"EVALUATION OF CORPORATE GOVERNANCE IN INSURANCE SECTOR IN INDIA"

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ABSTRACT

The evaluation of corporate governance in the insurance sector in India holds significant relevance in the contemporary financial and regulatory landscape. Corporate governance, as a framework for ethical conduct, transparency, accountability, and efficient management, plays a pivotal role in ensuring the financial stability and integrity of insurance companies, which manage long-term public funds and policyholder interests. The insurance sector, governed by the Insurance Regulatory and Development Authority of India (IRDAI), has witnessed a series of reforms aimed at strengthening corporate governance mechanisms in response to globalization, privatization, and liberalization. This research critically examines the corporate governance structure in Indian insurance companies by focusing on regulatory compliance, board effectiveness, risk management practices, stakeholder relationships, and disclosure norms. The study also explores the role of independent directors, audit committees, and the impact of corporate governance on policyholder protection and investor confidence. Through an analysis of both public and private insurers, the study highlights emerging trends, challenges, and gaps in governance practices, particularly in light of evolving regulatory expectations and the increasing complexity of insurance products. It also underscores the importance of aligning governance standards with international best practices to enhance competitiveness and trust in the sector. The findings of the study aim to provide valuable insights for policymakers, regulators, corporate leaders, and academics, contributing to the broader discourse on improving governance frameworks in financial institutions.

INTRODUCTION

Insurance refers to the act of indemnifying an individual or company against financial losses in case of unexpected loss. With the insured entities having an insurable interest, the Insurance sector provides the much-needed loss mitigation safeguard in case of any eventuality, while following utmost good faith. The insurance sector in India consists of life insurers, general insurers as well as re-insurers, under the aegis of the Insurance regulator, IRDAI. In the recent past, foreign investment in the form of FDI has transformed the insurance sector, with new sophisticated arrangements and products coming to the fore. While the effects are encouraging, there happens to be numerous factors, which need to be overcome for the insurance sector to achieve the desired potential.

In any financial sector of an economy, the insurance industry not only contributes towards the financial sector but also provides an important social security net in the developing nations. In India, the growth of the insurance sector has been phenomenal. Over the last few years, the insurance industry has undergone a massive change and this transformation has been deserving attention. In India there are many private and government insurance companies that have become synonymous with the term insurance. The insurance companies are offering many services and making the portfolios of the policyholders' according to their requirements. In this way these companies have managed to be popular in the Indian Insurance Industry.

For a growing economy, a strong and dynamic Insurance sector is beneficial. The life insurance industry is channelizing small savings into long-term financial solutions. In this way the Life Insurance Industry is a good source of long term funds for nation-building and for the development of infrastructure projects. Amongst financial services, after banking, the life insurance industry has the widest reach, however, number of customers is the highest in case of life insurance industry. The Life Insurance Industry is among the largest employers in the country having employment provided to more than twenty three lakh people directly as employees or indirectly as licensed advisors. In 2000, when the Indian Insurance sector was opened for the private players, large global players also entered into Indian Insurance market and till date there are twenty three private players in Life Insurance, offering different kinds of products and services to the present as well as the prospective policyholders. In the initial ten years, post liberalisation, the Life Insurance Industry has witnessed an enormous growth. This growth was due to the expansionary business policies of the companies like opening up of new offices and hiring of more agents (both individual and corporate). All these things had become popular due to the entry of the foreign companies in the insurance sector.

HISTORY OF INSURANCE IN INDIA

Insurance has a deep-rooted history in India. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). It talks in terms of pooling of resources that could be re-distributed in times of natural calamities such as fire, floods, epidemics and famine. This was like a predecessor to the modern day insurance. Insurance in India has evolved over time heavily drawing from other countries, especially England.

In 1818, with the arrival of life insurance business in India, the Oriental Life Insurance Company in Calcutta was established. This Company failed in 1834. The Madras Equitable had begun transacting life insurance business in the Madras Presidency in 1829. The British Insurance Act came into existence in 1870 and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) came into existence in the Bombay Residency. However, this time was dominated by foreign insurance offices which were doing good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance. These foreign companies were giving a very hard competition to Indian insurance companies. An Ordinance was passed on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation was formed in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers and also 75 provident societies-245 Indian and foreign insurers in all. The LIC enjoyed monopoly till the late 90s when again it was decided to reopen the Insurance sector for the private sector.

The Government set up a committee in 1993, under the chairmanship of R.N. Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The report was submitted by the committee in 1994 and it was recommended that the private sector be allowed to enter the insurance industry. It was also recommended that foreign companies be also permitted to enter by having a joint venture with Indian partners.

TYPES OF INSURANCE

Insurance is such an effective risk management tool that can save individuals or businesses from economic risks arising out of various contingencies. There are many types of insurance policies available in India. Mainly, insurance products are: Life insurance products and General insurance products.

