

# GOVERNANCE CODE OF INSURANCE AND REINSURANCE UNDERTAKINGS

Approved at the Annual General Meeting of 27 May 2020

# CONTENTS

1. INTRODUCTION AND GENERAL PRINCIPLES	4
2. THE BOARD OF DIRECTORS	5
3. THE MANAGEMENT	10
4. THE SHAREHOLDERS AND THE GENERAL MEETING OF SHAREHOLDERS	12
5. CONTROL AND MANAGEMENT OF RISKS	13
6. KEY FUNCTIONS	14
7. SOCIAL, SOCIETAL AND ENVIRONMENTAL RESPONSIBILITY	16
8. PUBLICITY OF THE RULES ON CORPORATE GOVERNANCE	17
9. ENTRY INTO FORCE	18

# PREAMBLE

Corporate governance is made up of the body of principles, rules and practices organising the management and control of (re)insurers. Good corporate governance practices are essential for the effectiveness, competitiveness and soundness of (re)insurers.

This Code sets out to deal with, on the one hand, governance in the strict sense of the term, meaning, the organisation and functioning of power and, on the other hand, with internal control, the implementation and effectiveness of which are at the heart of good governance and necessary transparency.

The recommendations contained in the Code involve a high degree of flexibility in order to take account of the diversity of the risks covered and thus allow for adaptations in the size, activities, culture and specificities of each (re)insurer or group of (re)insurers.

The Code is necessarily evolutionary in nature and its recommendations must be capable of being adapted in the future in order to take account of experience gained, the development of the legal environment and changes in business life.

The Code must be regarded as being complementary to Luxembourg legislation, as corporate governance is based, in the first place on written law, which in Luxembourg, in particular, is contained in the Civil Code and the legislation on commercial companies. None of the provisions of this Code may be interpreted as being contrary to Luxembourg law.



Paul-Charles ORIGER  
Director of Local Affairs, ACA

# 1. INTRODUCTION AND GENERAL PRINCIPLE

1.1. This Code is intended for (re)insurers which are members of ACA.

1.2. It is drawn up on the basis of the one-tier model (a board of directors is responsible for managing the (re)insurer) and contains recommendations on how to administer and control the (re)insurers referred to in point 1.1. In this respect, the interaction between the shareholders, the board of directors and the management of the (re)insurer is central.

The (re)insurer chooses its governance structure permitted by law in its articles of association.

1.3. Corporate governance is important in that:

- it gives a professional image of the (re)insurer to all parties concerned;
- it plays an important role in ensuring business continuity and is an essential element of risk management;
- it can help increase the profitability of the (re)insurer;
- it is an asset in the recruitment market.

1.4. In order to achieve optimal interaction between the shareholder, the (re)insurer, its collaborators and other interested parties, it is recommended to clearly define the (re)insurer's vision and mission. In this respect, the values to be taken into account should also be defined. This mission statement provides a frame of reference and a guide for the decisions and actions of those concerned with the (re)insurer and forms the basis for the long-term strategy.

1.5. The (re)insurer comprises an appropriate transparent organisational structure with a clear allocation and an appropriate separation of responsibilities, as well as an effective system for the transmission of information.

1.6. As the (re)insurers established in the Grand Duchy of Luxembourg are extremely varied, it is essential to take account of the particularities of each (re)insurer when drawing up corporate governance. In particular, it will be necessary to take into consideration the type, size and stage of development of the (re)insurer, the shareholding structure and, if applicable, whether it belongs to a listed or unlisted group.

This code applies *mutatis mutandis* to mutual associations subject to the adaptations required to reflect their mutual and structural characteristics.

1.7. Corporate governance evolves by adapting to the development of the (re)insurer. In the course of this evolution we distinguish more particularly:

- An active board of directors

The board of directors is proactive, holding frequent meetings dealing with important and strategic issues. The functioning of the board of directors is optimised when non-executive directors also participate.

The task of the board of directors is described in Article 2.2 of this Code.

- The further development of the management bodies.

