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Corporate Governance Practices and its Impact on Indian Life Insurance Industry

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Abstract: Corporate Governance has been concerned since the foundation of the joint-stock company. Much of this concern focused on the separation of ownership from control. Corporate governance stems from issues relating to financial crises and high profile corporate scandals. Globalisation and technological advancement also provide challenges for corporate governance. The primary purpose of corporate leadership is to create wealth legally and ethically. This translates to bringing a high level of satisfaction to five constituencies - customers, employees, investors, vendors and the society at-large. The best corporate governance practices includes stability and efficiency, appropriate fundamental environment, controlling and monitoring system in compliance role. Adherence to good Corporate Governance is one of the philosophical principles of Life Insurance Corporation of India. The driving forces behind institutionalizing the practices of good Corporate Governance are various proactive measures which eventually results in sustainable business continuity, and raising Corporate Governance policy leading to Best Practice at an international level.

Keywords*:* Accountability, De-Regulation, Transparency, Globalisation, Sustainable business.

Introduction

In simple words corporate governance is being good, doing good, getting good and giving good, corporate governance has been of concern since the foundation of the joint-stock company. Much of this concern focused on the separation of ownership from control. Adam Smith (1776) expresses unease over separation of ownership and control; and subsequently explored by Ross and Davis (1973). However, recent discussion and interest in corporate governance stems from issues relating to financial crises and high profile corporate scandals. Globalisation and technological advancement also provide challenges for corporate governance structure. Good corporate governance is necessary to facilitate effective firms' management in the current global and dynamic environment. Moreover, good corporate governance is necessitated by the need for accountability due to deregulation and lesser governmental control. Good corporate governance promotes economic growth and development. 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 stakeholders, promoting better disclosure in business reporting, thereby facilitating greater market liquidity and capital formation and increasing firm valuations and shows profitability. India had its share of inelegant business practices that have resulted in failed corporate firms. Hence, several insurance companies in India have gone out of business; while some have been acquired or merged due to poor performance, following poor corporate governance practices. For a developing country, like India, corporate governance is of critical importance. Recently, India has initiated pillars of corporate governance by sponsoring a series of legislative, economic and financial reforms which seek to promote transparency, accountability and the rule of law in the nation's economy. Consequently, corporate governance is relevant in insurance companies, as it promotes accountability, enhances transparency of operations, improves firm's profitability, protects stakeholders' interest by aligning their interest with that of the managers, and facilitates growth of the insurance industry.

Objectives

- To encourage the insurance company to be alert as to the value and benefit of Good Corporate Governance and Best Practice.
- To explore the relationship that exists between corporate governance and insurance company growth in India.
- To use as a guide for the protection of policyholders and shareholders at a higher standard than in other industries.
- To urge the insurance company to be well prepared to become the public company and to cope with the forthcoming insurance regulations.
- To use as a guide to develop the insurance company to become a company with Corporate Governance or Corporate Social Responsibility policy.

Methodology

In this paper a moderate attempt has been made to analyze various activities of life insurance industry during the last five years and also analyses the change has taken place in the insurance industry. The study focuses on the growth in new business in the liberalised era, claim settlement operations, changes in lapsed percentage , corporate social responsibility, surrenders and outstanding claims and also considering the complaints and penalties based on the information as per the Right to Information Act (RTI Act) and also the other parameters which can define the effective or defective performance of Life Insurance Corporation of India.

Indian Corporate Governance History

There have been several major initiatives taken in India since the mid-1990s for best corporate governance practices. The first was by the Confederation of Indian Industry (CII), India's largest industry and business association, which came up with the first voluntary code of corporate governance in 1998. The second was by the SEBI, now considered in Clause 49 of the listing agreement. The third was the Naresh Chandra Committee, which submitted its report in 2002. The fourth was again by SEBI — the Narayana Murthy Committee, which also submitted its report in 2002. Based on some of the recommendation of this committee, SEBI revised Clause 49 of the listing agreement in August 2003.

