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Ethical Corporate Governance for sustainable development of Life Insurance Corporation of India: A study from IRDA compliance perspective

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Abstract

Corporate governance has gained momentum due to globalization and the ethical transformation of countries' economies at the global prospect. This mechanism is mainly concerned with steams the issues relating to corporate crises and formulation of ethical standards on the separation of ownership from control. In India, the Life Insurance Corporation (LIC) is guided by the governance guidelines issued by the Insurance Regulatory Development Authority of India (IRDAI). These guidelines mainly cover governance structure, board of directors, control & delegation of function, senior management, disclosures, outsourcing, and relationship with stakeholders, interaction with supervisors, and whistleblowing policy of LIC for sustainable business continuity and hedging uncertain risk of policyholder life in an efficient manner. We have used a secondary source of data to measure the governance mechanisms followed by the LIC as per IRDAI guidelines of corporate governance principles. The result of the study reveals that the corporate governance guidelines issued by IRDAI were significantly followed by the Life Insurance Corporation in India for sustainable survival and to meet the interest of stakeholders.

Keywords: Corporate Governance, LIC, IRDAI guidelines, Sustainability.

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1. Introduction

Corporate governance is a mechanism to set up a code of standards by which a company is directed and controlled more ethically and transparently. This concept encompasses practically at all levels of management to remove corporate crises and balance the interests of the company's stakeholders. The board of directors and senior managerial personnel highly influence the strict rules and regulations to achieve the basic principles of corporate governance are accountability, transparency, fairness, responsibility, and risk management of the company. In 1970, the term corporate governance firstly gained prominence in the United States and now, it has seen revocable changes and adopted by different countries to evolve economic activity, technological advancements, and changing expectations of various stakeholders. In the year 2018, (Gupta & Singh) defined that in a transition economy like India; corporate governance has become an important concern for socio-economic development through the formulation of well-defined legislation, adoption of ethical standards, and efficient market structure.

Insurance offers a crucial shield against unforeseeable negative future events through a legally binding arrangement between the insurer and the insured in exchange for the premium paid by the policyholders. The insurance industry followed the guidelines of governance mechanisms set by the Companies Act, 2013; SEBI regulations, 1992; and guidelines issued by the IRDAI act 1999. Through these guidelines, the insurance industry achieves the sustainable target by hedging the uncertain risk of policyholders and meeting solvency margin for ensuring a high standard of financial soundness among market players.

So IRDAI is statutory regulatory bodies to regulate the listed 57 insurance sectors among these 24 are life and 34 are non-life insurance in India. Under the life insurance category, Life Insurance Corporation (LIC) is a multinational public sector insurance company headquartered in Mumbai. As per Ghosh, (2013) the growth and development of the Indian economy incredibly depend on life insurance through financial intermediation, risk aversion and generating employment opportunities. It is India's largest insurance company as well as the largest institutional investor with total assets under management worth ₹49.24 trillion (US$620 billion) as of March 2023. As per Business Standard News LIC assets at $463 billion exceed the GDP of several economies, and it is ranked 5th globally in terms of life insurance Gross Written Premium (GWP) and 10th globally in terms of total assets. So the above statistical data apprehend the importance of the ethical governance mechanisms system of LIC for the sustainable development of the Indian economy position. The present study aims to analyze the implementation strategy of IRDAI corporate governance guidelines by Life Insurance Corporation (LIC) in their regulatory operations and sustainability achievement.

2. Literature Review

Corporate governance has become an important theme which widely accepted by policymakers, regulators, and researchers for achieving sustainable targets more ethically and transparently. Both financial and non-financial sectors are more aware of the formulation of good governance mechanisms to reduce corporate crises and efficiently handle the stakeholder's grievances. In the year 2011 (Okpara,) has defined that every developing country should consider strong law enforcement mechanisms, the strict commitment of the board of directors, better adherence to the regulatory framework, enforcement and monitoring systems to enhance managerial excellence, raising capital and attract foreign investors in the corporate sector. Another study conducted by Sharma, (2014) recommended that the governance mechanisms embedded with corporate social responsibility (CSR) and sustainability practices of the firm to mitigate the economic, environmental and social challenges faced by the various stakeholders in a more structured & fairly manner. Moreover, in the emerging economy scenario, the firm has accepted stronger corporate governance mechanisms and tends to adopt an external monitoring strategy in order to mitigate owner-manager agency conflict and increase the transparency in environmental damages (Jacoby et al., 2018).

