



គម្ពីរភាពកម្ពុជា
TRANSPARENCY
INTERNATIONAL
Cambodia



Emerging Markets
Consulting

Case Study on

CORPORATE GOVERNANCE



Transparency International Cambodia

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Transparency International Cambodia is the fully-accredited local chapter of Transparency International and was officially founded on 5 July 2010 by a number of anti-corruption activists and professionals committed to the creation of transparent and accountable Cambodia. It has since built a strong institution arduously fighting corruption and promoting integrity, transparency and accountability in the country.

We work together with individuals and institutions at all levels including government, civil society, business, media and the wider public to achieve sustainable economic development, promote integrity, and fight against corruption.

This document was produced with the financial assistance of the European Union, Sweden and Switzerland. The views expressed herein can in no way be taken to reflect the official opinion of the European Union, Sweden or Switzerland.

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Introduction

The insurance industry is complex, risky, and inherently exposed to malfeasance, and this is true anywhere in the world. This is mitigated against with clear governance systems, including internal practices, and externally by governments and industry institutions.

Governments, the industry at large and insurance companies themselves therefore strive to ensure that clear governance systems are in place in all areas of insurance provision. This reduces the risk of misconduct and malpractice and ensures society reaps the benefit of a thriving insurance sector.

This case study will describe how the Cambodian general insurance sector is governed. In particular, we will look at how Forte implements 'good governance' in Cambodia, by examining the influence of insurance clients and commercial partners; the influence of government and the 'enabling environment'.

We are particularly grateful for Forte participation and support for this case study. Forte's clients include many of the largest names in business and development in the country, and their sector innovation includes investment in digital innovation servicesⁱ, micro insuranceⁱⁱ and weather based-index insurance.

By focusing on firm-level corporate governance this case study aims to address how voluntarily chosen corporate governance provisions can benefit a firm's performance and growth prospects.

Forte Facts

- Founded in Cambodia in 1996
 - Largest general insurer in Cambodia
 - Majority Cambodian owned
 - 176 staff across 5 offices
 - 47 % market share
 - US\$ 33 million premiums
 - Best Non-Life Insurer in Cambodia (2016)
 - Most Innovative Insurance Product Cambodia (2016)
 - Best Insurance Company Customer Service Cambodia (2016)
- (2016, Global Banking and Finance Review)

Insurance industry overview

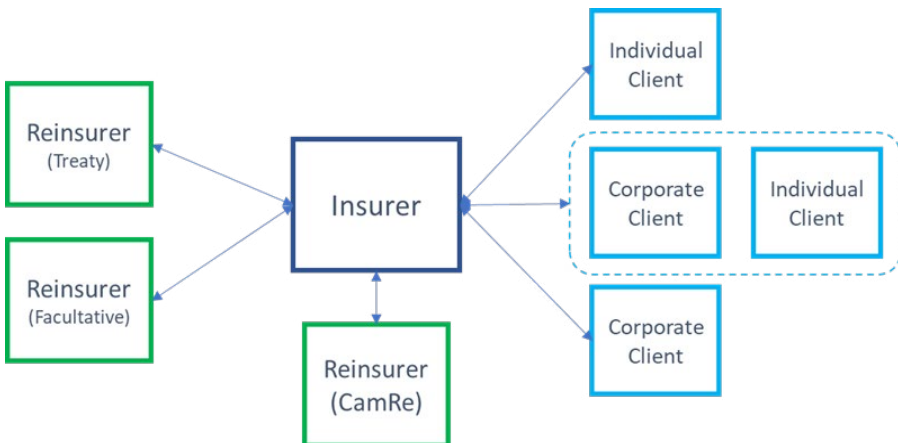
The general insurance industry in Cambodia is on track to record growth figures for 2017, with total gross premiums worth US\$ 55.32 million as of the third quarter of 2017, according to the Insurance Association of Cambodia (IAC)^{III}.

However, overall insurance coverage only amounts to 0.35 percent of GDP^{IV}, so there remains plenty of room for growth as compared to 1.7 percent and 0.8 percent in Thailand and Vietnam respectively in 2016^V.

The greater demand for insurance products in the two neighboring countries have been fueled by healthier growth and climbing income levels and especially regulatory landscape in the two countries. For instance, Compulsory Motor Insurance (CMI) or Por Ror Bor required by law with a set premium and coverage rates in Thailand and motorised vehicles operated in Vietnam insurance requirements^{VI}.

At a simple level, there are three commercial partners involved in the provision of insurance: Insurer, Clients and Reinsurers. This section will look at how these partners influence governance systems.

Figure 1 General Insurance Value Chain



Clients

Insurance companies sell policies directly to individuals and corporate clients purchasing group policies on behalf of their staff or for commercial insurance.

For Forte, corporate clients constitute of 70 percent of their client base, including many international government agencies and multinationals, that require their suppliers to adhere to global ethical and governance standards. For example, Forte client British American Tobacco (BAT), requires its staff to closely manage suppliers' behavior to ensure alignment with their Global Standards of Business Conduct (BAT, 2017). These include whistleblowing, conflicts of interest, bribery and corruption, entertainment and gifts, respect in the workplace, human rights and others. To ensure it is compliant with its clients' standards, Forte has developed its own practices namely a code of conduct for integrity and professionalism.