Life insurance is the most essential of all the insurances. All of us should invest at least for it at any cost. Life insurance covers a person against the risk of death. Life insurance policies come in many forms such as endowment plans, term plans, whole life insurance plans, money back plans and unit-linked investment plans etc. There are many life insurance products which can be a great tool for long-term savings also as it comes as a combination of savings and protection. General insurance products cover financial losses caused by various risks that are other than death. General insurance products come in different types covering a wide range of risks such as health insurance, travel insurance, motor insurance, marine insurance, liability insurance, commercial insurance etc. Based on these two insurances, there are many insurance products induced by the central government and supported by the insurance companies in India.

Life Insurance: Life Insurance is insurance on the client's life. A client should buy a life insurance policy to ensure his dependents are economically secured in the accident of the client's untimely death. Life insurance is particularly very significant if any person is the sole incoming person in the family or if the person is only the breadwinner for the entire family. In case the policyholder expires during the term of the policy, his family will be financially compensated under life insurance.

Health Insurance: Health insurance should be bought to cover medical expenses for expensive treatments. Different types of health insurance policies cover classifications of diseases and health problems. A person can buy a specific health insurance policy from the insurance companies in India for specific diseases. The premium paid for a health insurance policy commonly covers treatment, medication costs, and hospitalisation.

Vehicle/ Car Insurance: Nowadays, in India, car insurance is also an important policy. For any car owner, it is an essential step for the future safety of their vehicles. This insurance protects every passenger riding the vehicle against any unwanted accidents. Some policies are also there to compensate for damages to your car during natural fatalities like floods or earthquakes. It also covers third-party liability where a person needs to pay damages to other vehicle owners.

Education Insurance: Child education insurance is quite similar to a life insurance policy. It has been specially induced as a saving and supporting tool. This fund can be used to pay expenses for the child's higher education purposes.

Home insurance: A home is a comfortable place for everyone. So, no one will leave their home in danger ever. Thus, home insurance policies can help with covering loss or damage caused to the home due to any mishaps like fire and other natural perils. It is important as, at the end of the day, home is the only place where people stay. So, safety must be there. There are other insurances like standalone critical illness insurance, travel insurance, etc. They are also holding a good part in Indian society.

INDIAN LIFE INSURANCE IN GLOBAL CONTEXT

"The life insurance industry is a major player and contributor to the nation's economic development. The industry is also essential for the sustainable development of a nation" (Adeyele, 2011). Insurance is important to the economy for its economic and financial intermediation functions to household, businesses and government. The life insurance industry in India is the growing sectors in the country. India is the fifth largest life insurance market in the world and it is growing at the rate of 32 to 34 per cent annually. As per Swiss Re report, the share of life insurance industry in total premium of the whole world was 55.6 per cent[3]. Out of this the share of life insurance business of India was much high at 79 per cent and the share of non-life insurance business was just at 21 per cent. In life insurance business, India is ranked tenth amongst the eighty eight countries. In 2014, India's share in global life insurance market was 2.08 per cent and it has increased to 2.24 per cent in 2015. However, during 2015, there was an increase in the life insurance premium in India 7.8 per cent while it has increased by 4 per cent for the life insurance premium of the whole world. The insurance sector has become important because the contribution of service sector in Indian GDP is 55.2 per cent according to Union Budget 2010-11 of which 5.4 per cent comes from banking and insurance.

In any country for measuring the level of growth and development of the insurance sector, insurance penetration and insurance density measures are used. The table 1.2 is showing the insurance penetration and density of the life insurance sector in the whole world. In 2013, the highest life insurance penetration was of the Taiwan (14.5 per cent), followed by South Africa (12.7 per cent) and on third number is Hong Kong (11.7 per cent). The lowest was of Russia (0.1 per cent), followed by Pakistan (0.5 per cent) and Sri Lanka (0.5 per cent). India's life insurance penetration was 3.1 percent in 2013, 2.6 per cent in 2014 and 2.7 per cent in 2015. It further increased to 2.7 per cent in the financial year 2015-16. In 2014, highest insurance penetration was again for Taiwan (15.6 per cent), Hong Kong was on second number having 12.7 per cent and South Africa was on third number (11.4 per cent).

Corporate Governance in the Indian Insurance Sector

Very recently, the regulator of the insurance sector of India, the Insurance Regulatory and Development Authority of India (IRDAI), issued regulations on the corporate governance of insurers. Previously, Indian insurers were following the IRDAI circular 'Guidelines for Corporate Governance for Insurers' along with the requirements set out in the Insurance Act, 1938, the IRDAI Act, 1999, and several other regulations mentioned under the above Acts. IRDAI has already notified the IRDAI (Corporate Governance for Insurers) Regulations, 2024 (Corporate Governance Regulations). The new guidelines are a refinement and summation of existing practices related to governance.