The insurance industry plays multi-dimensional roles in hedging uncertain risks of life and property in the modern economy era. One of the studies conducted by (Adebayo,2023) defined that the Nigerian economy's growth and development depend on composite insurance variables such asInsurance Premium Rate (TPR), Total Insurance Claim (TIC), Total Insurance Investment (INV) and Inflation Rate of the country. So the regulatory authorities put forward an insurance policy which mandatory for individual and business organizations to encourage and protect investors as well as ensure sustained economic growth. In the year 2013 (Fadun,)has elaborated that insurance industry growth was fully intricately correlated with the formulation of a good governance system in order to promote employment opportunities and secure public confidence in the form of claim settlement. Additionally, most of the past studies reveal that the financial performance (ROA, ROE, Tobin'sQ) of the insurance industry was greatly influenced by the corporate governance mechanisms and its sustainable survival depends upon ethical rules and regulations formulated by the regulatory bodies (Fekadu, 2015;Morara&Sibindi, 2021). It also observed that life insurance in South Africa increases its efficiency by separation of ownership from control to address agency conflict and formulation of independence board characteristics for enhanced the technical efficiency scores of policyholders (Alhassan & Boakye, 2020). By obtained data from the European Life Insurance Industry (Liu & Liu, 2020) elaborated that the level of risk-taking behavior of insurers depends upon better corporate governance structure and economic freedom of the country. Overall, the above review defines that a good corporate governance system is much more crucial for economic growth particularly in the insurance industry for mitigating the uncertainty risk of policyholders by securing their life and property.

3. Objective of the study

- To study and represents the corporate governance mechanisms followed by the Life Insurance Corporation (LIC) of India as per IRDAI guidelines.

4. Methodology

In India, there are twenty-three life insurance companies in the private sector and only one Life Insurance Corporation (LIC) operates in the public sector. In our study, we have only considered LIC as a sample insurance company to study the corporate governance practices followed as per IRDAI compliance systems. Descriptive cum exploratory research methods were used to represent the governance structure of LIC and its board formulations by obtaining data from secondary sources. Secondary data in relation to the governance practices were collected from the annual report of LIC & IRDAI report, various journals, and websites. The study focuses on the level of implementation and follows up corporate governance mechanisms by the Life insurance Corporations as per IRDAI guidelines.

5. Corporate Governance Guidelines by IRDAI

Corporate governance is a mechanism to mitigate stakeholder grievances through the formulation of a better control strategy and broadly define the responsibility & accountability measures among the board of directors, senior management, and shareholders. The importance of corporate governance has received emphasis in financial sectors in view of safely strengthening the financial stability of the institution upon which economic growth & development can be built. As regards the insurance sector, the primary objective of regulatory authority is to protect the interest of policyholders that are good governance practices for the maintenance of solvency, insurer safety position, sound long-term investment policy, and assumption of underwriting risks on a prudential basis. The Insurance Regulatory Development Authority in India (IRDAI) has outlined the different governance measures for the board in the management of insurance industry operation in addition to provisions of the Companies Act, 1956, Insurance Act, 1938, and requirements of any other laws or regulations framed thereunder. The objectives of the guidelines are to quickly address the issues and challenges faced by policyholders as well as regulators in relation to maintaining ethics, transparency, and prudent principles & practices of governance mechanisms. The corporate governance guideline broadly covers the following structures of the insurance industry.

5.1 Governance structure

In this part of the session, all public and private insurers listed on the recognized stock exchange as outlined in clause 49 of the listing agreement, varying structure of the board of directors headed by full-time and part-time executives with oversight responsibility among other director and senior manager, and conglomerate with larger financial & non-financial group can influence a conclusive governance structure.

