



## Disclosure of corporate governance practices in Indian life insurance companies

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### Abstract

In India, corporate governance in insurance sector is guided by the corporate governance guidelines issued by Insurance Regulatory and Development Authority of India (IRDAI). Corporate governance guidelines issued by IRDAI on 18<sup>th</sup> May 2016 shall be applicable on Indian insurance companies from financial year 2016-17. These guidelines mainly cover board composition, board meetings, board committees, disclosures in financial statements, provision regarding Key Managerial Personnel, whistle blower policy, reporting under IRDAI corporate governance guidelines etc. This paper analyses the implementation of these corporate governance guidelines by five life insurance companies. Secondary source of data including public literature, annual reports, journal were used. The results show that mostly all the guidelines issued by IRDAI were being followed by these companies.

**Keywords:** IRDAI, corporate governance, insurance companies, disclosure

### Introduction

Due to large scale financial collapses in the corporate world such as Enron, World Com, Satyam etc. the need for introduction of sound governance practices in the 21<sup>st</sup> century has increased. The aim of corporate governance is to work ethically and striking a balance among economic, social and profit maximisation goals while adhering to the laws, rules and regulation applicable in the countries in which the corporations operate.

Corporate governance is the process that deals with the ways in which supplier of finance to corporation ensure themselves to getting the return on their investment (Shleifer & Vishny).

Corporate governance concerns the structure and processes associated with production, decision making, and control and so on with an organisation. Accountability, which is a subset of governance, involves monitoring, evaluation and control of the organisational agents to ensure that they will behave in the interest of the shareholders and other stakeholders. (Keasey & Wright)

In India corporate governance rules are governed by Companies Act, SEBI regulations and guidelines issued by IRDAI for insurance sectors. The aim of various rules designed by IRDAI is to ensure financial solvency of insurance companies as well as fair and adequate service and treatment for policyholders. The Insurance Regulatory and Development Authority of India (IRDAI) were established under the Insurance regulatory development Authority Act, 1999 which takes its power from Insurance Act, 1938. It regulates insurance companies, brokers, surveyors, insurance agents in or from India.

The other aims of IRDAI is promoting fair and transparent conduct of insurance companies in financial markets and establish a strong management system for ensuring high standard of financial soundness among market players. The present paper aims to analyse the implementation of IRDAI's

revised guidelines for Indian insurance by the major private life insurance companies.

### Literature Review

Olajide Solomon Fadul- the paper highlights the fact that good corporate governance practices can enable the Nigerian insurance industry to generate more resources, create more employment and support the economy by way of prompt claim settlement. The study has an empirical design using the responses of the survey, structured questionnaire form 112 respondents.

Gardachew Worku Fekadu- the study investigates to what extent the performance of closely regulated Ethiopian insurance industries is affected by corporate governance. The explanatory research design employed by the study with an econometric panel data of 10 insurance companies, the period ranges from 2007 to 2014. The study found that all corporate governance mechanisms have significant impact on the performance of insurance companies measured by return on assets.

Francesco Venuti, *et al.* the Paper develops an empirical research on the nature and consequence of corporate governance on Euro zone insurance industry and risk taking attitude. The conclusion of the study is that publically traded insurance companies with more concentration ownership are less risky than the private companies.

Jennifer L. Wang *et al.* this paper study the effect of various corporate governance variables including insider ownership, voting rights, cash flow rights, and board composition influence on the efficiency performance of insurance companies. The study concluded that corporate governance plays an important role in influencing efficiency for property, reliability insurers in Taiwan.

Ibe Happy Chukwudike Azotoru *et al.* the study investigates the effect of corporate governance on financial performance of

insurer companies in Nigeria. The recommendation of the study includes that the board is of a manageable size and remuneration of the directors should be performance based. The board should have more non-executive directors in the interest of the stakeholders.

### Objectives of the Study

1. To study and analyse the implementation of IRDAI's guidelines relating to corporate governance in life insurance companies.
2. To compare implementation of corporate governance guidelines in five life insurance companies namely ICICI Prudential Life insurance, Birla Sun Life, Kotak Mahindra Life Insurance, Reliance Nippon Life Insurance and Bajaj Allianz Life insurance.

