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Corporate Governance in Indian Insurance Sector: A Theoretical Framework

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Abstract—*Indian Insurance Sector, covering life and non-life insurance companies of both public sector and private sector. Corporate Governance is a subject of significance for the insurance industry. The basic requirement of development and implementation of good corporate governance is the improvement of all the economic indicators, primarily the long term sustainable development in the interest of the stakeholders, policy holders, creators, employees, government and the wider society. Corporate governance is of course an ongoing process. From an insurance company context, corporate governance envisages the manner in which the business of the company is governed by its Board and the senior management. To protect the interest of the policy holders Insurance Regulatory and Development Authority of India (IRDAI) has issued guidelines which are to be followed by all public and private insurance sector in India. The aim of the research paper is to analyze the application of Corporate Governance in the public and private insurance sector in India. The subject of the research in the paper is a general frame work of corporate governance applicable to all insurance companies and specifies of the legal framework of corporate governance in insurance companies in India as per the new companies Act – 2013 and revised guidelines issued by IRDAI-2016.*

Keywords*: Insurance Companies, IRDAI guidelines, Corporate Governance Principles.*

INTRODUCTION

The sustainability of the Indian capital market is dependent upon the Corporate Governance System in the Country. According to World Bank, Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is essential to encourage the efficient use of resources that requires accountability for the stewardship of those resources. The aim is to align as nearly as possible, the interests of individuals, organizations and society. In the last two decades, governments, shareholder activism, have bought several changes and the insistence of mutual funds and large institutional investors is also growing. In recent times more attention is being paid to corporate governance because of high profile scandals in the corporate world like Enron, world com, Xerox, global crossing, Harshad Mehta, Satyam etc. So good corporate governance is required to manage the companies effectively in the current scenario. Good corporate governance facilitates the growth and development of an economy. Good corporate governance is a shared way of corporate, is transparency projects through a code of good governance which incorporate a system of checks and balances between key players such as a boards, management, auditor and share holders. Corporate governance is a combination of corporate strategy as well as corporate accountability.

Successful conduct of insurance industry involves a continuous maintenance of public trust in the insurance institution which is achieved by maintaining solvency, adequate investment policy and prudent underwriting. Analysing the said insurance functions it can be concluded that successful management of this industry is crucial for all stakeholders and entire community in whom insurance companies operate. Undeniably, the quality corporate management which enables successful, long term, sustainable conduct of insurance industry is not only important for share holders but also for all other stake holders. In any economy the insurance sector plays an important role as it helps in transferring of risk and mobilization of saving. It plays a role of intermediary for ensuring greater liquidity of the financial markets. Insurance sector in India is regulated by IRDAI. It follows the corporate governance guidelines issued by IRDAI. These guidelines were issued in 2009 however, in the light amendments made in the companies Act 2013. IRDAI has revised its guidelines in 2016 which shall be applicable to insurance companies from 2016-17. According to the new guidelines the boards of insurance companies are required to form the following mandatory committees – Audit Committee, Risk Management Committee, Investment Committee, Policy holder protection Committee, Nomination and Remuneration Committee, Corporate Social Responsibility Committee (if the company posts profit) and with profit committee (for life insurance companies). The present paper study on Corporate Governance and the role of IRDAI in insurance companies, which shall be analysed further in the text.

OBJECTIVE OF THE STUDY

- To study and analyse the corporate governance in Indian Insurance Sector.
- To study and analyse the implementation of IRDAI's guidelines towards corporate governance in Indian Insurance Sector.

RESEARCH METHODOLOGY

The study is mainly based on secondary data. The relevant data have been collected from publication articles especially highlights the Corporate Governance, the relevant Law Books, Journals, Newspapers, IRDA's revised guidelines 2016 and web-sites are used in this study.

GROUND REALITY OF CORPORATE GOVERNANCE

The foundations of good corporate governance really on the following:

- Transparency on financial reporting and the details of disclosure,
- Independence auditors,
- Independence and expertise of the independent directors,
- Regulatory enforcement and its oversight,
- Legal system to resolve disputes early and with a sense of fairness.