5.2 Board of Director

In this parameter following item were examined Disclosure of board composition

- Detailed membership of committee, qualification, knowledge, skill experience and commitment with independence held by board.
- At least 50% of director or in other cases 1/3 of directors are independent with including one women director.
- In case chairman is non-executive chairman, CEO should be a Whole Time Director/ Executive director.
- It also includes board meeting, role and responsibility of board to discharge their activity.
- All companies should disclose detail remuneration paid to their directors and availing income tax & other statutory deductions.

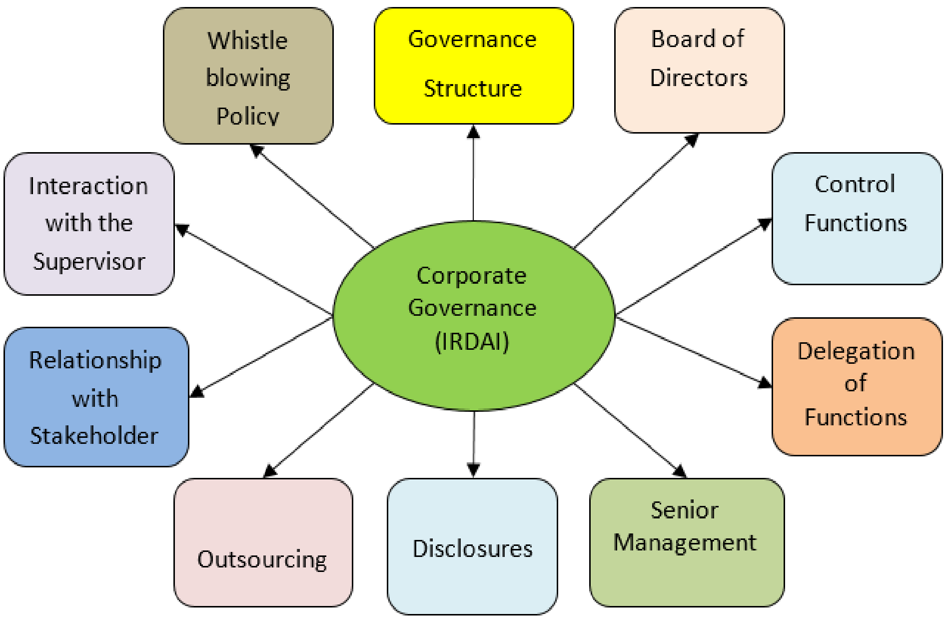
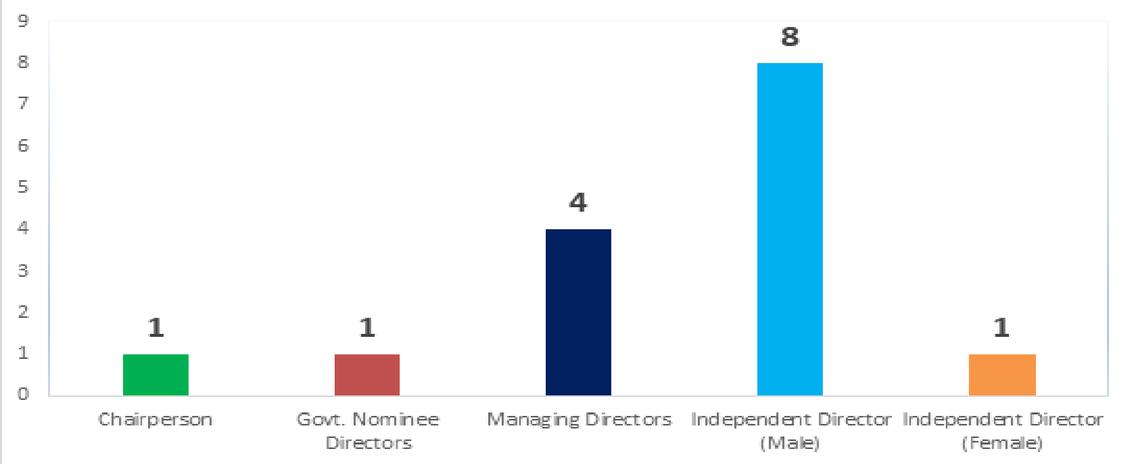


