

Welcoming note by Mrs. Tonia Tsangaris, Acting Superintendent of Insurance, on the webinar on “Board members of insurance undertakings, roles and responsibilities”, organized by the Insurance Companies Control Service, and hosted by the Insurance Association, on 11/11/2021.

Good morning to all of you and welcome to our seminar today. I would like first to extend my warm thanks to all of you who have taken some of your valuable time to attend this seminar. I would like to thank the minister Mr. Petrides for his welcoming note. Special thank you to Mr. Emilianides for his presentation as well as the representatives of Cyprus Public Audit Oversight Board for their valuable input. Thank you to the Insurance Association of Cyprus for hosting this event. And last but not least thank you to our own Marilena Tamamouna for organizing this whole event and for her presentation.

The past two years have been unprecedented years in so many respects and the emergence of Covid-19 has already had a profound effect on our society, the economy and the way we work. None of us can say when things will return to normal or what normal is. Along with the pandemic the environmental challenges are causing the financial world to change.

With all the changes that are taking place today, the need for a well-functioning insurance industry appears to be more prevalent than ever before. At the same time, the insurance industry must demonstrate that it is charting a course towards the future where it will continue to play an important role in the society. This responsibility lies in the steering wheel of the insurance company which is the Board of Directors. This is mostly the reason why we are doing the seminar today. To do our part in assisting the board members realize what is expected of them and how we can all achieve the goal of having a resilient and trustworthy insurance market that serves the needs of its consumers.

Insurance business and consequently the insurance legislation, I would dear say, is perhaps the most complicated legal piece of legislation of the financial system, due to its nature. Insurance business deals with future promises to the

policyholders and calculates future obligations and risks based on a series of assumptions regarding the future. The insurance company is steered by the Board of Directors that bears the ultimate responsibility for the insurance company's present actions and future prospects. If the future risks are not recognized and estimated properly, the future of the insurance company is uncertain and may well look like a bus moving in an unknown direction.

The complex and numerous challenges that insurance companies have to face today cannot be compared with the past and as such, for a collective board to understand the various risks and challenges, a combination of several specialties needs to co-exist and an in-depth knowledge of the business transacted and the legislation around it, is required. The final goal should be a sustainable insurance company. The word sustainable is of particular importance to the supervisor who is the protector of policyholders' rights. To the Board the word sustainability reflects success in its business strategy now and in the future.

The difference between other companies and insurance companies is that in insurance companies the Board has a dual responsibility to protect not only the interests of the shareholders but also the interest of the policyholders (the clients). It can do so by securing that the company is sustainable and has a clear strategy for the future. Insurance companies sell long term promises and the relationship between the company and the client is of long term nature.

One of the most common problems that we face in our supervisory process is the lack of sufficient involvement of the Board in the process leading to the recognition, assessment and acceptance of the various risks associated with the business and in the setting up of the tolerance levels for these risks. The ORSA report should be a fundamental part of every firm's business-planning and decision making process. However, in many occasions we have seen that the ORSA has not been fully embedded within the decision making and planning processes. And there has been little evidence of engagement at Board level. In fact it is sometimes mistaken as a supervisory reporting obligation rather than an essential tool for the Board.

Even though the financials of insurance may be difficult for a non-insurer to understand, a frequent and detailed management information system should

exist to assist the board members in understanding the various aspects of the business from the selling methods to underwriting, payment of claims, reserving and investments. As a result of the increasing demands of legislation and the need for more management information, the increase in costs for all insurance companies has to be recognized. At the same time, however, capital positions of insurance companies need to be strong to withhold these costs and other imminent and emerging risks such as climate changes, the pandemic or cyber risks.

A clear strategy should be formed for each insurance company, something that we fail to observe in many insurance companies and the path should be laid by the Board to choose the right people to follow that course.

A questionnaire has been prepared by our authority in the form of self-evaluation of the Board of Directors, which will assist you to identify any areas of improvement in the composition and functioning of your Board. This will be sent to the insurance companies shortly after this seminar for completion by the board until the end of the year.

Recently we have revised our Application Form for the appointment of directors and key function holders. We have taken this opportunity to issue criteria of independence for directors, which should be taken into account in the appointment of independent directors. We feel that independent board members are not only a legislative requirement for the composition of the auditor's committee, but also a necessary requirement for a well-functioning board that has this dual role.

Finally, I would like to touch a bit more on the challenges for the insurance industry for 2022. With respect to the new development in Financial Reporting, IFRS 17 which will be in effect as of 1st January 2023, we expect all insurance companies to have proper systems in place to be able to produce the necessary reports for the new accounting standard. In fact 2022 should be a year of testing and preparing. We will soon be touching on that and asking for the audit committee's opinion as to the preparedness of each insurance company.

Last summer's fires and last week's floods are only an example of the climate changes that will affect our region which should alarm insurance companies

and make them take actions as to the effect of climate change on their claims and pricing. On the other hand all European directives are turning now into producing incentives for insurance companies to invest in green investments.

The effects of inflation in both income and expenses should be taken into account. The effect of the national health system (GESY) on medical insurance policies and income arising out of it has been an area of discussion during the last years. Feedback from companies is that there has not been significant decrease in premiums however, bearing in mind inflation and its effect on real income coupled with the spread of GESY we believe will create reductions in premium income from this class. Even though the underwriting results of the class are at best in most situations marginally profitable, let's not forget that commission from this business is a significant source of income for the agency force and any reduction will have an effect in the agency force.

The new legislative changes through the Solvency II review, and other legislative changes, the Motor Insurance Directive changes are also challenges that need to be addressed.

I can also announce today that the proposed changes in our law regarding mainly various changes to the Insurance and Reinsurance Distribution have been approved by the Parliament and will be in effect upon their publication in the Official Gazette of the Republic. One element of interest to the Board of Directors is the change in Regulation 11. With this legislative change, power is given to the Superintendent, (after receiving the opinion of the Insurance Advisory Committee) to waive the requirement for a director or an officer to have an academic or professional degree or qualification in cases of appropriate experience in a management position in an insurance or reinsurance undertaking for at least 10 years. This exclusion however is limited to 1 person in the Board of Directors. However this exclusion should be applied with caution and only on very special occasions.

I will not take up any more of your time and let our speakers elaborate on all these matters.

We thank you once again and hope that you leave us today having gained some helpful knowledge useful to your tasks.