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Corporate governance in insurance sector with special reference to mandatory board committees

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Abstract
Due to the competitive environment in the insurance sector, good corporate governance is required not only for the benefit of the shareholder and other stakeholders, but also for the interest of the company itself. Effective corporate governance can increase the faith the investors have in the insurance company and therefore the company can have access to capital and other forms of financing. It also ensures that the policies and strategies formulated by the board who act on behalf of the stakeholders, are efficiently executed. To protect the interest of the policyholders Insurance Regulatory and Development Authority of India (IRDAI) has issued guidelines which are to be followed by all insurers. The present study focuses on analysing implementation of the revised guidelines issued by IRDAI in 2016 regarding formation of Board Committees and to compare corporate governance score of General Insurance Corporation and Bajaj Allianz General Insurance Company regarding formation of Board Committees. For this annual reports of 2016-17 of the selected companies were used. The result show that Bajaj Allianz has a better disclosure score in comparison to GIC. It is suggested that GIC, as it is a major public sector company in general insurance, should be more attentive and concerned on the aspects of corporate governance regarding mandatory Board Committees.

Keywords: IRDAI guidelines, GIC, Bajaj Allianz, corporate governance, board committees

Introduction

Corporate governance can be defined as the relationship among shareholders, board of directors, top management, employees, regulators, any other stakeholders and the community in determining the direction and performance of the corporation(Ruin, 2001) [4]. Corporate governance is a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structure with the intention of the monitoring the actions of management and directors and thereby, mitigating agency risks which may stem from the misdeeds of corporate officers (Sifuna, 2012) [5].

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. The benefits of good corporate governance practices to a firm, among others, include: facilitating greater access to finance, lower cost of capital, better performance and favourable treatment of stakeholder (Claessens *et al* 2002) [1]. ; promoting better disclosure in the business reporting, thereby facilitating greater market liquidity and capital formation (Frost *et al* 2002) [2]. And increase firm valuation and boost profitability (Gompers *et al* 2003) [3].

In any economy the insurance sector plays an important role as it helps in transferring of risk and mobilisation of saving. It plays a role of an 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 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 boards of insurance companies are required to form the following mandatory committees- Audit Committee, Risk Management Committee, Investment Committee, Policyholder protection Committee, Nomination and Remuneration Committee, Corporate Social Responsibility Committee (if the company posts profit) and With Profit Committee (for life insurance companies). IRDAI has specified the following aspects to be covered while forming mandatory committees:

1. Constitution
2. Objectives
3. Responsibilities
4. Frequency of meeting/ quorum requirements
5. Appointments and removal of members
6. Reporting to the Board

The insurance companies (other than life insurance) may form Ethics and Asset Liability Management Committees. If the companies choose to form these non- mandatory committees, they have to follow the role and responsibility of these committees as given by IRDAI.

The present paper tries to evaluate and compare the performance of General Insurance Corporation and Bajaj Allianz General Insurance Company regarding the conditions laid down by IRDAI relating to formation and working of mandatory board committees.

Literature Review

Athenia Sibindi (2015) [6] this paper studies the corporate governance practices that are followed by the South African insurance Industry. The result of the study found that the South African Insurance Sector has incorporated the changes in corporate governance practices to strengthen their internal corporate governance practices.

Bhavya Bansal and Aishvarya Bansal (2014) [7] this paper is an insight of corporate governance and risk management strategies adopted in different insurance industries across the globe. This paper shows that in insurance sector corporate governance and risk management is becoming more and more important.

Vladimir Njegomir, Rajko Tepavac (2014) [8] the aim of the paper is to analyse the application of corporate governance in the insurance in the World and in Serbia. The paper concludes that insurance companies in Serbia will follow the pattern of the insurance companies in developed countries and improve their own corporate governance acting in the interest of all stakeholders.

Huicong Li, Hongliang Zhang, Sang Bing Tsai and Aichao qiu- the study showed that strict regulation has improved the insurance governance in China. Insurance corporate governance can improve business perception and the ability to control risk. There was no effect of corporate governance effectiveness on profitability.

Dr. Shobha C., Dr. Kalaibani KN (2014) [10] this article provides an opportunity to understand the role of corporate governance in various financial institutions in India. It was found that both HDFC and PNB are following the best practices with regard to corporate governance.

Objectives of the Study

1. To study and analyse the implementation of IRDAI's corporate governance norms regarding the formation of board committees in insurance sector.
2. To compare corporate governance score regarding formation of board committees in General Insurance Corporation and Bajaj Allianz General Insurance Company.

Research Methodology

The study includes two general insurance companies i.e., GIC from public sector and Bajaj Allianz from private sector. These two companies are evaluated with respect to IRDA's guidelines regarding formation of board committees. The study is mainly based secondary data which includes annual reports of the selected companies for the year 2016-17. Various corporate governance parameters relating to board committees as laid down by IRDA's revised guidelines 2016 were selected and a score 1 was assigned if the company fulfilled the prescribed guidelines and 0 if it did not.

Discussion and Analysis

IRDA has mandated formation of Audit Committee, Investment Committee, Risk Management Committee, Policyholders' Protection Committee, Nomination and Remuneration Committee and Corporate Social Responsibility Committee for all insurance companies except that reinsurance companies may not be required to form Policyholders' Protection Committee.

Audit Committee

Every insurance company 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. It shall establish system for addressing all issues relating to functioning of check and control mechanism. The functioning of internal audit department shall be reviewed by the audit committee. It shall hold discussion with statutory auditors before the commencement of audit regarding the nature and scope of the audit and as on completion of audit.