Figure-1: Corporate governance structure as per IRDAI guidelines

Source: Author compilation

Table 1: Board Composition (in numbers)



Source: Author compilation by using LIC annual report

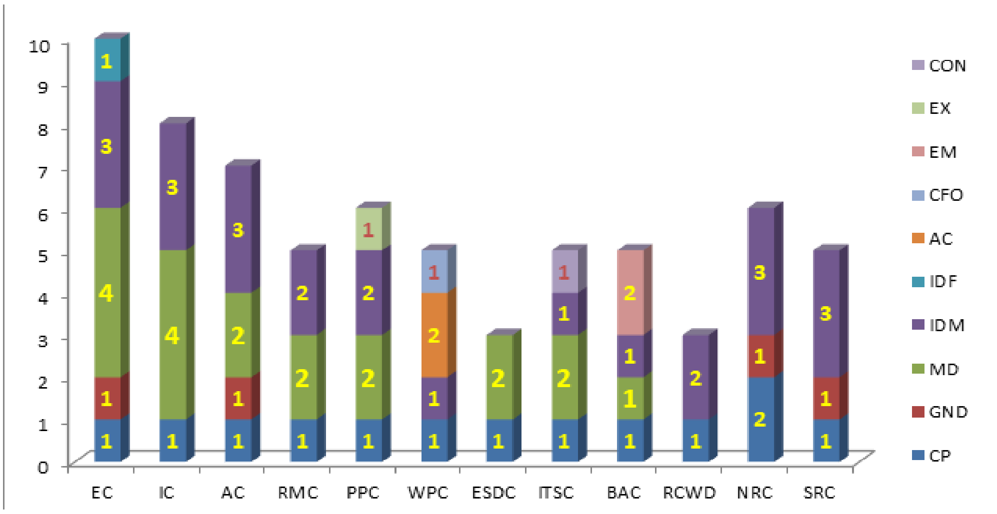
5.3 Control Function

For effective management of uncertainty risk the insurer should formulate board-approved policy and regulatory standards for identification, assessment, quantification, mitigation, and monitoring of the risk through a robust strategy of internal control mechanisms. So the board members have appropriate integrity, competence, and experience as prescribed by IRDAI rules and regulations and should meet the fit and proper criteria initially and on an ongoing basis for insurance business sustainability.

5.4 Delegation of Function

In discharging the corporate responsibility the board has formulated some mandatory committees of directors and other members for delegating their responsibility towards policyholders' protections. The insurance companies set up several committees that differ in their size and level of complexity of the operation to strengthen the control environment of the insurance company. The IRDAI Act, 1999 has set up mandatory committees like an audit committee, investment committee, risk management committee, policyholder protection committee, and assets liability management (in case of life insurer) committee that have assessed the expected rewards and cost associated with risk exposures for achieving the target of sustainability. These committees were examined with their complex membership as shown in the below figure.

Table 2: Board Committees



Source: Author compilation by using official website of LIC

Note: EC=Executive Committee; IC= Investment Committee; AC= Audit Committee; RMC= Risk Management Committee; PPC= Policyholder Protection Committee; WPC= With Profit Committee; ESDC= Election of Shareholders Directors Committee; ITSC= IT Strategy Committee; BAC= Building Advisor Committee; RCWD= Review Committee on Willful Defaulter; NRC= Nomination & Remuneration Committee; SRC= Stakeholder Relationship Committee; CP= Chairperson; GND= Govt. Nominee Director; MD= Managing Director; IDM= Independent Director Male; IDF= Independent Director Female; AC= Actuary; CFO= Chief Financial Officer; EM= External Member; EX=Expert; CON= Consultant.

