

CORPORATE GOVERNANCE DISCLOSURE PRACTICES OF SELECT INDIAN INSURANCE COMPANIES – A STUDY

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Abstract: The insurance sector plays a crucial role in any economy by its very mechanism of risk transfer and savings mobilization. It thus performs a critical role in intermediation by fostering the liquidity of the financial markets. This in turn ensures that capital is transferred from surplus units to deficient units of the economy who are in need of funds for the undertaking of capital projects and thereby spurring productivity. In the aftermath of the 2007 to 2009 financial crisis the insurance industry image have been greatly affected. Thus, there is a need for corporate governance of sustainable corporate growth and long-term competitive advantage. This study attempts to examine the corporate governance and disclosure practices of the insurance companies by identifying and testing the empirical evidence of such companies listed on Bombay Stock Exchange. The governance practices of the selected companies have been assessed with the help Corporate Governance Disclosure Index constructed on the basis of Clause 49 Listing Agreement of Securities Exchange Board of India for the year 2016-17. To conclude, SBI Life Insurance, HDFC Life Insurance are found to have higher level of disclosures in comparison to General Insurance Company, New Indian Assurance and ICICI Prudential Life Insurance Companies.

Index Terms - Corporate Governance, Insurance Companies, Disclosure, Clause 49

I. INTRODUCTION

The role of Corporate Governance (CG) has become an essential part of the corporate disclosure practice of any successful organization. The most accepted corporate mantra today is that the better the CG practice of an organization the better the shareholder and stakeholder value creation. As per the Organization for Economic Cooperation and Development (OECD) documents (1999), Corporate Governance (CG) is the system by which organizations are directed and controlled. The CG is based on the principles such as conducting business with integrity and fairness, being transparent in transactions, making necessary disclosures, complying with laws and specifies the distribution of rights and responsibilities among different stakeholders of the corporation, such as the board, managers, shareholders and employees, and spells out the rules and procedures for making decisions on corporate affairs and commitment to conduct business in an ethical manner. Corporate Governance also provides the structure through which the companies can visualize the objectives, define the means of attaining those objectives and monitoring performance. When it comes to insurance companies, there exists a fiduciary relationship with policy holders and long term performances and the fiduciary responsibility of the managements takes a two- pronged direction that is the way they deal with not only the policyholders' money but also the way the companies invested funds and how they conduct their business. A failure on either side would prove to be detrimental to the interests of the insurance company. The honesty and integrity of insurers are paramount important as the industry has financial functions. Officers and employees can break the regulatory measures and enjoy the money of policyholders. No insurer will be successful unless his integrity is tested as sound and useful for the effective performances of the functions. As Insurance companies are surrounded by a complicated pattern of economic, social ideas and expectations, they have a responsibility to themselves, to one another and to their constituencies to make a reasonable and effective response. It must be a thoughtful institution, which rises above the bottom line to consider the impact of its actions on all, from shareholders to the society at large. Therefore there is a need to have a system of good corporate governance and calls insurers to devise an internal procedure for adequate and timely disclosure, reporting requirements and code of conduct.

Indian Insurance Industry Overview & Market Development Analysis

The insurance industry of India consists of 62 insurance companies of which 24 are in life insurance business and 38 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national re-insurer, namely, General Insurance

Corporation of India (GIC). Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.

Out of 33 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. There are two more specialised insurers belonging to the public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agricultural Insurance Company Ltd for crop insurance. Insurance Penetration mark is expected to cross 4 per cent mark in the year 2017 as it has shown a continuous increase in the year 2014 and 2015 with a market penetration rate of 3.3 per cent and 3.44 per cent respectively, and the country's insurance market is expected to quadruple in size over the next 10 years from its current size of US\$60 billion as shown below:



Figure showing Insurance Penetration (%)

REVIEW OF LITERATURE

Anabil Bhattacharya, Chief Manager & CPIO, RTI Department, National Insurance Company , addressed the key issues in the Indian insurance industry and the need for corporate governance in the areas of the growth of private companies, the magnitude and complexity of corporate groups, rise in hostile takeovers, insider trading, need for restructuring of boards, changes in audit practices etc.

Bhavya Bansal and Aishvarya Bansal (2014), concluded from their study that good corporate governance practices in insurance sector to promote efficient use of scarce resources, helps the managers constantly focus on enhancing the company performance and help to achieve the corporate social responsibility.

Gagandeep Kaur (2012) analysed the effect of various company attributes to the extent of corporate governance disclosure practices of Indian insurance companies for a period of 8 years from 2002-03 to 2009-10 and concluded that the public sector companies disclosed more information than private sector in both life and general insurance industry.

Reetika (2014) studied the legislative policies of life insurance and found that claim settlement of the policies involves very cumbersome process and most of the times various disputes crop up between the policyholder and an insurance company and insurance companies are ruled by profit motive than service to customers and concluded a need for a regulatory framework of life insurance.

Athenia Bongani Sibindi (2015) analysed the company reports, various acts and codes that governs the insurance industry in South Africa and found that the insurance companies by and large have strengthened their internal control systems and complied with regulatory measures.

Zatul Karamah Ahmad Baharul Ulum and Syed Azizi Wafa Syed Khalid Wafa (2014) examined the influence and relationship of corporate governance attributes with regard to accountability of corporate governance practices of insurance companies in Labuan International Business and Financial Centre and found that there is substantial scope for further more improvement in the current practices and suggested for effective corporate governance system to improve firm performance.

