance' in 1999 after the financial crisis in Southeast Asia.

As a result of the financial meltdowns and the global financial crisis of 2008, exemplified by the significant decline in the US capital markets and its repercussions on the global economy, many parties called for intervention to regulate the performance of corporate management. This was embodied in a meeting of the Council of the European Union in October 2008, where the leaders of major countries called for the need to subject all actors in the financial markets to regulation and supervision.

Secondly: Determinants of Corporate Governance

³¹ The relationship of agency or delegation is 'a contract through which one or several persons' delegate(s) 'authorise another person to perform certain services on their behalf, thus delegating the decision-making authority to the delegate', as well as Kissi Samia, *Delegation of authority and its impact on criminal liability in commercial company crimes*, Journal of Legal, Administrative and Political Sciences, Faculty of Law and Political Sciences, Aboubaker Belkaid University, Issue 17, Tlemcen, 2014, pp. 199-200..



A number of key determinants must be in place for companies—and even states—to fully benefit from the proper implementation of corporate governance principles. These determinants include³².

1- Internal Determinants:

These include the rules and mechanisms applied within companies. They involve the establishment of sound managerial structures that define how decisions are made within the company, as well as the appropriate distribution of powers and responsibilities among the parties involved in implementing corporate governance—such as the board of directors, shareholders, and stakeholders. This structure should aim to prevent conflicts of interest among these parties and, instead, promote the achievement of long-term investor interests.

2- External Determinants:

These refer to the overall investment climate within a country, including the legal and regulatory framework governing economic activities in which companies operate—frameworks that vary from one country to another.

- Company laws, stock market regulations, bankruptcy laws, and competition and anti-monopoly legislation.
- The presence of a sound financial system that ensures the adequate provision of funding for projects, thereby encouraging companies to expand and compete internationally.

The effectiveness of regulatory bodies and oversight institutions in ensuring the accuracy and reliability of the data and information disclosed by companies, as well as in establishing appropriate sanctions and enforcing them in cases of non-compliance.

- The role of national bodies in ensuring that their members adhere to professional ethics, thus ensuring the efficient functioning of markets, namely: Accountants, Bar Associations, as well as credit rating and financial investment organisations.

SECOND REQUIREMENT: APPLICATION OF GOVERNANCE PRINCIPLES AND FUNDAMENTALS TO INSURANCE COMPANIES

Given the developments taking place in the insurance sector within the broader economic landscape—similar to those occurring in business enterprises and other financial institutions—and considering that, like other financial sectors, it operates under the mechanisms of an open market, meaning it is subject to

³² Shanafi Kafia, *op. cit.*, p. 339, as well as Mohamed Mostafa Soliman, *The Role of Corporate Governance in Addressing Financial and Administrative Corruption - A Comparative Study - Second Edition*, University House, Alexandria, 2009, p. 22.



decision-making and competition policies, corporate governance has become an urgent necessity for the sector. This is due to the size of the workforce and the scale of investments it manages.

Insurance companies are not limited to providing protection and insurance coverage to policyholders; they also play a role as financial intermediaries by financing other financial institutions. The concept of governance in insurance companies is based on disclosure and transparency between the company's management and all stakeholders involved in its activities. The goal is to ensure the soundness of the company's operations, safeguard shareholders' rights, protect insurance policyholders, and ensure fair treatment of all parties, while emphasizing the responsibility of the company's board of directors.

Firstly: Governance Mechanisms in Insurance Companies

The insurance business, which covers economic, financial, institutional, and family-related risks, is characterized by a reversed production cycle: premiums (or subscriptions) are collected at the time of contract signing, while costs (or compensations) are only paid out when a specific event occurs. The existence of these companies revolves around the concept of risk—whether in terms of bearing certain risks faced by clients or those the company itself is exposed to.

In particular, on the liabilities side of the balance sheet, insurance companies face what are known as technical risks. These are related to the electronic or statistical methods used in estimating liabilities. On the assets side, there are risks associated with liquidity, investments, and financial operations. Additionally, insurance companies must constantly align with economic developments and strive to meet their clients' evolving needs.

The International Association of Insurance Supervisors (IAIS) has developed a set of mechanisms³³ that are divided into two categories: internal governance mechanisms within insurance companies and external mechanisms.

1- External Governance Mechanisms: These are represented by external audits and accounting experts.

• External Auditing:

The financial statements related to the company, including the report of the statutory auditor or accounting expert, are the responsibility of the board of directors. However, the role that the external auditor can play is to express an opinion on whether these statements have been prepared in accordance with proper and generally accepted standards. Thus, the auditor's role extends to providing assurances regarding the reports presented to the supervisors of the insurance company, such as supplementary financial reports or reports on the implementation

³³ (Chennafi Kafia, *previous reference*, p. 342).



of the company's risk management and internal control systems. In this regard, the board of directors relies on external auditors to express their opinion on these financial statements and review the accounting expert's handling of the company's technical plans and other obligations. It is ensured that these rely on trustworthy data and have been calculated according to accepted methods. Additionally, the accounting expert may consult the external auditor for their advisory opinion.

•Accounting Expert:

To ensure the performance of the accounting experts, they must have direct access to the Board of Directors to report directly to the Chairman of the Board in a timely manner, and their budget is presented by the Audit Committee in consultation with the internal auditors in consultation with the external auditors on the company's financial performance.