5.5 Senior Management

The chief executive officer and other key managerial personnel are responsible for conducting day-to-day management activity and also providing some recommendations to the committee set up by the board. As per section 34A of Insurance Act 1938, prior approval from authority was necessary for an appointment, re-appointment, and removal of the CEO & whole-time director in the insurance sector. This act also prohibits the CEO of a Life Insurance Company cannot being a director in another insurance/ bank/investment company. All the senior managerial personnel are appointed or terminated by the board committee with prior approval from IRDAI.

Additionally, IRDAI has bought details regulations regarding appointment, qualification and power of Actuary and Statutory auditors as per regulation of the Appointment Actuary Act, 2000, and Preparation of Financial Statements and Auditors' Report of Insurance Companies Regulations, 2002 respectively. These guidelines have provided details information regards to discharge function of board members and achieving the sustainable target of the life insurance industry. The composition of Key Managerial Personnel who act as senior management activity in LIC is shown in the following table.

5.6 Disclosure Requirement

As per IRDA (Preparation of Financial Statement) regulations, 2002 prescribed the following information are required by the insurers generally discloses to the public at large at the periodic intervals.

5.7 Outsourcing

- The IRDA (Registration of Insurance Company) regulation, 2000 requires that all insurers shall not outsource any of the company's substantive functions other than those that have been explicitly permitted by the regulatory authority. Every outsourcing contract shall contain explicit safeguards regarding the continuation of ownership of data with the insurer, maintain the confidentiality of data & its output, and orderly handling of software programs on termination of the outsourcing arrangement
- Annually, the agency's performance was monitored and reviewed by the board from whom the operations have been outsourced.
- The Authority reserves the right to access the operations of the outsourced entity to the extent these are relevant to the insurance company's growth and development purposes.

5.8 Relationship with Stakeholders

A stakeholder is any person, group, or organization whose stake has been directly or indirectly affected by the insurer's actions, objectives and functions. The stakeholders are interested in insurance companies in terms of profitability, return on shareholders' investment, hiring employees, and hedging the uncertain risk of policyholders with regard to economic and social development. The board plays the catalytic roles and balances to resolve the conflict of interest arising among the stakeholders by ensuring transparency in operation and making periodic disclosures.

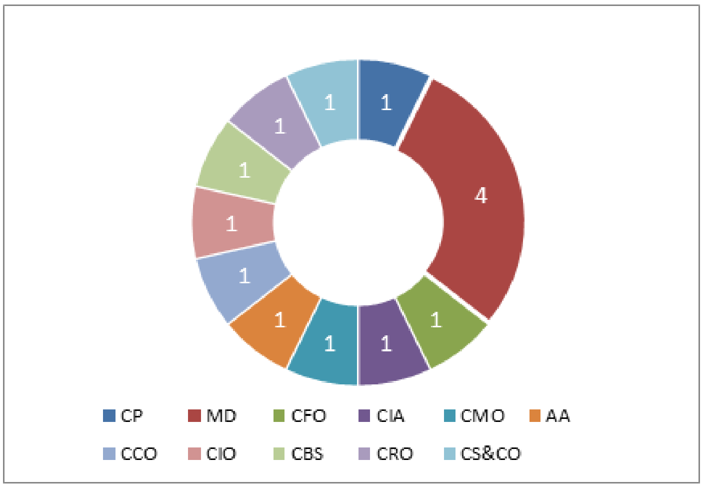


Figure-3: List of Key Managerial Persons in LIC

Source: Author compilation by using LIC website

Note: CP= Chairperson; MD= Managing Director; CFO= Chief Financial Officer; CIA= Chief Internal Auditor; CMO= Chief Marketing Officer; AA= Appointed Actuary; CCO= Chief Compliance Officer; CIO= Chief Investment Officer; CBS= Chief, Board & Secretarial; CRO= Chief Risk Officer; CSCO= Company Secretary & Compliance Officer.