Reinsurance

To manage risk, insurance companies will purchase insurance of their own from one or more insurance companies (the "reinsurer"). Reinsurers are predominately multinational firms and therefore adhere to international standards of business conduct.

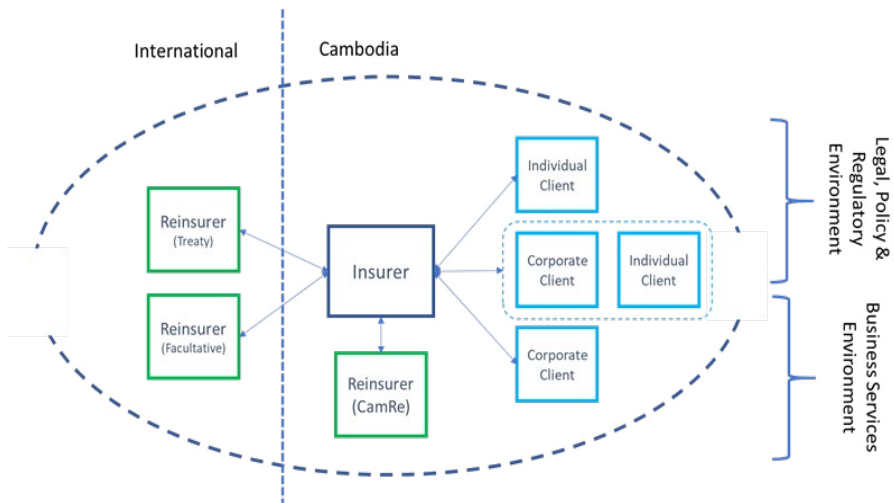
Forte requires each reinsurer to hold an international A rating or better and are from China, Malaysia, Singapore, Vietnam and Thailand. Under Cambodia Law, 20 percent of its policies are reinsured with Cambodia Re (CamRe). CamRe is the only reinsurer based in Cambodia, and is 80% owned by the Cambodian Government, and, since 2004, 20% by Asian Insurance International^{VI}.

Enabling environment

Insurance companies rely on a system of laws, policies, and regulations to ensure the insurance market functions well. They also rely on a ‘business support services’ network of other private firms which provide useful services to the industry; setting best practice, professional accreditation, compliance services and other similar functions.

Because the insurance business is inherently international due to presence of global clients, and international re-insurance markets, insurers in Cambodia are subject to international as well as domestic standards.

Figure 2 General Insurance Governance



Legal, Policy and Regulatory (RGC)

Professional Ethics

- The CII encourages the “highest professional and ethical standards in insurance and financial services worldwide”. The CII requires members to;
- Comply with the Code of Ethics and all relevant laws and regulations.
- Act with the highest ethical standards and integrity.
- Act in the best interests of each client.
- Provide a high standard of service.
- Treat people fairly regardless of age; disability; transgender; pregnancy and maternity; marriage and civil partnership; race; religion and belief; sex; and sexual orientation.

To offer general insurance in Cambodia, a firm must be licensed by the General Department of the Ministry of Economy and Finance (MEF), and adhere to relevant laws and prakas, such as the Prakas on Requirements for Corporate Governance (2007)^{viii} and Law on Insurance (2000).

By law, the MEF must ensure the sustainable development of the insurance industry, public confidence in insurance services, consistency with the Insurance Core Principles, and the protection of the interests of those insured in Cambodia. To this end, the MEF must strengthen management and supervision of insurance businesses and encourage competition and transparency in the insurance industry^x.

Business support services (compliance, audit, training, standards)

In Cambodia, the Insurance Association of Cambodia fulfills an oversight and coordination function for the industry^x. Membership is voluntary, and it counts 14 members from across general insurers, life insurers and CamRe.

Cambodia does not yet have its own system of standards and accreditation for insurance professionals. Since 2005, Forte has partnered with the Malaysian Insurance Institute (MII) to offer their system of training, examinations, and accreditation in Cambodia.

Subsequently in 2014, IAC and MII also agreed on “a bilateral collaboration to forge a beneficial business relationship to further enhance insurance knowledge and skills development for the insurance industry in Cambodia”^{xi}. MII exams are also accredited by the Chartered Institute of Insurance (CII) and recipients of the Associateship of MII, AMII, can also apply for an Associateship from the CII, ACII.

In this way, the development of the insurance profession in Cambodia is also guided by global professional standards^{xii}.

Institutional Investors

Forte Insurance has received equity investment from international institutions in order to finance its growth. Meeting these investors requirements for good corporate governance, is key to raising sufficient capital on attractive terms.

In addition to the original Singaporean partners, Forte maintains other investors Singapore registered private equity fund, Emerging Markets Investment Advisors, who are investors in the recent Forte Microinsurance venture. Forte maintains other international institutional investors who have invested in the Group.



