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A STUDY ON RISK MANAGEMENT IN INSURANCE SECTOR IN INDIA

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Abstract

Risk management is a management tool, which can be used by any organization or department, regardless of size, for the purpose of minimizing the adverse financial effects of accidental loss. In its most basic application, risk management is an ongoing systematic effort to identify and control the risk of losses to which an organization is exposed and to finance those losses, which do occur, in a cost-effective manner. First and foremost, risk management is a management procedure that has an identified purpose and which employs recognized techniques and tools. A "Risk Assessment" will examine exposures to Property, Liability, Personnel and Net Income

This paper introduces the topic of research and the basic definitions about Risk, difference between Risk and Uncertainty, types of risks and classification of risks some concepts about risks and risk management, History of risk Management in the world and history of life insurance Industry and ending with Risk management by various regulators like Reserve Bank of India (RBI) for banks, Securities Exchange Board of India (SEBI) for Companies covered under the Companies Act of 1965 and Insurance Regulatory Development of India (IRDAI) for insurance Companies both Life and General.

Key words: Risk management, Insurance sector, Credit risk, Market Risk, LIC, IRDAI, Companies Act and SEBI.

History of Risk Management:

The modern conception of risk is rooted in the Hindu-Arabic numbering system that reached the western seven to eight hundred years ago. But the serious study of risk began during the Renaissance, when people broke loose from the constraints of the past and subjected long held beliefs to open challenge.

What might appear to have been a seventeenth-century version of the game of trivial pursuit led to the discovery of the theory of probability the mathematical heart of the concept of risk. Their solution to Paccioli's puzzle meant that people could for the first time make decision and forecast the future with the help of numbers.

Georges Dionne [1] traces the history of Risk Management. According to him that there were no books on risk management and no universities offered courses in the subject till 1956. Since the early 1970s the concept of financial risk management evolved considerably. Notably risk management has become less limited to market insurance coverage which is considered a competing protection tool that complements several other risk management activities.

Accident prevention is the most natural part of self- protection. Precaution is a form of self- protection applied to suspected but undefined events for which the probabilities and financial consequences are unknown. All protection and prevention activities are part of risk management.

The concept of risk management in the financial sector was revolutionised in the 1970s when financial risk management became a priority for many companies, including banks, insurers and non -financial enterprises exposed to various price fluctuations, such as risk related to interest rates, stock market returns, exchange rates, and the prices of raw materials or commodities.

Derivatives are contracts that protect the holder from certain risks. The best known derivatives are forward contracts, options, futures and swaps. Derivatives were first viewed as forms of insurance to protect individuals and companies from major fluctuations in risks. However, speculation quickly arose in various markets, creating other risks that were increasingly difficult to control or manage. In addition, proliferation of derivatives made it very difficult to assess companies' global risks (specifically, aggregating and identifying functional forms distribution of prices or returns).

The first academic studies of insurance were published in the Journal of Insurance, which was renamed the Journal of Risk and Insurance in 1964.

In the late 1980s, high markets volatility spurred the large U.S. investment banks to put in place risk management departments. JP Morgan developed the best known internal risk management models-Risk metrics for market risk and credit metrics for credit risk-1994 and 1997. The publication of the risk metrics model prompted broad definition dissemination of the value –at-risk (VaR) measures among professionals and academics alike. These tools were used for calculating banks' regulatory capital under Basel II and Basel III. They were also used to analyse losses sustained in 1994 and 1995 following the abuse of derivatives

(Procter &Gamble, Orange County, and Barings). These credit risk crises followed: the Asian crises, the Russian crises, and the collapse of the Long-Term Capital Management (LTCM). The LTCM hedge fund was over exposed to various risks. When the Asians and Russians steadily defaulted on their obligations LTCM began to run short of Liquid assets to meet its obligations, this shortfall quickly turned into default risk.

Risk Definition: Since the topic of research in about Risk management of Life insurance companies in India, we start with the definitions of research by various experts.

Risk Definition by various authors and sources

The word 'Risk 'derives from the early Italian word 'risicare' which means 'to dare'. In this sense, risk is choice rather than a fate. The action we dare to take, which depend on how free we are to make choices decides the risk. The Webster's dictionary says that 'Risk 'is the possibility of something unpleasant happening or the chance of encountering loss or harm.