In larger companies, further development of corporate governance will be required at the level of the management bodies, with particular attention being paid to the establishment of committees where appropriate.

1.8. Corporate governance cannot be transformed into a set of formal game rules. It is the spirit of the rules of corporate governance which must take precedence and not the form. Furthermore, recommendations and internal control procedures should be integrated as far as possible into the existing organisation of the (re)insurer in a spirit of proportionality and in order to avoid administrative overload (and additional costs).

Corporate governance recommendations may in no case hinder the dynamics of the (re)insurer and must therefore leave sufficient room for manoeuvre to allow for flexible implementation.

1.9. This Code contains recommendations and is complementary to Luxembourg legislation. No provision of this Code may be interpreted as derogating from Luxembourg law.

## 2. THE BOARD OF DIRECTORS

2.1. In principle, the following recommendations are applicable to companies which have adopted the legal form of a public limited company [*société anonyme*]. However, they may also apply, mutatis mutandis, to companies which have adopted another legal form.

### MISSION OF THE BOARD OF DIRECTORS

---

2.2. The mission of the board of directors consists of:

- taking decisions on important and strategic matters, such as approving the strategy;
- ensuring that the management and the shareholders take the initiatives which fall within their area of responsibility;
- defining the general organisation best suited to ensure effective management of the (re)insurer; to that end, it may delegate all or part of its powers concerning the day-to-day management and the representation of the (re)insurer with regard to that day-to-day management to one or more directors or managers.

It may set up committees to assist directors with the management of the (re)insurer and to prepare and/or implement the decisions of the board of directors.

It determines the powers, decides on the composition and regulates the functioning of these committees.

2.3. It defines the (re)insurer's strategy and reviews it regularly on the basis of proposals from the management.

2.4. It approves the (re)insurer's main policies developed by the management for the implementation of the (re)insurer's strategy.

2.5. It ensures that the corporate culture supports the achievement of its strategy and that it promotes responsible and ethical behaviour.

2.6. It determines the (re)insurer's risk appetite in order to achieve the (re)insurer's objectives.

2.7. It approves the internal control and risk management system proposed by the management and reviews its implementation.

2.8. It ensures that all necessary measures are taken to ensure the quality and reliability of information relating to the (re)insurer.

2.9. It ensures that the (re)insurer publishes on its website the Solvency and Financial Condition Report (SFCR) and the annual accounts.

2.10. It ensures that the (re)insurer complies with the legal, regulatory and administrative provisions governing its activities. The board approves all applicable policies and amendments thereto, including Own Risk and Solvency Assessment (ORSA), and the Solvency and Financial Condition Report (SFCR).

2.11. It approves governance, setting expectations for the leadership of the (re)insurer and the ethical behaviour of the members of the board of directors and the employees of the (re)insurer. The board monitors compliance with this governance.

2.12. The board of directors draws up the annual accounts.

### DELEGATION OF POWERS

---

2.13. The board of directors may delegate the power of representation to one or more of its directors or to designated agents.

2.14. The board of directors may delegate the day-to-day management of the business of the (re)insurer and the representation of the (re)insurer. The persons to whom the daily management may be delegated must be registered in the commercial register, whilst the other representatives of the (re)insurer may be registered therein.

### LEADERSHIP

---

2.15. The board of directors appoints and dismisses the Chief Executive Officer [*Directeur Général*] upon the recommendation of the Appointment and Remuneration Committee, if any. It also appoints and dismisses the members of the management entrusted with the day-to-day management of the (re)insurer, in consultation with the Chief Executive Officer, taking into account the necessary skills and the current and future challenges of the (re)insurer.

In addition, it appoints:

- the persons in charge of the following key functions: the Risk Management function, the Compliance function, the Internal Audit function and the Actuarial function,
- the heads of other important operational or support functions.

**2.16.** The board reviews, with the support of the Appointment and Remuneration Committee, if any, the performance of the Chief Executive Officer and of the managers and the achievement of the (re)insurer's strategic objectives on an annual basis in relation to internal performance benchmarks. It determines their fitness for purpose.

