



# Corporate governance for insurance companies in the UAE

Keeping pace with  
changes in the corporate  
governance landscape



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KPMG Lower Gulf



# Foreword

A strong corporate governance culture is regarded as key to maintaining and growing a sustainable economy. For this reason, corporate governance increasingly attracts the attention of the United Arab Emirates' (UAE) government, regulators, investors and the general public.

The Central Bank of the UAE's (CBUAE) highly anticipated corporate governance regulations and standards, issued on 29th September 2022, are one example of the UAE's corporate governance reforms for insurance companies. These regulations were developed to promote transparency, accountability, and fairness in the insurance sector.

Throughout the following pages, we highlight:

- Key regulatory requirements arising from the new CBUAE regulations;
- Challenges which UAE based insurance companies may face when implementing the new regulatory requirements; and
- The support that we can provide to insurance companies with benchmarking and implementation.

**While the Central Bank of the UAE has issued new corporate governance regulations for the insurance sector, one thing remains clear: corporate governance is not just a regulatory requirement but a necessary component for sustainable business growth.**



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# Highlights of corporate governance regulations and standards

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## Responsibility of the board of directors

### The board must:

- Determine a fit and proper process for selecting board members, senior management (including control functions).
- Establish a clear governance framework
- Maintain a succession plan for senior management.
- Review the company's policies and procedures on a regular basis.
- Oversight on governance culture policies, company's values, risk appetite, internal controls etc.

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## Structure and governance of the board

- The board must comprise of at least 7 and a maximum of 11 members.
- The majority of members must be UAE nationals.
- 20% of candidates for consideration of board membership must be female.
- The maximum renewable term of membership should be 3 years.
- All members of the board must be non executive, of which at least one-third must be independent members.
- A no-objection from the CBUAE must be obtained prior to the nomination, appointment, renewal, or removal of a member from the board.



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## The board and board committees

- The board must meet at least 6 times a year.
- The board, its committees and individual members must conduct:
  - Annual self-assessments
  - Independent external assessments at least once every 5 years.
  - Annual training and development programmes
- The audit and risk committees must be separate board committees.
- The chairs of audit and risk committees must be independent members of the board.
- The board and its committees must have respective charters including duties and responsibilities.

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## Senior management

- There must be a defined selection and continued assessment process for senior management.
- A no-objection must be obtained from the CBUAE prior to the appointment or renewal of employment contracts.
- There must be a defined process to obtain consent from the board for acceptance of positions on the board of another entity.
- There must be defined policies and procedures in relation to remuneration of senior management.
- Oversee the company's activities in line with the business strategy and report to the board on the same.

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## Governance culture policies

- There must be a transparent organizational structure that supports the strategic objectives and operations of the company.
- Related party transactions policy must be developed and a register should be maintained to record the parties and respective transactions.
- Conflict of interest policy for the board and board committee(s) (including a register) must be maintained.
- Board approved code of conduct, whistleblowing policy mechanism and an insider trading policy must be defined.

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## Compensation

- Organization wide compensation system/framework must be defined.
- Board members must be rewarded only with fixed compensation.
- Bonus mechanisms, thresholds defined for senior management and material risk takers.
- The annual total bonus to all staff must not exceed 5% of the company's net profit.
- An independent assessment of the compensation system must be conducted at least once every 5 years by an external third party.



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## Risk management, compliance and internal audit

- The company's internal audit function must be independent and have a direct reporting line to the board or the board audit committee.
- The company's risk management function must be independent and have a direct reporting line to the board or the board risk committee.
- The compliance and actuarial functions should submit reports to the CEO and have a right of direct access to the board or the board audit committee and/or board risk committee.

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## Takaful insurance

**A company offering takaful insurance must:**

- Ensure corporate governance framework complies with Shari'ah framework.
- Protect the rights of participants.
- Provide transparency in financial reporting.
- Immediately notify the CBUAE of any material information.
- Issue an annual Shari'ah report stating the extent of the company's compliance with Islamic Shari'ah.

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## Communication and disclosures

**Disclosures in the annual corporate governance statement must include:**

- Information on the company's objectives, organizational and governance structures and policies.
- Related party transactions.
- Type and composition of board and its committees.
- Company wide incentive and compensation policy.
- Individual compensation of board members and senior management.
- Education and experience of board members and senior management.

