

“Insureco” Case

Panel Discussion: Practical Governance Issues Facing Privately Held Insurance Companies

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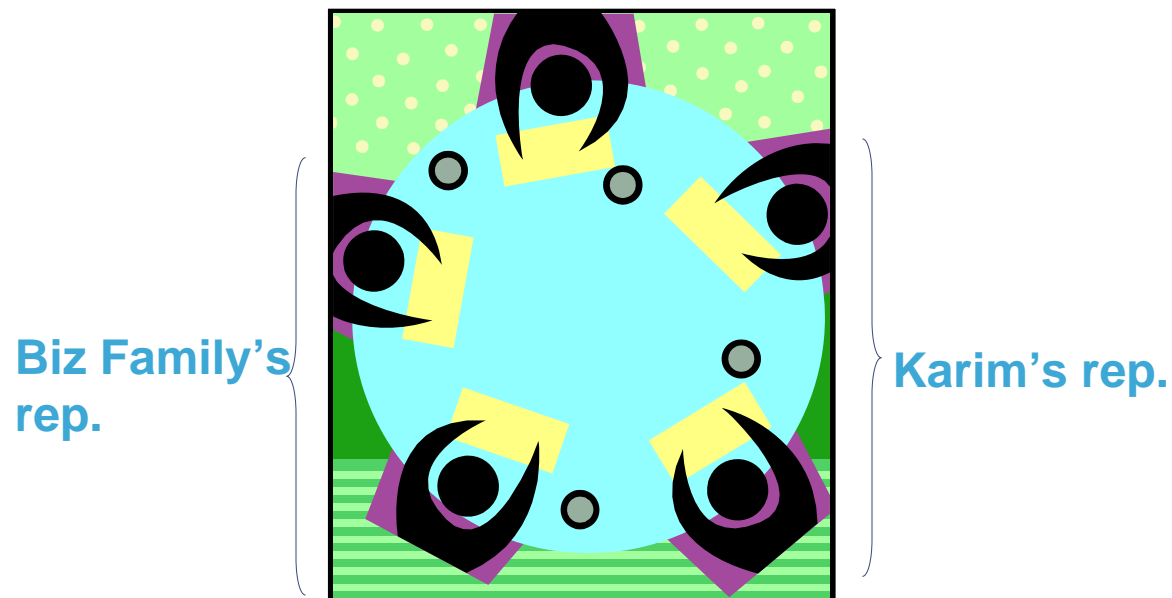
“Insureco” is a privately held insurance company providing both life and non-life insurance services...

Background

- 2 Principle shareholders
 - ▶ Karim Malik – 74%
 - ▶ Biz Family - 24%
- Karim has been the CEO for past 10 years
- Insurance premiums have increase significantly over the years and so have profits
- The financial crises and the economic downturn have impacted Insureco quite significantly.
 - ▶ Drop in underwriting premiums
 - ▶ Drop in profits by over 80%

Current Board

Karim (Chairman)



Only Board of Directors, no Audit Committee and/or Remuneration and Nomination Committee

Financial situation is deteriorating and few facts have come to light...

- Insureco has been investing surplus funds into risky asset classes that have significantly impaired their investments
- Insureco has provided soft loans to Karim's family members to support them in establishing their business ventures
- A large contract has been signed with "Safe IT", an ERP vendor where Karim has a significant shareholding.
- The internal controls within the company do not seem to be robust and there is a rumour that some of the customers as well as claims are fictitious. There were rumours of such practices in the past, however, not much was done in the past to investigate these rumours. These rumour go on to say that one of the Directors was also involved in fictitious claims.
- Insurance claims have increased dramatically and the average time for settling the claims has doubled. The company does not have available liquidity to support the genuine claims for the policies that have been underwritten by the company.

Discussion points for the case...

- What are the key issues that emerge out of the above case ?
- What are the remediation steps to improve the situation?
- What should the Board have done in the first place to ensure that Insureco did not get into this situation in the first place?