**2.17.** It is recommended that the board ensure, with the support of the Appointment and Remuneration Committee, if any, that a succession plan for directors, the Chief Executive Officer and the other members of management is in place and periodically reviewed.

**2.18.** The board may make proposals to the general meeting for the appointment of a director or for the extension of a director's term of office.

## COMPOSITION OF THE BOARD OF DIRECTORS

---

**2.19.** The composition of the board of directors must be adapted to the purpose of the (re)insurer, its operations, its stage of development, its shareholding structure and other specificities.

**2.20.** The board of directors must be adapted to the size of the (re)insurer in order to enable effective decision-making and to contribute experience and knowledge in different fields.

**2.21.** The composition of the board of directors must be determined in such a way as to bring together sufficient expertise in the fields of activity as well as a sufficient diversity of skills.

The necessary complementarity of skills, experience, knowledge and diversity should be taken into account. It should be ensured that the main legal, tax, economic, accounting and actuarial qualifications necessary for the sound management of an (re)insurer are represented.

Knowledge of the Luxembourg market is considered an asset. The organisation must aim at diversity of background, age and gender.

**2.22.** The board of directors should include a majority of non-executive directors. The board should include an appropriate number of independent directors.

**2.23.** It is recommended that non-executive directors, one or more of whom should be independent, should also be appointed to the board of directors.

It is recommended that, ultimately, non-executive directors should be independent, emphasising their competence over their independence. What is crucial is their objective authority, which is based on their competence and their good relationship with the management of the (re)insurer and the fact that they are able to assert this in the corporate interest of the (re)insurer.

Non-executive directors are, evidently, fully-fledged directors who perform the tasks entrusted to the board of directors collegially with the other directors.

**2.24.** (Re)insurers shall ensure that the members of the board of directors comply at all times with the following requirements:

- their professional qualifications, knowledge and experience are such as to permit sound and prudent management (competence);
- their reputation and integrity are of a good standard (good repute).

(Re)insurers shall communicate to the supervisory authorities any change in the identity of the persons who effectively administer the (re)insurer and any information necessary to assess whether any person newly appointed to manage the (re)insurer satisfies the requirements of competence and good repute.

## FUNCTIONING OF THE BOARD OF DIRECTORS

---

**2.25.** All members of the board of directors are to respect the standards of integrity and ethics.

**2.26.** The board of directors' functions as a collegial body. No individual or group of board members should dominate the decision-making of the board.

**2.27.** The minutes of the meeting must summarise the discussions accurately and specify the decision taken. The minutes must make it possible to understand the debates and arguments leading to the decision taken and enable, where necessary, any divergencies to be identified.

**2.28.** The board of directors must meet sufficiently regularly to carry out its duties effectively (at least three times a year). The company may organise - if necessary and appropriate - meetings of the board of directors by means of video, telephone or Internet, in compliance with the articles of association.



Excessive use of proxies at board meetings should be avoided. Accordingly, (re)insurers should ensure that a director present at a meeting of the board represents no more than one other director by proxy.

At its meetings, the board must be able to take a step back from the day-to-day management of the (re)insurer in order to be able to correctly judge the implementation of the corporate strategy and, if necessary, make corrections thereto as part of a long-term vision.

It is recommended that the issue of the long-term prospects for the development of the (re)insurer and for the continuity of the business be addressed at least once a year.

## APPOINTMENT OF DIRECTORS

---

**2.29.** The directors are appointed by the general meeting, at the proposal of the board of directors and, where applicable, of the appointment committee.

## RIGHTS AND OBLIGATIONS OF DIRECTORS

---

**2.30.** Before accepting a mandate as a director, the candidate director must verify whether he or she has sufficient skills and sufficient time to adequately fulfil this mandate.

**2.31.** A director is expected to participate actively in the meetings of the board of directors. This implies that he or she should prepare carefully for board meetings, be present at meetings and actively participate in discussions and decision-making.