Subsequently, SEBI withdrew the revised Clause 49 in December 2003, and currently, the original Clause 49 is in force. More than a year before the onset of the Asian crisis, CII set up a committee to examine corporate governance issues, and recommend a voluntary code of best practices. The committee was driven by the conviction that good corporate governance was essential for Indian companies to access domestic as well as global capital at competitive rates. The first draft of the code was prepared in April 1997, and the final document (Desirable Corporate Governance: A Code), was publicly released in April 1998. The code was voluntary, contained detailed provisions, and focused on listed companies.

Best Corporate Governance Practices in Life Insurance Industry

The primary purpose of corporate leadership is to create wealth legally and ethically. This brings a high level of satisfaction to customers, employees, investors, vendors and the society at-large. The reason behind of every corporate body is to ensure predictability, sustainability and profitability of revenues year after year. The principle of Good Corporate Governance matches the philosophy of a Sufficiency Economy. Which focuses on maintaining balance and preparedness for rapid change by putting emphasis on thorough knowledge, cautiousness and good morals, all of which are in line with the basic principle of Good Corporate Governance, which is very essential to all life insurance companies, by showing the existence of an efficient and reliable management system, transparency and accountability, trust and confidence are created in shareholders, investors, stakeholders and other related parties. Accordingly, Good Corporate Governance is an effective tool to increase value and promote sustainable growth for the company. In general the best corporate governance practices includes three major factors:

- Stability and efficiency
- Appropriate fundamental environment
- Control and monitoring system in compliance role

The above factors play a vital role in conducting insurance business, which eventually results in sustainable business continuity, and raising Corporate Governance policy leading to Best Practice at an international level.

The diagram1.1 is showing the best Corporate Governance Practices in Life Insurance Companies

Table1.1 Represents the Life Insurance Company has to satisfy
Litmus Test for Corporate Governance

Litmus Test				
Ownership and Board Structure	Ownership pattern	Board independence and size	Separate chairmen and CEO	Board committees (such as Audit, Compensation risk)
Policies and Procedures	Independence of auditors	Whistler blower policy	Code of business ethics and conduct	Internal controls , audit and risk management
Disclosures	Financial and non financial reports	CEO &CFO attestations	Corporate governance Audit	Directors remunerations
Best practices if any of the committee principles are met	Insurance Act Chapter 142, insurance corporate governance regulations 2013 Corporate Governance voluntary guidelines 2009 Narayan Murthy Committee, 2006 Naresh Chandra Committee Report, August,2002 Sarbanes-Oxley Act (SOX) ,2002 The Turnbull Committee in 1999 The Greenbury Committee, January,1995 The Hampel Committee, November, 1995 Cadbury committee on Corporate Governance – 1992 Kumar Mangalam Birla committee report and Clause 49 Euro share holders corporate governance guidelines The Paul Ruth man Committee			

Source: corporate Governance in insurance sector, by Mayank Bathwal, CFO, Birla Sun Life Insurance, 18th December, 2009.

Growth of Life Insurance Industry in India

Indian Insurance sector was thrown open to competition since 2000 thanks to robust regulatory framework, positive business environment and economic growth. The industry is at an inflection point, now all factors are well in placed for insurance to develop one of the fastest growing financial services markets in the world. Rising income levels and higher awareness are boosting demand and increasingly sophisticated consumers with varied needs are compelling insurance players to come-up with customised products. Government-owned Life Insurance Corporation (LIC) of India is the country's largest insurer, controlling approximately 65 per cent of the market. Life insurance penetration in India is about 4.4 per cent of the country's gross domestic product (GDP) in terms of total premiums underwritten annually, according to the Insurance Regulatory and Development Authority (IRDA). The penetration is quite less in India as against its peers and hence, the Indian insurance market provides ample opportunities to domestic and international players to harness the profitable avenues in the same. India tops all the countries in terms of life insurance density, according to the World Economic Forums' Financial Development Report 2012. It is followed by China, Japan, US & UK.

Life insurance industry, comprising over 20 companies, including public sector LIC, collected total premium of Rs 84,501.75 crore (US$ 15.38 billion) during the April-February period of 2012-13 fiscal. Private insurers together raked-in Rs 23,796.29 crore (US$ 4.33 billion) in these 11 months Meanwhile, the general insurance industry grew by 19.34 per cent in the 11 months of 2012-

13 fiscal wherein the 27 non-life insurers collected premium worth Rs 61,885.11 crore (US$ 11.26 billion). The growth was led by SBI General which recorded over three-fold growth in gross premium as compared to last fiscal. Of the total premium, the share of 21 private sector players stood at Rs 26,655.35 crore (US$ 4.85 billion) while Rs 31,196.3 crore (US$ 5.68 billion) were contributed by four public sector players --New India Assurance, National Insurance, United India and Oriental Insurance.