He must also enjoy a high degree of independence in the performance of his duties to avoid any conflict of interest³⁴. He cannot hold multiple positions within the insurance company; for example, he is not allowed to work as a financial officer or in sales and marketing, since he is the one responsible for setting and determining the pricing of insurance products. Independence is crucial for decision-making, as it allows him to provide a true picture of the company's financial and commercial situation, especially since, in some cases, the CEO may prioritize the interests of shareholders over those of policyholders.

2- Internal governance mechanisms in insurance companies :

These consist of the board of directors of the insurance company, internal audit as a control mechanism, and risk management.

Board of Directors:

The board of directors in insurance companies consists of two types of members: executive members and non-executive "independent" members. This composition provides the board with a certain degree of independence from management and plays an important role in corporate governance. Good governance in insurance companies today requires board members to have a solid understanding of the various issues specific to the insurance sector, particularly in relation to statistical, actuarial, accounting, and legal sciences. This is essential due to the nature of insurance product pricing, claims management, and the legal aspects—which are an integral part of the insurance process, especially regarding disputes in insurance, where parties other than the insurer and the policyholder may become involved.

Often, due to the numerous responsibilities it carries, and in line with the requirements of sound governance, the board of directors must delegate certain tasks to committees established at its level. This delegation helps enhance its

³⁴ Ibid, p. 343.



efficiency. Among these committees are: the Remuneration Committee, the Business Ethics and Compliance Committee, the Governance Committee, and the Asset and Liability Management Committee.

Internal Audit:

The duties of the internal auditor, in accordance with the principles of governance in an insurance company, include the following³⁵:

- Developing and implementing a risk-based audit plan by examining and evaluating the adequacy and effectiveness of the insurance company's systems, as well as its internal controls and procedures, and ensuring that all departments and employees comply with these controls.

- **Ensuring that all areas related to the technical aspects of the insurance company are audited within their designated timeframes.**

- **Issuing findings and recommendations regarding the level of compliance with laws and regulations.**

The internal auditor must have access to all documents and information related to insurance activities: production management, claims management, and disaster management, and must communicate with employees when necessary. Audit plans must also be developed to enable the audit committee to carry out its tasks objectively and independently from the executive functions of insurance activities. Therefore, the role of the internal auditor must not be combined with any other roles within the company.

Risk Management:

The presence of an integrated and effective governance framework in insurance companies is closely linked to the existence of an effective risk management framework. This includes identifying the risks the company faces, assessing those risks, and subsequently managing them. Within the framework of insurance³⁶ company governance, the role of risk management is to ensure the soundness of the company's control functions and to support them with additional control measures. It is also responsible for providing the Board of Directors with analyses related to the company's performance and the risks it faces, as well as offering advice to the Board on risk management and strategic matters such as mergers or acquisitions, major projects, and investments.

Secondly: Governance Principles in Insurance Companies

A number of international bodies and organizations have joined efforts and intensified their work to establish a set of principles related to governance in

³⁵ International Association of Insurance supervisors, organisation for economic co-operation and development, 2009, p.35 ; <http://www.oecd.org>.

³⁶ Shanafi Kafia, op. cit. p. 345.



insurance companies worldwide. According to some of these international entities, the most important principles include the following:

1- Governance Principles Issued by the International Association of Insurance Supervisors (IAIS):

On October 3, 2003, in Singapore, the International Association of Insurance Supervisors (IAIS) established a set of guidelines related to various aspects of governance. These principles aim to encourage supervisors to adopt best practices in the insurance sector. The principles that are to be implemented are divided into two groups³⁷:

The first group:

This group concerns the following parties: the supervisory and regulatory authority, the board of directors, and senior management.

The second group:

This group consists of advanced standards or those components that are viewed as enhancing the basic standards and strengthening the system.

2- Governance Principles Issued by the Organisation for Economic Co-operation and Development (OECD):

In 2005, the OECD established governance principles specifically for insurance companies³⁸, in cooperation with the private pension fund, due to the specific nature of insurance activities. These principles are divided into:

- **Definition of responsibilities and corporate structure**
- **Internal control**
- **Transparency and external supervision**

Conclusion:

The insurance sector plays a vital role in the economy. The establishment of insurance companies is subject to the general provisions of commercial law as well as to specific provisions of insurance law, particularly with regard to the capital requirements-both in terms of its release and its minimum amount-as well as the reserves that companies must maintain to cover risks and obligations for which they are responsible. It is also subject to prior state supervision, requiring official approval, as well as to subsequent supervision-both internal and external-imposed by governance policies and their underlying mechanisms and principles. These ensure that insurance companies are managed and monitored by all relevant stakeholders, thereby guaranteeing the efficient use of resources, providing a solid

³⁷ Mohammed Ghazi Saber Ibrahim, Gradual Implementation of the International Standards for Supervision and Control of the Insurance Sector (I.A.I.S.), Kuwait Insurance Forum, Kuwait, 2008, p. 20.

³⁸ Shanafi Kafia, op. cit. p. 347.



foundation for effective decision-making that serves the interests of all stakeholders, and fostering a culture of responsibility within these companies.