**2.32.** Directors take decisions in the interest of the (re)insurer. They draw the attention of the board of directors to any conflicts between their direct or indirect personal interests and those of the (re)insurer or of an entity controlled by the latter. They shall refrain from taking part in any deliberation or decision raising such a conflict, unless the latter concerns current transactions concluded under normal conditions.

**2.33.** Both during and after the end of their term of office, directors are required to respect strict confidentiality in respect of all information which they have received in the course of their term of office as directors as well as the confidentiality of the debates of the board of directors.

**2.34.** Directors must participate in debates and decision-making in full knowledge of the relevant facts. To this end, the chair and the management of the (re)insurer are required to provide each director with all the documents and information necessary for the performance of his or her duties.

## EVALUATION

---

**2.35.** It is recommended that the board of directors periodically evaluates its composition, its mode of operation and its performance.

## REMUNERATION OF DIRECTORS

---

**2.36.** The remuneration of the directors is fixed by the general meeting and the total remuneration in this regard is published in the annexes to the annual accounts.

## ROLE OF THE CHAIR

---

**2.37.** The chair:

- performs the tasks conferred upon her/him by law, the articles of association or the board of directors;
- ensures that the procedures for preparation, deliberations, decision-making and implementation are properly applied and that directors receive in due time, accurate and clear information to enable them to deliberate and vote on the items on the agenda;
- convenes, chairs and directs meetings of the board of directors; takes the appropriate measures to establish a climate of trust within the board contributing to open discussions, constructive expression of differences of opinion and support for the decisions taken by the board of directors;
- ensures that directors have the necessary knowledge to carry out their mandate on an ongoing basis;
- establishes close relations with the management, providing support and advice, while respecting the latter's executive responsibilities;
- chairs general meetings of shareholders, ensuring that shareholders have the opportunity to express their opinions, ask questions and receive adequate answers.

2.38. It is recommended that the position of chair of the board of directors not be combined with the position of chief executive officer or approved manager [*dirigeant agréé*] of the (re)insurer.

2.39. The board of directors should establish the procedure for selecting a replacement for the chair of the board in the event of his or her absence and also to preside over discussions and decisions by the board in the event of a conflict of interest of the chair.

#### RULES GOVERNING THE FUNCTIONING AND COMPOSITION OF THE BOARD OF DIRECTORS

2.40. The rules concerning the composition and functioning of the board of directors may be formalised in writing in the corporate governance statement or in the form of internal regulations.

#### SPECIALISED COMMITTEES EMANATING FROM THE BOARD OF DIRECTORS

2.41. The board of directors establishes specialised committees to assist and advise it in specific areas which they deal with in detail.

These are the following committees:

- the Audit Committee (mandatory committee),
- the Compliance and Risk Management Committee (recommended committee) - this committee may be integrated into the Audit Committee,
- the Appointment and Remuneration Committee (recommended committee).

In the case of a group of (re)insurers (a Group), the remit of these committees may extend to all the (re)insurers making up the Group. In this case, specialised committees are set up at the initiative of the parent company with the approval of all the (re)insurers concerned.

The board of directors of the (re)insurer in question determines the role, responsibilities, composition and mode of operation of each committee. The specialised committees fulfil an advisory role by delivering opinions and, where appropriate, making recommendations to the board of directors. However, only the board of directors has decision-making powers.

2.42. The missions of the Audit Committee and the Compliance and Risk Management Committees are to assist the board of directors in drawing up a description of the risks specific to its (re)insurer and to put in place a risk control system so that the main risks to which its (re)insurer is exposed are correctly identified, managed and communicated to its board of directors, in the areas of:

(i) for the Audit Committee:

- financial information,
- external audit,
- internal audit.

(ii) for the Compliance and Risk Management Committee:

- compliance ,
- risk management.

The Audit Committee may act as a meeting point with the person responsible for internal auditing and the company auditor [*réviseur d'entreprise*].

The members of the Audit Committee must have adequate and sufficient competence in financial, accounting and auditing matters.

2.43. The task of the Appointment and Remuneration Committee is to assist the board of directors in all matters relating to the appointment or dismissal of directors, including the person in charge of the day-to-day management. For any vacancy, an assessment is made of the existing and required skills, knowledge and experience. On the basis of this assessment a description of the role and the skills, knowledge and experience required is drawn up.