Some of the new regulations under the Corporate Governance Code include:

Composition of the board: It is the need for an insurer to have a board comprising competent and qualified individuals from different disciplines of businesses such as finance, economics, management, audit, accounting, etc., which will be as per the needs of the insurers, matching the scale, nature, and complexity of the business.

Approval for appointment of chairperson: Prior approval of the IRDAI is necessary to appoint the chairperson of the Board of Directors of an insurance company. This code is not applicable to a publicsector insurance company. To date, it has been left to the discretion of the board to choose its chairperson.

Chief compliance officer: The chief compliance officer should be appointed for a minimum period of at least three years. This position should not remain vacant for a continuous period of more than 180 days. This position must be filled in on priority basis as it is a Key Managerial Person.

Risk control systems: As per the new guidelines, it is the responsibility of the board to ensure that the insurer has its own risk management systems and internal controls in place according to the needs of the insurer. The new corporate governance regulations do not mention group-wide control systems like the old one which required that if the concerned insurance company is the associate / subsidiary of a group company then, it should have group-wide risk control systems in place along with to the control systems at the level of the insurer and that the board of the insurance company has formulated risk management policy to address group-wide risks.

Environmental, social and governance framework: The new regulation has introduced a requirement that an insurance company must formulate a Board approved ESG framework (Environmental, Social and Governance) along with a comprehensive climate risk management framework. The output under the ESG framework are to be reviewed on yearly basis. The ESG framework is to be monitored by the board. Experts feel that ESG Framework is to be reviewed more frequently.

Corporate Governance Guidelines Issued by IRDAI

The Insurance Regulatory and Development Authority of India (IRDAI) had formed the governance responsibilities of the Board of Directors for managing the insurance functions under various rules and regulations notified by it from time and time for the different operational areas. In 2009, IRDAI had issued the comprehensive guidelines for the corporate governance to be followed by the Indian insurance companies. The guidelines issued by IRDAI were in addition to the provisions of the Companies Act, 1956, the Insurance Act, 1938 and the requirement of any other laws or regulations framed for the same. In case any provisions of the guidelines are found to be in conflict with the provisions of any law or regulations, then the legal provisions will prevail. If the requirements of the guidelines issued by IRDAI are found to be more rigorous than the provisions of any law, in that case the guidelines shall be followed.

The disclosure of mandatory and no"-mandatory items of corporate governance are formulated in accordance to the guidelines of the Clause 49 of the listing agreement. Although, Indian Life Insurance companies are not yet listed on any stock exchange, but the Insurance Regulatory and Development Authority (IRDAI) has made a notification to all the Insurance companies to get familiar with corporate governance so, as to meet the international standards of governance. As per the provisions of the IRDAI, an insurance company can go public only after completing ten years after its registration with the IRDAI. Most of the life insurance companies came in existence in 2000-01, now these companies are planning to enter the capital market and get at par with the listed companies in India. It can be done by following the corporate governance and disclosure guidelines issued by SEBI and the IRDAI. In the Indian life insurance sector none of the insurance company is listed till date in any of the stock exchanges. Hence, public disclosure of financial statements is not mandatory.

CONCLUSION

As FDIs pour in, the insurance sector can explore newer and undervalued areas for its further growth. Term insurance accounts for less than 2% of the total policies, which could be explored. Considering the higher expenditure on health in India and increasing life expectancy, health insurance and pension policies could gain high popularity in the coming years. With FDI in the insurance sector, General Insurance companies could restructure and realign with global practices and thus, could grow further. As the sector grows, India could be immensely helped by its long-term funds for its capital growth. Truly, as India shapes up to take a major role in the global village, the insurance sector is all set to take centre stage in the further growth of the services industry in India.

The evaluation of corporate governance In the insurance sector in India reveals a dynamic yet challenging landscape that is gradually evolving to meet global standards. With the liberalization of the insurance industry and increasing participation of private players, there has been a stronger emphasis on transparency, accountability, and stakeholder protection. Regulatory bodies like the Insurance Regulatory and Development Authority of India (IRDAI) have introduced several reforms to ensure compliance with sound corporate governance principles, including guidelines on board structure, risk management, disclosures, and ethical conduct. However, despite these efforts, challenges persist in areas such as independent board functioning, conflict of interest, timely disclosures, and enforcement of governance codes. Many insurance companies still struggle to strike a balance between commercial objectives and policyholder interests. Going forward, enhancing board competency, strengthening regulatory oversight, and fostering a culture of ethical leadership are essential to bridge governance gaps. Overall, corporate governance in India's insurance sector is on a progressive path, but its success largely depends on effective implementation, continuous monitoring, and a proactive commitment by both regulators and insurers to uphold the principles of good governance.

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