### Research Methodology

The selected 5 companies were evaluated with respect to implementation of corporate governance norms as laid down by IRDAI. The study is mainly based on secondary data. The major source of the data is annual reports of the selected companies for the year 2016-17.

### Discussion and Analysis

In view of changes introduced by the Companies Act, 2013 regarding the governance of companies, IRDAI laid down revised guidelines on corporate governance for insurance companies. These guidelines are applicable to all insurers granted registration by IRDAI from financial year 2016-17 onwards. The corporate governance parameters examined by the paper for the selected companies are discussed below:

### Board Composition

In this parameter the following five items were examined-

- Disclosure of board composition
- Details of membership of committees, qualification, specialization, status of directorships held by the directors
- At least 3 independent director on the board
- At least one women director
- In case chairman is non-executive chairman, CEO should be a Whole Time Director/ Executive director

All the companies under study complied with the above provisions regarding board composition except Reliance Nippon failed to disclose details of the membership of committees, qualification, and status of directorship held by their directors.

### Conduct of Board Meetings

The following two items were examined regarding the conduct of board meetings-

- Disclosure of number of board meetings held
- Disclosure of number of meetings attended by the directors
- All the companies complied by the above criterion.

### Details of Remuneration Paid To Directors

All the companies disclosed the details regarding remuneration paid to all the directors.

### Mandatory Committees

The following committees were examined in this study-

### Audit Committee

For this research the following parameters as given in IRDAI's guidelines relating to audit committee are examined for the selected companies:

1. The chairman of the audit committee should be an independent director.
2. The committee shall comprise of minimum three directors majority of whom shall be independent directors.
3. The chairman should have accounting/ financial/ audit experience/strong financial analysis background/Chartered Accountant.
4. The statutory auditor of the company shall be appointed on the recommendation of audit committee.
5. Audit committee should hold at least four meetings in a year and gap between two meetings should not be more than four months.

### All the companies fulfilled the entire criterion regarding the audit committee

### Investment Committee

The following parameters relating to this committee were examined for this research:

1. The committee should have at least two non-executive directors, CEO, Chief of Finance, Chief of Investment division, Chief Risk Officer and the appointed Actuary (wherever the actuary is employed).
2. The appointment or removal of any member of the investment committee should be approved by the board of directors and to be communicated to the authority within 30 days.
3. The investment committee should submit a report to the board of directors on a quarterly basis.
4. The committee should hold at least four meetings in a year.

ICICI Prudential did not have non-executive director in their investment committee and Kotak Mahindra's investment committee did not have chief risk officer. None of the companies under study disclosed the information about appointment and removal of members of this committee. Birla Sun Life and Reliance Nippon failed to disclose submission of report by their investment to the board. Investment committees of all the companies held at least four meetings in the year.

### Risk Management Committee

For this study the following parameters regarding the risk management committee were examined:

1. The committee shall work under the guidance of Chief Risk Officer.
2. The Chief Risk Officer shall have the direct access to the board of directors.
3. It shall ensure whether the fraud monitoring policy and framework approved by the board is being followed.
4. Whether fraud information is reviewed periodically.
5. The committee should hold at least four meetings in a year.

Bajaj Allianz did not disclose any information regarding risk management committee. Only committee of Kotak Mahindra worked under the guidance of chief risk officer. None of the companies disclose that their chief risk officer had direct

access to their board. Birla Sun Life did not give information of third and fourth item. Risk management committee of all the companies held at least four meetings.

#### **Policyholder Protection Committee**

The following parameters relating to this committee were examined

1. The committee should be headed by a non-executive director.
2. Expert/consumer representative is a part of the committee.
3. Minutes to be placed as an agenda item to the board.
4. The committee should hold at least four meetings in a year.

The committee of Kotak Mahindra and Reliance Nippon was headed by non-executive director. In Reliance Nippon and ICICI Prudential expert/ consumer representative was not a part of this committee. Committee of none of the companies under study placed their minutes as an agenda item to the board. All the companies fulfilled the criterion regarding number of meetings in the year.