Mr P Chidambaram, the Finance Minister has expressed confidence that the Government would soon introduce amendments to the Insurance Bill. The Bill seeks to raise foreign investment increased in the sector from 26 per cent to 49 per cent, which is a much-awaited move in the capital-intensive industry. In order to increase the penetration of the concept of insurance, the Government of India has also launched a pan-India insurance awareness campaign. Mr Chidambaram has ensured that the campaign would not remain selected to metros like Delhi and Mumbai but it also focus on states such as Bihar, Chhattisgarh, Uttar Pradesh and Uttarakhand, where insurance penetration and awareness is comparatively low. He also stressed on IRDA that the regulator should focus on development of the insurance sector as while regulations are important, development of insurance industry is equally important.

New Developments in Indian Life Insurance Industry

Canada's largest insurer Manulife Financial is contemplating to enter Indian insurance sector. The company is actively doing a market research to find a viable business model to set up its shop here. The Indian insurance sector is home to many other foreign players like Allianz, Prudential, Standard Life, Aviva, Aegon and Nippon Life, which are present in the market through joint ventures (JVs) with their respective Indian partner's State-owned general insurer New India Assurance is all set to make the best of its international presence. The company that currently operates in 22 countries is planning to enter Qatar, Myanmar and Canada in 2013-14, said G. Srinivasan, Chairman-cum-Managing Director. The company has huge set-up in countries like London, Australia and Japan and has ventures in Kenya, Singapore and other African countries.

New India Assurance recorded ▪ 2, 500 crore (US$ 455.13 million) as its premium income from overseas operations in 2012-13.United Indian Insurance Company has drafted its plan-of-action for 2013-14 and has revealed that it would continue to focus on retail business through agents and would add around 530 micro offices in the country. The company also intends to intensify its focus on information technology activities, including expansion of info-kiosks and online policies. ICICI Securities and ICICI Lombard General Insurance have together launched a unique general insurance policy for Mutual Fund Systematic Investment Plan (SIP) investors. Using this policy – named 'Secure Mind' - 2.6 million customers of ICICIdirect.com can protect their investments made in mutual funds (MF) from unforeseen risks. This is the first-of-its-kind general insurance policy in India to be offered with MF investments

Road Ahead for Insurance Growth

Rural and semi-urban markets are witnessing strong demand for composite products and health insurance policies, more-so because of increasing awareness and Government initiatives. Bottom-of-the-pyramid products such as micro-insurance are gaining popularity day-by-day. Insurers are considering telecom franchisees, NGOs, regional rural banks, cooperatives, post offices and micro finance institutions as major channels to sell their products. They are even contemplating on an extensive rural-agent network for sale of insurance products and services.

Coming to urban markets, India's urban population is projected to increase from the current 318 million to 375 million by 2025 and it will enhance beyond existing cities into tier-II and tier-III cities and smaller towns. The need of the day for life insurers is to understand the different needs of these potential customers, design products to match their requirements and create efficient distribution models on which they can bank upon in future. In a nutshell, statistics and industry experts truly state that the insurance landscape in India is full of opportunities. The players need to leverage their strengths, fasten their growth drivers to emerge stronger and build an incredible model based on consumer trust and valuable distributor relationships. These strategic investments will enable the Indian insurance sector to sustain its overall growth momentum over the years to come.

Review of Literature

Corporate governance has become an important issue which has received wide attention of government, firms, law makers and researchers for more than three decades. The literature provides some forms of meaning on corporate governance which include words like: manage, govern governance, regulate and control. Scholars may develop their own scopes and concepts about corporate governance.