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.

It was found after the study of annual reports of the selected companies that Bajaj Allianz fulfilled all the above parameters relating to audit committee. GIC also fulfilled above requirements except the parameter regarding qualification of the chairman and the composition of the committee.

Investment Committee

The board of every insurance company shall set up an investment committee. This committee shall recommend 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 following parameters relating to this committee are 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.

Both the companies under study disclosed the composition of investment committee but Bajaj Allianz did not fulfill the provision regarding non-executive directors in the committee.

The investment committee in both the companies fulfilled the criterion regarding minimum number of meetings. Annual report of GIC did not disclose information regarding approval of board of directors for appointment and removal of members and regarding submission of report to the board of the directors. Second parameter was not applicable for Bajaj Allianz as there was no appointment/ removal of any member during the year. Investment committee of Bajaj Allianz submitted its report to the board of the directors.

Risk Management Committee

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

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.

The risk management committee of the both selected companies worked under the guidance of Chief Risk Officer and held four meetings in the year 2016-17. In GIC the Chief Risk Officer had the direct access to the board and their fraud information was reviewed periodically but annual reports of Bajaj Allianz failed to disclose this. Both the companies did not mention their fraud monitoring policy.

Policyholder Protection Committee

Every insurance company shall set up a policyholder protection committee for protecting the interest of the policyholders. For this the committee should adopt sound and healthy market practices in the terms of sales, marketing, advertisement, promotion, publicity, redressal of customer grievances, consumer awareness and education.

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.

GIC being a reinsurance company was not required to form the policyholder protection committee. In Bajaj Allianz the committee was not headed by a non-executive director though an expert/ consumer representative was a part of this committee. No information was provided regarding the minutes of this committee being placed as an agenda item to the board. The committee held four meetings in a year.

Nomination and Remuneration Committee

Every insurer 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 as directors by shareholders at the general meeting. The committee shall also examine the applications 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.

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.

Though GIC formed nomination and remuneration committee, its annual report did not disclose any information regarding the above mentioned parameters. The nomination and remuneration committee of Bajaj Allianz fulfilled the norms regarding the composition of the committee except presence of three non-executive directors in this committee. The annual report did not disclose whether the committee made recommendation regarding the remuneration policy. The committee scrutinised the details of the applicants.

Corporate Social Responsibility Committee

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 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.

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.

The annual report of the GIC did not disclose whether the CSR policy was approved by their board but Bajaj Allianz gave information regarding this. The CSR expenditure of the both companies was based on their three years average profits. No information was given in annual reports of both the companies regarding not charging CSR expenditure to policyholders account.

The corporate governance score regarding board committees in GIC and Bajaj Allianz General Insurance Company is depicted in table 1.

Table 1: Corporate Governance Score regarding Board Committees

S.No	Committee	Provisions as per irdai	Gic	Bajaj Allianz
1	Audit committee	1. The chairman of the audit committee should be an independent director.	1	1
		2. The committee shall comprise of minimum three directors majority of who shall be independent directors.	0	1
		3. The chairman should have accounting/ financial/ audit experience/strong financial analysis background/charted accountant.	0	1
		4. The statutory auditor of the company shall be appointed on the recommendation of audit committee.	1	1
		5. Audit committee should hold at least four meetings in a year and gap between two meetings should not be more than four months	1	1
2	Investment committee	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).	1	0
		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.	0	1
		3. The investment committee should submit a report to the board of directors on a quarterly basis.	0	1
		4. The committee should hold at least four meetings in a year.	1	1
3	Risk Management Committee	1. The committee shall work under the guidance of Chief Risk Officer.	1	1
		2. The Chief Risk Officer shall have the direct access to the board of directors.	1	0
		3. It shall ensure whether the fraud monitoring policy and framework approved by the board is being followed.	0	0
		4. Whether fraud information is reviewed periodically.	1	0
		5. The committee should hold at least four meetings in a year	1	1
4	Policyholder Protection Committee	1. The committee should be headed by a non-executive director.	N.A.	0
		2. Expert/ consumer representative is a part of the committee.	N.A.	1
		3. Minutes to be placed as an agenda item to the board.	N.A.	0
		4. The committee should hold at least four meetings in a year.	N.A	1
5	Nomination and Remuneration Committee	1. The committee shall have at least three non-executive directors.	0	0
		2. At least half of the committee shall comprise of independent director.	0	1
		3. The chairman shall be independent director.	0	1
		4. The declaration and details by the applicants to be scrutinise by the committee.	0	1
		5. The committee shall recommend the remuneration policy for the director and key managerial personnel.	0	0
6	CSR Committee	1. The CSR policy formulated by the committee to be approved by the board.	0	1
		2. The CSR expenditure to base on three years average profits.	1	1
		3. The expense of CSR activities not to be charged to policyholders' account.	0	0

Conclusion

Table 1 shows that Bajaj Allianz General Insurance Company's corporate governance score is better as compared to General Insurance Company. So, it can be concluded that Bajaj Allianz General Insurance Company has better disclosure in their annual report regarding board committees as compared to General insurance company. Though Bajaj Allianz has a better score, it did not have a separate section of corporate governance in its annual report but in spite of a lesser score of GIC, it has a separate section on corporate governance in its annual report. It is suggested that insurance companies should follow IRDAI's guidelines more strictly so that they become more transparent in their working. The financial sector of any country plays an important role in economic development so it needs to have good corporate governance structure.

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