According to Peter L. Bernstein [2] mastery of risk was the boundary between modern times and the past. Risk management guides us over a vast range of decision making from allocation of wealth to safe guarding public health, from waging war to planning a family, paying insurance premiums to wearing a seat belt, from planting corn to marketing cornflakes.

In his book on Enterprise Risk Management by A V Vedapuriswar [3], says that the word risk can be interpreted in several ways. He quotes that according to the world famous risk management guru, Harold Skipper "No universally accepted definition of risk exists. Risk commonly used to refer to insured items, to causes of loss and to the chance of loss. Statisticians and economists associate risk with variability. A situation is risky if a range of outcome exists and the actual outcome is not known in advance."

According to the book of Reading on Enterprise Risk Management by Institute of Insurance Risk management (IIRM) [4], risk is the possibility of the actual outcome being different from the expected outcome. It includes both the downside and the upside potential. Downside potential is the possibility of the actual results being adverse compared to the expected results. On the other hand, upside potential is the possibility of the actual being better than the expected results.

Risk and Uncertainty

Although the terms risk and uncertainty are often used inter-changeably, they are in fact not synonymous. There is clear distinction between certainty, uncertainty and risk. Certainty is a situation where it is known what will happen and the happening and non- happening of an event carries a 100% probability. Risk is the situation when there are a number of specific, probable outcomes, but it is not certain as to which one of them will actually happen. Uncertainty is where even the probable outcomes are unknown. It reflects a total lack of knowledge of what may happen.

Holton Glyn A [5], argues that two ingredients are needed for risk to exist. The first is uncertainty about the potential outcomes from an experiment, and the other is that the outcomes have to matter in terms of providing utility. Risk entails two essential components: 1) Exposure 2) Uncertainty. Risk is then exposure to proposition of which one is uncertain. Risk relates to objective probabilities and Uncertainty related to subjective probabilities.

He notes, for instance, that a person jumping out of an airplane without a parachute faces no risk since he is certain to die(no uncertainty), and drawing balls out of an urn does not expose one to risk because one's wellbeing or wealth is unaffected by whether a red ball or black ball is drawn..

Many of definition of risk focus only on the down side of the risks. But a broader captures both positive and negative outcomes.

Risk is different from the terms 'peril 'and 'hazard'. While the risk is the possibility of loss, peril is a cause of loss. Hazard, on the other hand, is a factor that may create or increase the possibility of a loss in face of an undesired event. For example, fire is peril that may cause loss. Inappropriate structure of a building is hazard that increases the possibility of loss in case of a fire. Inappropriate wiring is a hazard that increases the probability of a fire. Risk is the probability of a loss due these factors.

Risk is not an abstract concept. It is variable which can be calibrated, measured and compared. The degree of risk attached to an event is generally linked to the likelihood of the occurrence of that event.

Types of Risks

Depending upon the capacity and attitude towards risk, risks can be divided into the following:

1. Pure Risks and Speculative Risks
2. Acceptable Risks and Non Acceptable Risks.
3. Static Risks and Dynamic Risks

Pure Risks and Speculative Risks: Pure Risks are those in which the outcome tends to be a loss with no probability of gain, while speculative risks are those in which there is possibility of profit or loss. For example the risk of fire in a warehouse results in pure risk while dealing in the secondary market is speculative risk, because one can gain or lose While it is possible to insure pure risks, speculative risks cannot be insured.

Acceptable Risks and Non Acceptable Risks: While risks are avoidable in any business, the potential loss may be so minimal that some risks are acceptable without any prevention being taken. Certain risks are major and those are known as Non Acceptable risks. For unacceptable risks, the management must find out ways to Reduce, Avoid or Transfer the risk. A loss of 10 ball point pens in a month is acceptable risk to the business, but a major financial loss of Rs 20 crore is a non-acceptable risk.

Static Risks and Dynamic Risks:

There are various risks that depend on changes in the economic, political, social and other scenarios. Such risks are known as dynamic risks. Speculative risks are types of dynamic risks.

Risks that do not depend on various scenarios are known as Static risks. Pure risks are types of static risk.

Sources of Risk

According to readings on Enterprise Risk Management (ERM) [4] the sources for pure risks are the following

1. Property exposure: Any business or individual that uses any kind of property whether owned, leased, rented or otherwise is exposed to the risks of loss, theft and damage that may be caused by man-made reasons. Depending upon the severity of the damage the business will be affected.