RECENT DEVELOPMENT OF CORPORATE GOVERNANCE IN INDIA

Corporate Governance was never been an agenda of Indian Companies till 1990. Corporate governance concept got the importance only after the globalization and liberalization. When the government approached IMF after the fiscal crisis of 1991, suggested the government to adopt reformative actions for economics stabilization through liberalization. As a part of liberalization process, in 1999 the government amended the companies Act, 1956. Further, amendments have followed subsequently in the year 2000, 2002, 2003 and 2013. A variety of measures have been adopted including the strengthening of certain shareholder rights, the empowering of SEBI, increased sanctions of directors who do not fulfill their responsibilities, limits on the number of directorships, changes in reporting and the requirement that a small shareholders nominee be appointed on the Board of companies with a paid up capital Rs. 5 crore or more, tougher listing and compliance regiment through a centralized national, listing authority, Highest and toughest standards of corporate governance for listed companies, A code of public behaviour for public sector units and setting up a centre for corporate excellence.

FUNDAMENTAL PRINCIPLES IN THE INDIAN INSURANCE CONTEXT :

Corporate governance assures the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Corporate governance is of course an ongoing process. From an insurance company context, corporate governance envisages the manner in which the business of company is governed by its Board and the senior management, relating to four key following elements.

1. How the company set its corporate mission and objectives, including the expected handsome rate of return on the shareholder's invested funds ? IRDAI needs insurance license application to describe from the first stage (R-1), the objectives of the company and its vision and mission, as details of the financial returns anticipated by promoters from insurance operations ?
2. How the day to day affairs of the Insurance company are proposed to be run in every functional area in the company and what kind of internal controls are sought to be established and enforced ?
3. How the company proposes to align the activities and the behaviour with the expectation that the company would operate in a safe and sound manner and in accordance with the applicable rules and regulations ?
4. How the company would protect the interest of policy holders ?

STRUCTURE OF CORPORATE GOVERNANCE IN INDIAN INSURANCE SECTOR AS PER IRDAI'S GUIDELINES – 2016.

There are a few constituents of corporate governance particularly to insurance company mainly share holders, Board of Directors, Management, Policy holders and Intermediaries. In the insurance sector most crucial stakeholders are in policy holders followed by share holders. Mainly insurance sector in India is regulated by IRDAI. It follows the corporate governance guidelines issued by IRDAI. These guidelines were issued in 2009 however, in the light of amendments made in the companies Act, 2013. IRDAI has revised its guidelines in 2016 which shall be applicable to insurance companies from 2016-17. According to the new guidelines the board of insurance companies are required to form the following mandatory committees are discussed in briefly one by one.

BOARD OF DIRECTORS

Board of Directors in public sector insurance companies are appointed by the government where as in private sector insurance companies directors are nominated by Industrial houses and foreign partners. Board of Directors is the links between the share holders provide capital and managers that use the capital to create value. Its primary role is to monitor management on behalf of the shareholders. There have to be structured mechanism to keep managements accountable to the Board. Similarly, there have to be structured mechanism to keep the board accountable to the shareholders. There has to be a balance of two distinct powers. The directors have main two duties : Loyalty to the shareholders and he must diligence in making decisions.

ROLE OF CHIEF EXECUTIVE OFFICER (CEO)

Stakeholders want much more from a CEO is that he is able by virtue of ability, expertise, recourses, motivation and authority to keep the company not only just ready for change but ready to benefit changes and ideally to lead them. The CEO must be powerful enough to do the job, but accountable enough to do the job correctly. The decisions he takes should be in the long-term interests of the shareholders.

INVESTMENT COMMITTEE

The board of every insurance company shall set up an investment committee. This committee shall recommended investment policy and lay down the framework for the operations of the investment of the company. The committee shall monitor the compliance of the investment policy set by it. The committee should have at least two non executive directors, CEO, chief of Finance, Chief of Investment Division, Chief Risk Officer. The appointment or removal of any member of the invest committee should be approved by the board of directors and to be communicate to the authority within 30 days. The invest committee should submit a report to the board of directors on a quarterly basis. The committee should hold at least four meetings in a year.