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Internal Arrangements

This section will describe how Forte implements good governance to meet these requirements of the Cambodian government, international authorities, and commercial partners and clients.

Corporate governance

This is a core practice to safeguard the reputation and long-term health and success of a company. It is a central element of Forte's relationship with its institutional investors and their requirements to boost corporate governance practices.

This starts with the board of directors. Forte has six members, five from Singapore and one from Cambodia, who meet four times a year; all are highly qualified and experienced in insurance, banking and finance, and are also shareholders. One of the Singaporean members acts as an independent director (with less than 5% share as stipulated in the 2007 Prakas for Corporate Governance, under provision 7 part III).

The independent director provides a check and balance on the function of the board through an objective overview on the performance of executive directors and senior management in meeting the agreed goals and objectives of the insurer, and in audits and remuneration discussions.

The Board oversees yearly third-party audits by internationally accredited accounting firms and monthly and quarterly filings with MEF that are required by law and publishes its annual report on 30th April each year.

Staff training and accreditation

The complexity of the industry and the services on offer places great importance on the integrity of insurance firms. This rests upon the integrity and competence of an insurance firms staff, and the training they have had.

To this end, Forte works with the MII and CII on staff training. Eighteen staff have achieved associate-level qualifications from either of the institutes. While not compulsory, enrollment is encouraged, and Forte reimburses all costs upon successful completion of the roughly three years process.

Some 20 Forte staffs are presently undertaking accreditation, and with the 18 existing associates, constitute the highest number of AMII and ACII designations in Cambodia.

Forte Insurance also operates a number of online/distance learning courses as part of employee training program.

Delegation of authority

At Forte, authority delegation is a central part of its corporate culture, and efforts are taken to ensure that clear roles are assigned, and with the appropriate designation of decision making powers. For example, staff can write commercial policies according to their seniority and expertise, as shown in Figure 3. Typically, Assistant Vice President, Assistant General Manager and higher usually have, or have substantially completed their AMII or ACII accreditation.

Figure 3 Simplified Delegation of Authority for Underwriting Claims at Forte

Level	Staff	Limit of Liability/Threshold (USD)
High	3 Executives (Managing Director, Chief Executive Officer, Chairman)	> 1 million
Medium	Assistant Vice President, Vice President, Assistant General Manager, General Manager.	> 200k and < 1 million
Low	Senior Underwriter, Assistant manager, Manager.	<=200k

Compliance

At Forte, the four core functions – underwriting, claims, IT, and Finance – have strict internal procedures for auditing and verifying compliance. This ensures that legal, professional and corporate policies are adhered to throughout the organization and helps identify opportunities to improve operational procedures.

Spot checks are undertaken by assistant managers and higher on average six to seven times a year. Procedures exist to ensure confidentiality and objectivity. For example, access to certain files are based on jurisdiction; for instance, IT cannot request access to financial documents and managers may not audit their own departments. Any internal and external complaints or issues can be quickly identified, investigated and addressed, while providing management, executives and the board oversight of operations and management.

Summary

The insurance industry is complex, risky, and inherently exposed to malfeasance, and this is true anywhere in the world. This is mitigated against with clear governance systems, including internal practices, and externally by governments and industry institutes.

Forte only operates in Cambodia, but is exposed to international standards by clients, reinsurers, investors as well as a domestic regulator that adopts international standards. Consequently, Forte internal systems and practices need to be internationally compliant as well as meet domestic regulatory requirements.

The MEF and the IAC play a strong role in maintaining the professionalism and compliance of the six general insurance companies. In return, the insurance companies benefit from these systems in terms of the boost to industry reputation they bring, which is a significant asset of any firm in the industry; clients need to be confident that claims will be paid.

To gain confidence, strict compliance with all governance systems, ethical conduct and transparency, are central for Forte and its competitors to attract business and maintain growth.

By applying global standards to the domestic general insurance market, Forte has prepared itself for international expansion into overseas markets. In the global economy all sectors are exposed to international standards and seeking international collaborators.

While not all companies are as exposed to international standards as Forte and general insurance, the application of best practice similarly can help manage commercial risk and prepare for domestic and overseas growth.

Governance for All

Corporate governance is critical factor to help achieve the long-term success and growth as illustrated in the insurance sector. There are challenges and costs to the implementation such as lack of awareness of its importance, lack of standardization, problems with understanding the changes needed, and cost concerns. For instance, corporate governance system has generally been formed with large or listed companies in mind. This has created a challenge for advocates of corporate governance among SMEs and other businesses.

That said, there is no one size-fits-all when it comes to the fact that SMEs are highly diverse, and this diversity needs to be taken into account. It may not be sufficient simply to propose the changes to structures or processes needed to improve corporate governance standards. To the owners and managers within SMEs, the changes need to be explained in some detail, followed by specific trainings and awareness raising as well as their implications for the business and the benefits that implementing them should bring which outweigh the cost in realized term. Every stakeholder including consumers, international/local relevant institutions working to promote business integrity, and regulators need to continue making the case for why corporate governance matters to SMEs' long-term viability thereby creating a receptive environment and overcoming barriers to action.

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