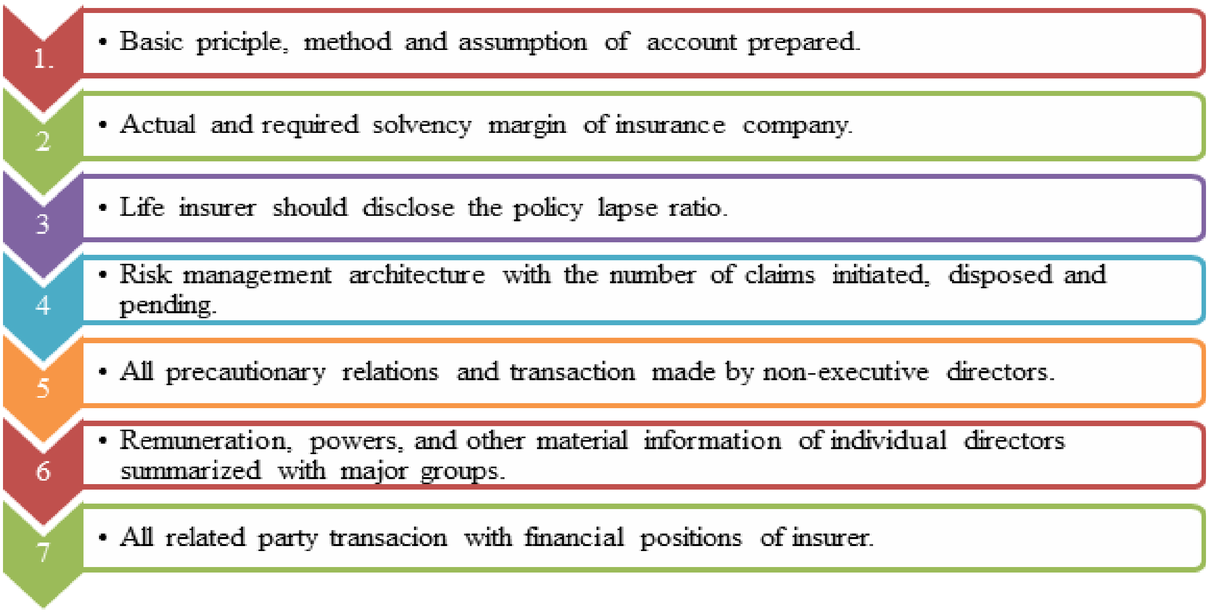


Figure-4

5.9 Interaction with the Supervisor

The effective governance mechanisms adopted by the insurer will enable the IRDA greater confidence in the work and judgment of an insurer's board, senior management and control functions. At periodic intervals, the supervisory committee is also helpful to the board and senior management in removing attention problems, crisis management, and corporate continuity. Each insurer should appoint an officer as a compliance officer to examine what extent they are currently complying with these guidelines and formulate immediate action to achieve compliance prescribed by the IRDA.

5.10 Whistle Blowing Policy

Whistleblower policy is a crucial component of the corporate governance mechanisms of insurance companies. It serves mechanisms that exist for employees and stakeholders to raise concerns internally about unethical and irregularities activity without fear of retaliation. The purpose of this policy is to create an environment that adopts an ethical code of conduct and an Anti-fraud policy of the company. It also includes creating confidence in employees to report directly to the chairman or member of the board or to the external auditors to maintain the integrity and transparency of the report. The appointed actuary and internal/external auditors have been involved in whistle-blower policy in report timely manner to the IRDA to take prompt action before policyholders' interests are undermined.

6. Conclusion

Corporate governance plays a pivotal role in the insurance sector to reduce corporate crises and scandals by adopting ethical rules and regulations to achieve the sustainable development of economic positions. These governance mechanisms are essential in every corporate sector for the formulation and implementation of transparent regulations by the board & senior manager to maintain economic liberalization, reduce deregulations, and greater demand for accountability disclosures to various stakeholders. So corporate governance is one of the philosophical principles of Life Insurance Corporation of India for driving forces of proactive measures, government guidance, and formulation of board rules & sub-committees to hedge the uncertain risk of policyholders' lives. The result has indicated that the LIC of India discloses and maintains the governance mechanisms in their annual report as per IRDA guidelines & principles. It is also suggested that the insurance companies should establish various committees with independent measures to implement plans & policies immediately and achieve sustainable risk management activity of the policyholder efficiently.

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Nill

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