The Appointment and Remuneration Committee's duties may include ensuring that the process for appointing and reappointing directors and members of the management is conducted in an objective and professional manner.

The Appointment and Remuneration Committee may also play a role in the evaluation of the management.

The Appointment and Remuneration Committee may, in particular, make proposals regarding the remuneration policy (including variable remuneration and fringe benefits) applicable to the directors and to the members of the executive decision-making bodies.



2.44. The chair of the board of directors or an ad hoc committee is to present to the board of directors a proposal concerning the chairmanship and the composition of these committees.

2.45. In larger (re)insurers, it is recommended that the majority of the members of each of these committees should be made up of non-executive directors.

It is important that the committees meet sufficiently regularly to be able to perform the tasks assigned to them properly.

# 3. THE MANAGEMENT

## DEFINITION

---

**3.1.** In this Code, the management is defined as the set of persons holding the positions of chief executive officer, approved manager(s), as well as those executive(s)/ officer(s) who assist the management in its day-to-day tasks. The management ensures that the work is carried out in an optimal collegial manner.

## THE APPROVED MANAGER

---

**3.2.** The approved manager effectively determines the orientation of the business and effectively directs the legal person.

The approved manager ensures, through his actual physical presence in Luxembourg, effective and permanent day-to-day management. The approved manager shall satisfy the criteria of good repute and competence set by the Commissariat aux Assurances.

The approved manager is the (re)insurer's privileged contact with the Commissariat aux Assurances.

## MISSION OF THE MANAGEMENT

---

**3.3.** The management submits the (re)insurer's orientations and strategy to the board of directors for validation.

The management is responsible for the execution of the strategy decided on by the board of directors. In exercising this role, the management is responsible for compliance with all applicable laws and regulations in force.

It informs the board of directors about all aspects of the operational management and, in particular, of the preparation of the financial results.

It is responsible for the correct and regular updating of the reporting that serves as guidance for the board of directors.

**3.4.** The management is answerable both to the board of directors and the shareholders for the proper functioning of the day-to-day management. It has a duty to keep the board of directors fully informed.

## APPOINTMENT OF THE MANAGEMENT

---

**3.5.** The members of the management are appointed by the board of directors on the advice of the Appointment and Remuneration Committee (if any).

## EVALUATION AND REMUNERATION OF THE MANAGEMENT

---

**3.6.** It is recommended that there be an annual procedure for the evaluation of the management. In this respect, specific agreements should be concluded on the evaluation parameters and criteria used.

**3.7.** The management remuneration policy is defined by the board of directors or by an Appointment and Remuneration Committee. The (re)insurer must establish, implement and maintain a remuneration policy which is compatible with sound and effective risk management, which promotes such management and which does not lead to excessive risk-taking. The remuneration policy must be aligned with the corporate strategy, the objectives and the values and with the long-term interests of the (re)insurer, such as the prospects for sustainable growth and compliance with the principles governing the protection of customers and investors.

**3.8.** The management is entitled to adequate remuneration linked to the (re)insurer's performance and to individual performance.

Salaries and variable remuneration must be in line with the market and form the basis for attracting the best skills.

Variable remuneration can be an additional motivation, but must correspond to real performance, which has an added value in stimulating the sustainable and profitable growth of the (re)insurer. It must remain in reasonable proportion to the fixed remuneration. In any case, the remuneration system must not lead to the (re)insurer taking unnecessary or excessive risks.

The fixed component of the remuneration must represent a sufficiently large fraction of the total remuneration. The variable part must be proportionate with respect to the fixed remuneration and must be genuinely conditional on actual collective and individual performance.

Where significant variable remuneration is awarded, a portion of the payment of this variable remuneration must be deferred for a minimum period. The deferred portion corresponds to longer-term compensation and must represent a reasonable proportion between immediate and deferred remuneration.

Where variable remuneration is performance-based, its total amount is calculated according to a set of criteria combining at least those relating to individual performance and those relating to the performance of the (re)insurer.