Ibe Happy Chukwudike Azutoru, Ugwuanyi Georgina Obinne, Okanya Ogochukwu Chinelo (2017) evaluated the corporate governance mechanisms of Nigeria insurance companies related to board size, executive and non-executive directors remuneration, foreign ownership etc. and found that these mechanisms showed a significant impact on insurance companies of Nigeria and suggested that performance based remuneration should be designed for directors.

OBJECTIVES OF THE STUDY

The purpose of the study is two-fold, as stated below:

- To study the concept of corporate governance and disclosure practices in accordance with Clause 49 of the Listing Agreement.
- To examine the extent to which insurance companies adopted corporate governance disclosures in their annual reports.

METHODOLOGY OF THE STUDY

For the purpose of study, all the seven insurance companies belonging to both life insurance and general insurance, namely, ICICI Prudential Life Insurance Company Ltd, SBI Life Insurance Company Ltd, HDFC Standard Life Insurance Company Ltd, ICICI Lombard General Insurance Company Ltd, General Insurance Corporation of India and The New India Assurance Company Ltd have been selected as listed companies on the Bombay Stock Exchange. To carry out the research study, analysis was limited to one-year period because disclosure policies usually tend to remain constant over time and the data has been collected from their annual reports for the year 2016-17. The study has been made on the basis and with the help of Content analysis, which is an eminent research technique used in the social sciences and a disclosure index has been developed. A score of '1' has been awarded for an item which has been reported; otherwise a score of '0' was awarded i.e. every item in the parameter has been given equal weight.

DATA ANALYSIS AND INTERPRETATION

The analysis and interpretation regarding the disclosure requirements of the insurance companies regarding contents that should be disclosed in the Corporate Governance part of the Annual report and insurance companies official websites has been done in the following part:

- Board of Directors
- Audit Committee
- Whistle Blower Policy
- Subsidiary Companies
- Disclosures
- Audit Report and Audit Qualifications
- Contingent Liabilities
- CEO/CFO Certification
- Report on Corporate Governance
- Compliance

Table Showing Corporate Governance Disclosure Index of Select Insurance Companies

Contents	SBI	ICICI pru	HDFC	GIC	NIA	ICICI Lom	Total Score
I. Board of Directors							
A. Composition of Board	1	1	1	1	1	1	6
B. Non-Executive Directors' Compensation and Disclosures	1	1	1	1	1	1	6
C. Independent Director	1	1	1	1	1	1	6
D. Other provisions as to Board & Committees	1	1	1	1	1	1	6
E. Code of Conduct	1	1	1	1	1	1	6
II. Audit Committee							
A. Qualified & Independent Audit Committee	1	1	1	1	1	1	6
B. Meeting of Audit Committee	1	1	1	1	1	1	6
C. Powers of Audit Committee	1	0	0	1	0	0	2
D. Role of Audit Committee	1	0	1	0	0	0	2
E. Review of Information by Audit Committee	1	1	1	1	1	1	6
III. Audit Report & Audit Qualification	1	1	1	1	1	1	6
IV. Whistle Blower Policy	1	1	1	1	1	1	6
V. Subsidiary Companies	1	1	1	1	1	1	6
VI. Contingent Liabilities	1	1	1	1	1	1	6
VII. Disclosures							
A. Related Party Transactions	1	1	1	1	1	1	6
B. Accounting Treatment	1	1	1	1	1	1	6
C. Board Disclosures & Risk Management	1	1	1	1	1	1	6
D. Remuneration of Directors	1	1	1	1	1	1	6
E. Management	0	0	1	1	1	1	4
F. Shareholders	1	1	1	1	1	1	6
VIII. CEO/CFO Certification	1	1	1	0	0	1	4

IX. Report on Corporate Governance	1	1	1	1	1	1	6
X. Compliance	1	1	1	1	1	1	6
Total Score	22	20	22	21	20	21	

MAJOR FINDINGS OF THE STUDY

From the data analysis and interpretation, we found that, except General Insurance Corporation of India and New India Assurance Company, the rest of the companies have received CEO/CFO certification regarding the compliance. It can be observed from the above table that only SBI Life Insurance and GIC companies are disclosing the powers of the audit committee, SBI Life Insurance and HDFC Standard Life Insurance companies are disclosing the role of the audit committee and the rest of the companies are not disclosing the information regarding the role and powers of the audit committee. SBI Life Insurance and ICICI Prudential Life Insurance companies are not disclosing management analysis and discussion report in their annual report. SBI Life Insurance and HDFC Standard Life Insurance disclosing more information when compared to ICICI Prudential Life Insurance, General Insurance Corporation of India, New India Assurance and Lombard General Insurance Company.

CONCLUSION

Corporate governance practices differ according to the nature of the insurance industry, composition of BOD, independent directors, risk taking characteristics and such other features. Undoubtedly every company is following corporate governance norms in one or the different manner according to the laws, guidelines, code of ethics, corporate social responsibility prevalent in the country. The extent to which company adheres to good corporate governance showcases its honesty in compilation of financial records. And, thus the insurance companies should specifically state the role and functions of the audit committee and management analysis and discussion report in their annual report.

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