2. Liability exposure: Liability to any business due to litigation, damages, claims etc., is one of the sources of risk

3. Life and Health exposure: For every human being Death is certain and that is source of risk to him and his family. Living too long poses a risk in terms maintain a life style in the absence of earnings. Some others may have to spend a major of their earnings on heath related matters because of serious illness. Also the exposure to illness affects their earning capacity.

4. Financial exposure: while exposures to property, Liability, Life and Health involve pure risks, financial exposure can be due to speculative nature also in addition to being pure risks.

The sources to identify risks depend upon the perspectives adopted. It can be seen from the following perspectives

1. A Corporate Strategy perspective
2. As asset management perspective
3. A people perspective
4. A project prospective
5. A systems perspective.

Risk Management-concepts

Risk Management may be defined as a field of activity seeking to eliminate, reduce and generally control pure risks (such as safety, fire, major hazards, security lapses, environmental hazards) and to enhance the benefits of avoid detriment from speculative risks (such as financial investment, marketing, human resources, IT strategy, commercial and business risks).

Institute of Insurance Risk Management (IIRM) Hyderabad in their Enterprise Risk Management which is a compilation of various articles on Risk Management (4) have stated that The Royal Society Report (1992) used the term 'Risk Management' to denote regulatory measures (both in public policy and corporate practice) intended to shape who can take what risks and how.

Also that chapter on risk management aptly concludes that Risk Management is a collective term for variety of activities concerned with avoiding, reducing and controlling pure risks and with improving the benefit side and avoiding /reducing the loss side of speculative risks.

The goal of risk management is not to completely eliminate risks but to ensure that risk remains at the desired and acceptable range.

Robert S Kaplan [6] in his article states that risk management is too often treated as a compliance issue that can be solved by drawing up lot of rules and making sure that all employees follow them. Although many rules are sensible and do reduce some risks that could severely damage a company but rules based risk management did not prevent the failure of many financial institutions during the 2007-08 credit crisis.

Corporate Risk Management

The goal of corporate risk management is to create a reference frame work that will allow companies to handle risk and uncertainty. Risks are present in nearly all of firms' financial and economic activities. The risk identification, assessment, and management process is part of companies' strategic development.it must be designed and planned at the highest level namely the board of directors.

Enterprise Risk Management: According to Committee of Sponsoring organisation (COSO) [7], definition of ERM is as follows:

Enterprise Risk Management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify the potential events that may affect the entity, and manage the risk to within its risk appetite , to provide reasonable assurance regarding achievement of entity objectives' It can be seen that for COSO, Risk Management is 'not one event or circumstance but a series of actions that permeate an entity's activities'

Approaches to Risk Management

There are different approaches for managing risks depending the risk appetite and capacity of an organisation. They are:

a) Risk Retention: Risk is retained in the company when nothing is done. It can be a conscious decision either due to avoid excess cost or impossibility to employ any technique. It depends upon the company's capacity to bear the loss

b) Risk transfer: Risk is transferred when the firm originally exposed to risk, transfers it to another party which is willing to bear the risk.

c) Risk Sharing: This is a combination of risk retention and risk transfer. Under this technique, a particular is managed by retaining a part of it and transferring the rest to a party willing to bear it.

d) Separation: It is a technique of reducing the risk through separating parts of business or assets or liabilities. It can be like sourcing raw materials from a number of suppliers to avoid the risk of depending single supplier who may go out of business or monopolising by increasing the price.

e) Risk reduction and control of Loss: By using this method the firm can reduce the possibility of loss or quantum of loss

f) Combination or Diversification: It refers to the technique of combining more than one business activity in order to reduce the overall risk of the firm. In a portfolio of investments it means investing in diversified industry sectors and across companies to reduce risk of concentration.

g) Risk avoidance: An extreme method of managing a risk to avoid it altogether. It may be done by not undertaking the activity that entails risk.

Risk Management Tools

- Outsourcing
- Diversification
- Hedging and other derivatives
- Strict adherence to IRDAI's regulations, rules, circulars and guidelines
- Insure
- Reinsure

Outsourcing: it is resorted to when a life insurer thinks that it is efficient and cost effective to get a job done instead of using its internal sources. This also helps the company to concentrate and focus its energy on its core functions Business development, Investments etc.

