

Insurance Commission enhances criteria for independent directors

By **MARY GRACE PADIN**

The Insurance Commission (IC) has toughened the rules on the appointment of independent directors of insurance companies, insurance brokers, mutual benefit associations, pre-need companies, and health maintenance organizations.

Insurance commissioner Dennis Funa said improving the criteria in the selection of independent directors would ensure board independence and improve governance in these companies.

"While the insurance, pre-need and HMO industries are essentially business ventures, there is an inevitable public responsibility in these type of businesses. The engagement of independent directors would encourage objectivity in the decision making process of a corporation," Funa said.

"One of the main reasons for the failure of companies is mismanagement, especially in the management of the financial affairs of the company. In the end, it is not only the company that suffers, but even more, their clients who have invested their hard-earned money in products offered by these companies."

Under the new policy, independent directors of IC-regulated entities should at least be a college graduate or have been engaged and exposed to

the business of the corporation for at least five years.

The policy also sets additional limitations on who may be qualified as independent directors. These include limitations on stock ownership, prior and present relationship and transactions with the company, and affiliation in non-profit organization that receives significant funding from the company or any of its related companies or substantial shareholders.

According to the IC, an independent director is now only allowed to serve as such for a maximum cumulative term of nine years. Thereafter, he or she will be perpetually barred from any re-election in the same company as an independent director, but may continue to serve as a regular director.

However, if the same company desires to retain the services of the independent director after the expiration of his or her term, the company may submit a formal written justification before the Insurance Commission. The decision to retain the official should also have approval from the majority of the company's shareholders.

Under the revised rules, sanctions may now be imposed by the IC for failure of any of its regulated entities to comply with the requirements on independent directors.

The IC will impose a P200,000 penalty for every year of non-compliance.