The performance assessment should be placed within a multi-annual framework, for example over a period of three to five years, so as to ensure that it focuses on long-term performance and that the actual payment of the performance-related components of the remuneration is spread over the business cycle of the (re)insurer.

# 4. THE SHAREHOLDERS AND THE GENERAL MEETING OF SHAREHOLDERS

4.1. The board of directors represents all the shareholders. It is collectively accountable to the general meeting for the performance of its duties.

4.2. The general meeting is a place for decision-making. It must not only be the time when the directors are asked to report on the (re)insurer's activity as well as on the functioning of the board of directors and the specialised committees (accounts, remuneration, etc.) but also the opportunity for a true and open dialogue with the shareholders.

4.3. It is the responsibility of the board of directors to respect the competence vested in the shareholders if the operation which it envisages is such as to modify de jure or de facto the corporate object which is the very cause of the contract establishing the (re)insurer.

Even if a modification of the corporate object is not involved, the board must refer the matter to the general meeting if the operation concerns a major part of the (re)insurer's assets or activities.

4.4. The (re)insurer shall define an active communication policy with regard to shareholders.

4.5. The (re)insurer shall respect the rights of its shareholders and ensure their equal treatment.

4.6. Beyond the articles of association, but in compliance with them, the shareholders may set the rules of the game as between the shareholders, for example in the form of an agreement.

# 5. CONTROL AND MANAGEMENT OF RISKS

If a company wishes to be competitive, profitability cannot be achieved without taking certain risks.

As the continuity of the (re)insurer is a crucial part of governance, the correct assessment of risks - from identification to control - is essential.

## 5.1. Risk Management Policy

The task of the board of directors is to determine the (re)insurer's risk management policy. To this end, the board of directors bases itself on the identification and analysis of risks carried out by the management.

It is recommended that the (re)insurer should have written risk management policies.

The management is responsible for risk management within the framework of the policy defined by the board of directors.

The board of directors ensures that risk management control bodies and procedures are put in place. These bodies will be required to report regularly to the board of directors.

## 5.2. Internal control, risk management and internal audit

It is recommended that the (re)insurer should have carefully devised procedures.

The board of directors must ensure that the management puts in place a robust system of internal control, adapted to the size and complexity of the (re)insurer. It is recommended that a periodic assessment of the internal control and risk management system be carried out. It is very important that the biggest risks, including the risks related to compliance with the legislation and rules in force, should be correctly identified, managed and brought to the attention of the board of directors.

Depending on the size and complexity of the (re)insurer, it may be advisable to provide the (re)insurer with an internal audit department.

This department should have resources and know-how adapted to the type, size and complexity of the (re)insurer.

The internal audit department must report to the board of directors or, where applicable, to the Audit Committee set up by the board of directors.

## 5.3. External audit process

In addition to internal control, an essential control role is reserved for the company auditor. The remarks and conclusions of the auditor must be communicated to the Audit Committee, which will then report to the board of directors.

## 6. KEY FUNCTIONS

A key function is any function the exercise of which has a significant influence on the conduct or control of an (re)insurer's activities. The members of the board of directors and the management exercise a key function.

For (re)insurers regulated in the insurance sector, the regulatory framework defines, in addition, a number of specific key functions for an effective governance system. These functions are the risk management function, the compliance function, the internal audit function and the actuarial function.

All persons performing key functions must be competent and reputable. However, only the holders of these functions are subject to obligations to notify the supervisory authority.

The board of directors of each (re)insurer exercises particular supervision over these key functions and approves the appointment of the persons responsible for the day-to-day management of these functions.

### 6.1. Risk Management

In particular, the risk management function consists of establishing an effective risk management system that includes the strategies, processes and reporting procedures necessary to identify, measure, control, manage and report - on an ongoing basis - the individual and aggregate risks to which the (re)insurer is and could be exposed and the interdependencies between those risks.