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## Internal control framework

- A board approved risk governance framework incorporating a "three lines of defense" approach must be documented.
- A board approved internal control framework must incorporate segregation of duties (including separation between management and supervision of such risks).
- Board accredited procedures must be in place for applying and reviewing information technology strategy and crisis management strategy.





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## Key challenges faced by insurance companies

In striving to comply with updated CBUAE corporate governance regulations and standards, insurance companies may face one or more of the following challenges and therefore should consider developing practical implementation roadmaps to overcome these challenges.

- 01** Adopting a robust “three lines of defense” approach to ensure and ensuring adequate collaboration between risk management, compliance, internal controls and internal audit.
- 02** Implementing an effective compensation system for the company’s employees, senior management, and material risk takers.
- 03** Designating a board secretary independent of the management.
- 04** Ensuring that the board and board committees are sufficiently diverse in composition, knowledge, experience and skillset.
- 05** Conducting external performance assessments of the board, board committees and individual board members.
- 06** Confirming branches of foreign insurance companies have an appropriate governance structures.
- 07** Disclosing remuneration of individual board members/senior management.

# How can we help ?

We understand the challenges insurance companies face when instituting strong corporate governance practices.

Our key focus is to support insurance companies seeking to comply with the corporate governance regulation and the accompanying standards, improving the sustainability, robustness and transparency of corporate governance frameworks. We encourage our clients to align their corporate governance frameworks with strategic goals and objectives, whilst taking into consideration their size, complexity and risk profile.

We provide the following governance services:





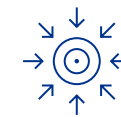


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## Why KPMG Lower Gulf ?

**Our team of corporate governance professionals works with KPMG’s global network of member firms to support local and foreign insurance companies in their efforts to strengthen their corporate governance framework and ensure their effectiveness.**

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### Industry focus

KPMG Lower Gulf’s team comprises members with more than 30 years of experience and extensive knowledge of both local regulatory frameworks and international corporate governance standards. By virtue of the depth and breadth of our services, we have successfully executed corporate governance engagements including development diagnostic reviews of governance operating models, terms of reference, policies and procedures, delegation of authority, governance culture practices, compensation frameworks, and whistleblowing mechanisms, among others.

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### Experience

As an advisory consultant and external auditor to leading insurance companies in the UAE, our team leverages an understanding of the strategic, operational and regulatory requirements, as well as leading industry practices, when developing and/or reviewing corporate governance frameworks and practices. We have delivered more than 50 corporate governance engagements to the financial sector in the UAE in the past 5 years. This includes large, medium and small banks, investment management companies, asset management firms and insurance companies, amongst others.

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### Leading methodologies and tools

Our tried and tested corporate governance methodology has been customized specifically to address the needs and regulatory requirements of the insurance sector. Our approach includes reviews of existing governance documentation, independent/ anonymous interviews with board members and senior management, regulatory compliance assessments and benchmarking of corporate governance practices against local and global insurance companies and international standards.



# About KPMG Lower Gulf

For about 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman. We work alongside our clients by building trust, mitigating risks and identifying business opportunities.

KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. The KPMG network includes approximately 236,000 professionals in over 144 countries. KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise, providing the sector and specialist skills required by our clients.

KPMG is widely represented in the Middle East: along with offices in the UAE and Oman, the firm operates in Saudi Arabia, Bahrain, Kuwait, Qatar, Egypt, Jordan, the Lebanon, Palestine and Iraq. Established in 1973, the Lower Gulf firm now employs approximately 1,780 people, including about 190 partners and directors across the UAE and Oman.

As we continue to grow, we aim to evolve and progress, striving for the highest levels of public trust in our work. Our values are:



**Integrity:** We do what is right.



**Excellence:** We never stop learning and improving.



**Courage:** We think and act boldly.



**Together:** We respect each other and draw strength from our differences.



**For Better:** We do what matters.

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: Inspiring Confidence, Empowering Change. Our three pillars – exceptional quality of service, an unwavering commitment to the public interest, and building empowered teams – are the foundation of our firm.

*Disclaimer: Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.*



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