Benjamin Mwanzia Mulili and Dr. Peter Wong (2011) in their paper de noted that how the agency theory and stewardship theory affect corporate governance practices. The focus of the paper is on public universities in Kenya. An extensive review of literature indicates that the ideals of good corporate governance have been adopted by developing countries since the 1980s. Developing countries differ from developed countries in a wide variety of ways. Therefore, there is need for developing countries to develop their own corporate governance models that consider the cultural, political and technological conditions found in each country. Stephane Lhuillery (2011) in his review considered the impact of multiple shareholder-oriented governance practices on R&D decisions. Based on a sample of 5528 firms belonging to 110 large French listed business groups, as per the results substantiate the idea that shareholder-oriented governance practices and a lower position in a control pyramid are better for R&D investment for better growth and services to nation.

McNutt (2010) argues that the concept of governance has been applied in both economics and law for centuries and it has been understood to mean enforcement of contracts, protection of property rights and collective action. In fact, governance is associated with people operating within organizations. (IRDA, 2009) According to this regulatory body the regulatory responsibility to protect the welfare of the policyholder’s demands that insurance firms have in place, good governance practices for the maintenance of sound long-term investment policies, solvency and underwriting risks on a prudential basis. Any governance principles adopted by the insurance industry should be flexible enough to take into account the variety of insurers within its purview, because obviously “one size doesn’t fit all” and each insurance company tailors its corporate governance procedures according to its own circumstances.

Naresh Chandra (2009) stated that best standards in cannot prevent instances of major corporate misconduct. Apreda (2008) provides a unifying view of governance as a distinctive field of learning and practice identifying interlinked themes that arises from corporate, public and global. Trayler (2007) emphasised that well functioning of the financial systems is trust which sets apart financial and non-financial institutions. Kyereboah-Coleman, A. & Biekpe, N (2006) they expressed It is about supervising and holding to account those who direct and control the management. Embodies legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies. Castellano and Lightle (2005) describe three specific cultural concerns in cases of fraud they have studied, The degree to which preoccupation with meeting analysts' expectations permeates the organizational climate, The degree of fear and pressure associated with meeting goals and Incentive plans that encourage unethical behaviour These values and systems appear to create cultures that reinforce illegal activity.

H.E. Ryan, and R. A. Wiggins (2004) identified that the independent directors have bargaining advantage over the CEO that result in compensation more closely aligned with shareholders' objectives.Denis and McConnell (2003) according to their views corporate governance aims at reducing conflicts of interest, short-sightedness of writing costless perfect contracts and monitoring of controlling interest of the firm, the absence of which firm value is decreased. Metrick and Ishii (2002) expressed that corporate governance from the perspective of the investor as, both the promise to repay a fair return on capital invested and the commitment to operate a firm efficiently with a given investment. Oyejide and Soyibo (2001) in his view corporate governance as the relationship of the enterprise to shareholders; or in the wider sense, as the relationship of the enterprise to society as a whole.

Cadbury Committee (1992) denoted that corporate governance entails how companies ought to be run, directed and control. Shleifer and Vishny (1997) viewed from financial perspective corporate governance as mechanisms which ensure that suppliers of finance to corporations get a return on their investment. Mayer (1997) opined that corporate governance is concerned with ways of aligning interests of investors and managers to ensure that firms are run for the benefit of investors.(Deakin and Hughes, 1997) emphasized that the corporate governance is concerned with the relationship between internal governance mechanisms of corporations and society's conception of the scope of corporate accountability.

Table1.2 showing brief profile of Life Insurance Corporation of India

Inception of LIC of India (154 Indian insurance companies, 16 non Indian companies, 75 provident fund societies)	1956	Foreign joint venture	05
Central office	Mumbai	Employees (all)	1,19,767
Zonal offices	08	Marketing force(individual)	12,78,234
Divisional offices	113	Total investments (· in Crore)	1349531.91
Branch offices	2048	Total premium collected (first year, renewal, single)	20288927.84
Satellite Sampark offices	1202	Total business in force: Sum assured (· in Crore) No. Of policies	2676009.68 255946155

Foreign offices	03	Total assets (· in lakhs)	141789178.83
Representative office	01	Total claims settled: No. Of policies Sum assured (· in. Crore)	18149000 63346.03
Source: Annual Reports LIC of India, IRDA Annual reports.			

Data Analysis

With reference to the below mentioned data, one could analyse the comment that the best practices in corporate governance will enhance the sustainable growth and development in the industry. Here there is a consideration of some important parameters for a period of five years.