The risk management system covers, inter alia, the following areas:

- Underwriting and provisioning;
- Asset/liability management;
- Investments, in particular in derivatives and similar commitments;
- Management of the liquidity and concentration risk;
- Management of the operational risk;
- Reinsurance and other risk mitigation techniques.

The risk management function is structured so as to facilitate the implementation of the risk management system.

For (re)insurers using a partial or full internal model, the risk management function covers the following additional tasks:

- design and implementation of the internal model;
- testing and validation of the internal model;
- documentary monitoring of the internal model and of any information brought to it;
- analysis of the performance of the internal model and production of summary reports concerning this analysis;
- information of the administrative, management or supervisory body concerning the performance of the internal model while suggesting areas for improvement and communication to this body of the progress of efforts deployed to address previously identified weaknesses.

### 6.2. Internal audit

An effective internal audit function assesses, inter alia, the adequacy and effectiveness of the internal control system and other elements of the governance system.

The internal audit function is to be carried out in an objective manner, independent of the operational functions.

Any conclusions and recommendations of the internal audit function are communicated to the administrative, management or supervisory body, which determines what action is to be taken with respect to each such conclusion and recommendation of the internal audit function and ensures that these actions are carried out.

### 6.3. Actuarial function

An effective actuarial function includes:

- coordinating the calculation of technical provisions;
- ensuring the appropriateness of the methodologies, underlying models and assumptions used for the calculation of technical provisions;
- assessing the adequacy and quality of the data used in the calculation of technical provisions;
- comparing best estimates with empirical observations;



- informing the administrative, management or supervisory body about the reliability and adequacy of the calculation of technical provisions;
- supervising the calculation of technical provisions;
- issuing an opinion on the overall underwriting policy;
- issuing an opinion on the adequacy of reinsurance arrangements;
- contributing to the effective implementation of the risk management system.

The actuarial function is carried out by persons who have a knowledge of actuarial and financial mathematics commensurate with the nature, extent and complexity of the risks inherent in the (re)insurer's business and who can prove adequate experience in light of professional and other applicable standards.

#### 6.4. Internal control

The (re)insurer has an effective internal control system. This system shall include at least administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the (re)insurer and a compliance function.

As part of this compliance function, the administration, management or supervisory body is advised on compliance with the laws, regulations and administrative provisions in force.

The compliance function also includes the assessment of the possible impact of any changes in the legal environment on the operations of the (re)insurer concerned, as well as the identification and assessment of the compliance risk.

Compliance risk is defined as the risk that the (re)insurer may incur for a failure to act or non-application of a law, regulation or administrative rule or professional and ethical standards and practices which would be applicable to it and involves, in particular, legal and regulatory risk, the risk of litigation, the risk of judicial, administrative or disciplinary sanctions, reputational risk, and the risk of financial loss.

The Compliance function is responsible for, among other things, the following tasks:

- advising the actual management and the board of directors on compliance with the laws, regulations and administrative provisions relating to the

insurance sector in force in the Grand Duchy of Luxembourg;

- evaluating the impact of any new legislative, regulatory or administrative reform on the (re) insurer;
- organising, coordinating and structuring compliance controls;
- controlling and monitoring all measures taken to mitigate compliance risks.

The Compliance function is an element associated with the (re)insurer's internal control and acts autonomously, objectively and independently of the operational functions.

The Compliance function must be functionally connected to the (re)insurer's management in order to guarantee its independence. Under no circumstances may this function be attached hierarchically to Internal Audit.

The head of the Compliance function shall have direct access to the (re)insurer's management, the approved manager and the chair of the board of directors.

The size of the Compliance function must be adapted to the size of the (re)insurer as well as to the complexity of the activities carried out.

The Compliance function may make independent use of external advisors.

The head of the Compliance function or the Compliance Officer may also be in charge of combating money laundering and the financing of terrorism within the meaning of the legal and regulatory provisions in force in the Grand Duchy of Luxembourg.

It is also recommended that each company should adopt a Compliance Charter and internal control procedures accessible to all its employees.