AUDIT COMMITTEE

Insurance companies don't collect only premium but also pay claims from policy holders. In several situations, claims involve lump sum amount. Insurance policies in addition are to provide coverage to life and property and to motivate savings of households. Therefore, every insurance companies shall form an Audit Committee as per section 177 of the companies Act 2013. This committee shall review on an annual and quarterly basis the financial statements, financial reporting and statement of cash flow.

The functioning of internal audit department shall be reviewed by the Audit Committee. The chairman of the audit committee should be an independent director. The audit committee comprising three independent directors. This committee should discuss closely financial accounting systems and procedures of reporting. As per the guidelines of IRDAI, the statutory auditor of the company shall be appointed on the recommendation of audit committee. Audit Committee should hold at least four meetings in a year and gap between two meetings should not be more than four months.

PROTECTION OF POLICY HOLDERS INTEREST COMMITTEE

Every insurance company shall set up a policy holder protection committee for protecting the interest of the policy holders. For this the committee should adopt sound and healthy market practice.

The main objective of taking life and non-life insurance is to provide protection against financial problems arising due to early death or too long living or loss of property and loss of other assets. When these contingencies occur, compensations have to be claimed by the policyholders and beneficiaries. The policyholders have to be well informed about the schemes that they can take well-informed decisions. The insurance companies should meet following obligations to policyholders. An insurer should issue a prospectus attached to proposal form stating scope of benefits, insurance coverage and explicit and clear explanation for warranties, conditions of insurance cover. In case life insurance whether policy is participating or non – participating should be started. An insurer also provides all material information so that interested policyholder can take well-informed decisions. Forms and other documents given to covered person or organization should be in simple English with regional lingual. Besides, insurers should meet all disclosure requirements. The policy holders should also provide correct information to insurers to avoid unforeseen circumstances. There should bee regular contact between insured and insurer. Premium should be fixed to avoid moral hazard. The claim settlements should be very faster to insured.

RISK MANAGEMENT COMMITTEE

Every insurance company shall form a risk management committee to set up an effective risk management frame work and recommend the same to the board of directors. It shall also ensure the implementation of strategy of risk management.

NOMINATION AND REMU-NERATION COMMITTEE

Every insurance shall constitute a nomination and remuneration committee as per the provisions of Section 178 of the Companies Act, 2013. This committee shall verify the details and declarations made by applicants before their appointment committee shall also examine the applicants and details of aspirants for appointment as the key management personnel. This committee shall also determine the remuneration policy and remuneration package for CEO's, executive directors and key managerial personnel.

CORPORATE SOCIAL RESPONSI-BILITY COMMITTEE (CSRC)

Indian insurance companies are required to form CSR committee if it earns a net profit of Rs. 5 crores or more during the preceding financial year. As per the section 135(5) of the Companies Act, 2013, the board of the directors shall ensure the company spends not less than 2% of three years average net profit towards the CSR activities. The committee shall formulate the CSR policy.

MANAGEMENT AND CORPORATE GOVERNANCE

Overriding aim of management in an insurance company is to maximize the wealth of shareholders and protection of the policyholders' interest. The management of improvement the corporate governance should perform the following functions.

- Management should help board in decision making and crafting business strategies, code of conduct and performance targets by providing available required inputs.
- Executing the policies approved by the board.
- Management should do routine affairs of the company to achieve the targets and goals set by the board.
- Management should make available accurate, substantive and material information with transparency to board committee and shareholders.
- It should ensure compliance of all regulations and laws.
- It should provide efficient services to shareholders and policyholders.
- Executive effectively internal control system to suit business goals. The management should review on continuous basis companies' competitive position by analyzing following points.
- Industry structure and development.
- Opportunities and treats.
- Segment and policy-wise performance
- Outlook
- New policies and new areas uncovered so far
- Internal control systems and their adequacy
- Emerging new risk and insurance cover to them
- Accountability analysis and human resources.

CONCLUSION

This paper recommended that Indian Insurance Companies should follow the IRDAIs guidelines for good Corporate Governance. The insurance companies become more transparent in their working and can provide training and development, awareness programmes, insurance mella and workshop, so that good corporate governance culture can be fruitful and effective as an insurance movement in India as well as economic development of our country.

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