Table 1.3 Representing the new business (Individual) performance of LIC of India

New Business Performance (individual) of LIC of India			
Year	Number of policies	First Premium income (· in Crore)	Sum assured (· in crore)
2007-2008	17971487	9897.63	174043.80
2008-2009	29333516	16878.32	363601.83
2009-2010	30590641	20970.79	397157.64
2010-2011	31459382	23614.07	444031.90
2011-2012	34617089	25625.81	497229.06

Source: compiled from LIC of India and IRDA Annual Reports

Table 1.3 denoting that new business growth continuously increased from 2007-08 to 2011-12 constantly and rapidly, in the globalised market in all parameters, in new business LIC of India secured total market share in 2011-12, 71.85 % in first year premium, 80.90% in number of policies and also a significant growth in sum assured in the total industry.

Table 1.4 Representing the corporate social responsibility of LIC of India

Corporate Social responsibility of LIC of India						
Year	Number of claims paid		Total	· in thousands		Total
	Natural	accidental		Natural	Accidental	
2007-2008						
2008-2009	20063	615	20680	601840	46075	647915
2009-2010	90057	4407	94464	2394452	132729	2527181
2010-2011	98245	4706	102951	2572409	300092	2872501
2011-2012	136240	6681	136921	3663502	445023	4108525

Source: compiled from LIC of India and IRDA Annual reports

Table 1.4 stating that the social responsibility of LIC of India is playing a very significant role in many areas, there is a consideration of the total claims paid under social and general schemes, which are clearly showing that the increased claims and its settlement both natural and accidental from the last five years, emphasizing the abiding approach of LIC of India towards society and its customers service.

Table 1.5 Representing the Maturity and Death claims settlements in LIC of India

Maturity and death claims settlements in LIC of India		
	Maturity claims	Death Claims

Year	Number (In lakhs)	(・ in Crore)	Number (In lakhs)	(・ in Crore)
2007-2008	134.22	31873.35	6.73	5138.12
2008-2009	145.73	34744.14	7.87	53250.37
2009-2010	181.49	63346.03	8.79	6808.62
2010-2011	180.20	49412.63	9.54	8077.66
2011-2012	206.88	46727.20	9.56	8147.14

Source: compiled from LIC of India and IRDA Annual reports.

Table 1.5 very clearly showing that the passion of LIC of India towards its customers service by paying total maturity and death claims in time, the ratio of to the total claims intimated in maturity is 100% death non early is 100% ,early death and natural claims payments also greater than 99%. It is ultimate in the total industry payment, comparing to all other players who entered Indian insurance market caused to globalisation.

Table 1.6 Representing the contribution for nation in the form investments invested by LIC of India in various segments

Total investments invested by LIC of India in various segments (・ in crore)							
year	**In India**			**Outside India**			**Total**
	Loans	**Securities**	**Others**	**Loans**	**Securities**	**Others**	
2007-2008	76166.21	675537.76	4110.68	113.29	909.48	53.09	756890.51
2008-2009	82683.04	727130.34	4569.28	117.28	926.42	57.59	815483.95
2009-2010	85104.36	1005112.75	450.99	106.40	961.06	55.78	1095841.34
2010-2011	85464.65	1146610.04	3045.41	110.88	1248.52	59.44	1266539.04
2011-2012	88379.64	120321.91	56859.70	134.19	1769.92	66.51	1349531.91

Source: compiled from LIC of India and IRDA Annual reports

Table 1.6 expressing that the tremendous increase in investments, which are very high in the total industry from 2007 -08 2011-12 to the previous studies also in this area clearly stating that all the private players are not contributing their contribution for the growth and development of our nation, but LIC of India contributing its contribution in investments in increased manner.