# 7. SOCIAL, SOCIETAL AND ENVIRONMENTAL RESPONSIBILITY

**7.1.** Responsible or sustainable action means doing business with due regard for the environment in which the (re)insurer operates. It is an ongoing process in which the (re)insurer must be open and adapt to social trends and changes in the extension of its own core business. Consultation with stakeholders is an important part of this process.

**7.2.** The (re)insurer is strongly embedded in and dependent on its environment. An (re)insurer wishing to sustain its success over the long term must identify and understand the needs and expectations of all its stakeholders. Managing stakeholder relationships therefore presupposes that the (re)insurer should clearly identify:

- who its stakeholders are;
- what their interests, needs and expectations are;
- what opportunities and challenges the stakeholders represent;
- what is the impact of the (re)insurer's activities on each of its stakeholders and how this impact is perceived;
- what strategies and actions the (re)insurer can develop in order to meet these needs and expectations?

**7.3.** The (re)insurer shall define its policy on social, societal and environmental responsibility. It shall specify the measures taken to implement this policy and give them suitable publicity.

**7.4.** In concrete terms, corporate social responsibility implies:

- taking into account the needs and expectations of the customer;
- involving employees in the management of the (re)insurer and encouraging them to actively participate. Corporate responsibility is promoted if each employee assumes his or her responsibility in the extension of the (re)insurer's values;
- appropriately bringing the procedures in place at the level of the (re)insurer to the attention of the employees;
- fostering and respecting diversity and equity within the workforce and with each stakeholder;

- recognising the social, economic and environmental impact of production processes or services and, in consultation with the parties concerned, improving social, environmental and macro-economic performance;
- being able to provide a response to the authorities and other (re)insurers by introducing sustainable development and ethical criteria;
- establishing communication and a relationship of mutual trust with its business and neighbourhood partners;
- integrating environmental trends and changes and turning them into opportunities;
- ensuring that the security, integrity and confidentiality of the information and data processed or held by the (re)insurer are safeguarded, while taking into account the nature of the data in question;
- protecting personal data in an optimum way. To steer the governance of the (re)insurer's personal data, a Data Protection Officer (DPO) must be appointed where appropriate.

**7.5.** The board of directors regularly deals with the company's non-financial risks, including social, societal and environmental risks.

**7.6.** (Re)insurers with life insurance activities investing in listed companies must draw up and make public an engagement policy describing how they integrate shareholder engagement into their investment strategy.

**7.7.** The (re)insurer ensures that all persons who actually administer the (re)insurer or hold other key positions satisfy the following requirements on an ongoing basis:

- their professional qualifications, knowledge and experience are such as to enable sound and prudent management (competence);
- their reputation and integrity are of a good standard (good repute).

**7.8.** The (re)insurer ensures that all potential sources of conflicts of interest can be identified and that procedures and appropriate strategies are established to prevent conflicts of interest and to resolve them should they nevertheless arise.

## 8. PUBLICITY OF THE RULES ON CORPORATE GOVERNANCE

8.1. Depending on the size and stage of development of the (re)insurer and the nature of the shareholding structure, it is recommended to define the roles of the board of directors, the management and shareholders in the context of a corporate governance statement. This can also define the methods of communication and deliberation of the various players.

8.2. This statement may be included in the (re)insurer's annual report if it is required to prepare and publish such a report. It is also recommended to mention the most important corporate governance events each year.

## 9. ENTRY INTO FORCE

This Code enters into force on the date of its adoption, namely 27 May 2020 (but ACA's members have 6 months after the date of its adoption to be compliant thereof).

Any reproduction must mention the source



*Amplifying Insurance*

Follow ACA by subscribing to [News@ACA](mailto:News@ACA) at [www.aca.lu](http://www.aca.lu)



[www.aca.lu](http://www.aca.lu)



[@ACALuxembourg](https://twitter.com/ACALuxembourg)



[ACA Luxembourg](https://www.linkedin.com/company/aca-luxembourg)

ACA - Luxembourg Insurance and  
Reinsurance Association  
12, rue Erasme, L – 1468 Luxembourg  
Phone: (+352) 44 21 44-1