#### **Nomination and Remuneration Committee**

The following parameters relating to Nomination and Remuneration committee were examined:

1. The committee shall have at least three non-executive directors.
2. At least half of the committee shall comprise of independent directors.
3. The chairman shall be an independent director.
4. The declaration and details by the applicants to be scrutinised by the committee.
5. The committee shall recommend the remuneration policy for the directors and key managerial personnel.

The committee of Bajaj Allianz and ICICI Prudential did not have three non-executive directors. The committee of Bajaj Allianz did not have at least half members as independent directors and did not recommend the remuneration policy. Committee of all the companies had independent director as its chairman. Fourth point was complied by all the companies except Reliance Nippon.

#### **Corporate Social Responsibility Committee**

The following provisions regarding CSR committee were examined for this study:

1. The CSR policy formulated by the committee to be approved by the board.
2. The CSR expenditure to be based on three years average profits.
3. The expense of CSR activities not to be charged to policyholders' account.

All the companies under study had their CSR policy formulated by this committee and their CSR expenditure is based on three year average profit but none of the companies disclosed that their expenditure was not charged to policyholders' account.

#### **With profits committee**

The following provisions regarding this committee were examined:

1. The committee is constituted by an independent director,

CEO, Appointed Actuary and Independent Actuary.

2. The report of the committee is appended to actuarial report and abstract.
3. Asset share, expenses allocated and investment income attributed to the participating fund approved by the committee.

With profits committee of all the companies under study was properly constituted but report of the committee of only Kotak Mahindra is appended to actuarial report. ICICI prudential, Birla Sun life and Kotak Mahindra had their asset share, expenses allocated and investment income attributed to participating fund approved by their committee.

#### **Disclosure and Financial Statements**

- Basis, methods and assumptions on which the information is compiled.
- Quantitative and qualitative information in the insurer's financial and operating ratios viz., incurred claim, commission and expenses ratio.
- Actual solvency margin details vis-à-vis the required margin.
- Financial performance including growth rate and current financial position of the insurer.
- Description of the risk management architecture.
- Description about number of claims, disposed of and pending with details of the duration.
- All pecuniary relationships or transactions of non-executive director.
- Elements of remuneration package of MD and CEO and other individual director.
- Payments made to group entities from policyholders' fund.
- Any other matter which have material impact on insurer's financial position.
- Related party transaction.

Annual report of ICICI Prudential, Birla Sun Life and Kotak Mahindra made all the above disclosures but Reliance Nippon and Bajaj Allianz did not make any disclosure except disclosure of related party transaction.

#### **Whistle Blower Policy Approved by the Court**

All the companies except Reliance Nippon had their whistle blower policy approved by the court.

#### **Board Evaluation (at least once a year)**

All the companies fulfilled this provision.

#### **Key managerial Personnel (KMP's)**

- Compliance with the requirement of the Companies Act, 2013 and IRDAI guidelines regarding appointment of KMP's.
- No single individual can hold two KMP's position.

Annual reports of Birla Sun life, Kotak Mahindra and Reliance Nippon disclosed their compliance with the requirements of Companies Act, 2013 and IRDAI guidelines relating to appointment of KMP's. NO single individual held two KMP's positions in all the companies under study except Kotak Mahindra where appointed actuary and Chief Risk Officer is same person.

### **The company needs to have minimum two Statutory Auditors**

All the companies complied with this provision.

### **Reporting to IRDAI**

Compliance certificate by the company secretary regarding corporate governance guidelines of IRDAI.

All the companies had compliance certificate from their company secretary regarding corporate governance guidelines of IRDAI.

### **Conclusion**

The results have shown that all the companies under study have good disclosure in their annual reports regarding corporate governance guidelines as given by IRDAI. Although Reliance Nippon and Bajaj Allianz failed to make required disclosure in their financial statements. All the companies under study have a separate section on corporate governance report in their annual report. It is suggested that the companies should pay more attention on fulfilling the requirements relating to mandatory committees because it was found that the companies are failing in disclosing the various norms required to be followed.

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