Table 1.7 Representing the current face of surrenders and outstanding claims

Year	Surrenders ・ In Crore)	Outstanding claims (・ In Crore)		
		Death	Maturity	Total
2007-2008	18024.59	232.41	123.02	355.43
2008-2009	9732.36	261.44	156.36	417.80
2009-2010	22408.76	237.91	275.34	513.25
2010-2011	49792.50	277.97	411.49	689.46
2011-2012	41540.19	282.88	1449.47	1732.35

Source: compiled from LIC of India and IRDA Annual reports

Table 1.7in this the increased results are not desirable, comparing to the total industry LIC of India's policy holders surrenders payments are less. But the figures are showing the slight increase in the surrender payments during the last five years, but those are considerable comparing to the growth and development in new business. And also the outstanding claims both death and maturity is less than 1% in its total payments.

Table 1.8 Representing the lapsed policies based on the individual Indian Non –linked business

Year	Lapsed policies		Lapsed Ratio based on number of policies	Average lapsed ratio in life insurance industry in India (based on number of policies)
	Sum assured (• in Crore)	Policies (No. In thousands)		
2007-2008	73686.00	11009.00	6	28.13
2008-2009	52926.00	7373.00	4	20.40
2009-2010	114767.41	9744.37	4	26.31
2010-2011	89860.47	11483.44	4.9	17.66
2011-2012	109789.55	12512.52	5.0	21.50
Average lapsed Ratio			**4.78**	**22.8**

Source: compiled from LIC of India and IRDA Annual reports

Table 1.8 very clearly explaining that the lapsed policies both number and sum are very less in the industry, here is a slight increase in lapsed ratio in 2010-11, 2011-12 respectively but the increase is not real increase, we can say it might have happened due to unit linked business, however comparing to the average industry lapsed ratio during the last five years is 22.8 % but LIC of India secured its customer loyalty by maintaining less than 5 % in lapsed business.

Table 1.9 Showing Right to Information Statistics since its inception of RTI Act,2005

Right to Information Statistics since its inception of RTI Act,2005								
Year		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
PARTICULARS	No. of applications	187	1311	2616	4555	6897	9553	12350
	Appeals	1	9	394	982	1473	1919	2242
	Hearing cases	Nil	2	96	174	108	384	160
	Show cause notice	Nil	Nil	27	13	13	20	14
	Compensation cases	Nil	Nil	4	2	3	5	3
	Penalty cases	Nil	Nil	Nil	1	1	3	1

Source: Compiled from LIC of India's Annual Reports.

Table 1.9 opened the transparency of LIC of India's by showing all the details against to its operations using RTI Act from 2005-06 to 2011-12. The ratio of number of applications to penalty cases is zero from 2005-06 to 2007-08 and almost zero from 2008-09 to 2011-12. It is the real picture for its corporate governance practices, Customer relationship management, which organisation has around 20, 00,000 working team it includes both direct, sales and other man power and around one third of total nation population as their policy holders.

Conclusion

Adherence to good Corporate Governance is one of the philosophical principles of Life Insurance Corporation of India. The driving forces behind institutionalizing the practices of good Corporate Governance are various proactive measures, initiatives and guidance by the Government, LIC Board and its Sub Committees along with LIC's Human Resources and Agents. Our practice of operational transparency, information sharing, accountability and ensuring dialogue with all the stakeholders in addition to formulation of value-based policies and practices at all levels made us to imbibe good Corporate Governance. This has enabled us to enhance our Brand Equity, strengthen stake of shareholders and maintain a healthy environment within the organization. This has led to a committed organizational focus on the customer service which in turn has contributed to a good growth in business.

The consequence from the change in external environment amidst the fierce competition, coupled with enforcement of the legal requirement bringing all the insurance companies to become public companies by 2013, necessitates the insurance companies to come under the Good Corporate Governance program with transparency and accountability. Raising all of them to be in the same international standard will create better recognition from customer and policyholder. Besides, in order to reach for Excellency in services and branding, the company will have to arrange for the Code of Conduct or Best practice for employees including execute the conversion of the company to be under Corporate Social Responsibility program.

However, success in bringing the company under the Corporate Governance and Corporate Social Responsibility program will largely depend on the real commitment, dedication and sincerity of the board. To that end, the board must closely monitor the performance and consistently behave as a good role model to create significant change in the behaviour of employee and the corporate culture of the company. If the board does not pay much attention to or discourage the implementation of such change, it is extremely unlikely for the company to be under the Code of Conduct or Best Practice program which will certainly result in the interruption of the company's sustainable growth especially the positive Perception from the customer /policyholder.

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