Diversification: This is the most essential tool especially in the area of investments where concentration of assets class like equities, Government securities, Corporate Bonds and Tern deposits in Commercial Banks. Even within the asset class there can be exposure risk like single Issuer Company, Issuer group, promoter group and industrial sector. All these risks are taken care of by diversification of investments.

Hedging and other derivatives: These are helpful to care of high fluctuations in price of either Equity or interest rates. There are tools like Interest rate Future, Forward rate contract and interest rate options etc.

Insure: There are risks like property risk, Employee misappropriations and directors' liability etc. These risks can be addressed by taking necessary insurance cover.

Reinsurance: it is the process by which life insurer transfers part of the risk under a contract to another life insurance company usually to professional reinsurance company. In a Life insurance companies when the life insurance Company introducing a new product where they do not have the necessary experience, they take care of this by taking Re-insurance where the international Re- insurers act as a cushion to absorb these risk, Also in case of Catastrophe Risks also Re-insurance helps.

Strict adherence to IRDAI's regulations, rules, circulars and guidelines: Insurance Regulator IRDAI has, in addition to Insurance Act of 1938 brought in Regulations, Circulars. Guide lines and rules to regulate the life insurers to protect the interest of the policyholders. Life insurer has to strictly adhere to these and this goes a long way to mitigate various risks including compliance risks.

Nature of Insurance Business:

Insurance Law Manual [8] in their Guide to insurance laws defines 'Insurance' is an arrangement by which company or the State undertakes to provide a guarantee of compensation for specified loss, damages, illness, or death in return for payment of a specified premium.

Insurance is a means of protection from financial loss. It is a form risk management primarily used to hedge against the risk of contingent, uncertain loss.

An entity which provides insurance is known as an insurer or an insurance company.

A person or an entity who buys insurance is known as an insured or a Policyholder.

Insurance can be broadly classified into

a) Life Insurance and

b) General Insurance.

Life insurance as the term indicates effecting contracts of insurance upon human life. The contract is subject to payment of premiums for a term dependant on human life.

Life insurance business includes Unit Linked Insurance Policy, which provides

a component of Investment and a component of insurance

History of Life Insurance in India – Back ground:

Before getting in to a study of the Risk management practices of Life insurance companies in India, it will be a good idea to peep in to history of Life insurance industry in India. In his speech the then Chairman of IRDAI [9] has brought out the history of Life insurance industry in India. According to him life insurance companies came to India primarily to insure the lives of Europeans. Oriental Life Insurance Company the first Life Insurance Company to be established in India was founded in 1818. Bombay Mutual Assurance Society was the first Indian insurance established in 1871. In the early part of the twentieth century, a large number of Indian entrepreneurs started establishing insurance companies to cater to the needs of the Indians and their establishments.

The proliferation of the insurance companies prompted the Government to regulate the life insurance business. In 1912, the Life Insurance Companies Act was passed making it compulsory for the companies to file with the Government the premium rate tables and certified valuation of those companies by an actuary. This act primarily provided for information to be furnished by the companies to the Government with the comfort provided about their viability through an assessment by an actuary. The Act did not envisage extensive supervision and regulation of companies by the Government. The scenario changed and in the first two decades insurance industry grew from 44 companies with a total business of Rs 22.44 Crores to 176 companies with business of Rs 298 Crores in 1938.During the mushroom growth of the of insurance companies many financially unsound companies were also floated which failed miserably.

In this background came the major enactment of the entire insurance history. The Insurance Act, 1938, was the first major legislation governing both the Life and Non-Life insurance companies to provide strict state control over insurance business. The legislation was so comprehensive and well drafted that it remained relevant and so far that only modification and additions have been made where required have been made leaving intact a substantial portion of the legislation. In 1956 Life Insurance industry was nationalised to prevent insolvencies and gross misuse of policyholders' funds. All insurance companies were merged into a single corporation and the Life Insurance Corporation (LIC) was created.

LIC became a house hold name and succeeded in penetrating India including the rural villages. Subsequently there was a growing recognition that the consumer did not benefit in the absence of competition in terms of wider choice and competitive pricing. It was felt in the 1990s that the scale of economic activities attained cannot be sustained by the state controlled insurance Industry. Insurance penetration and enlargement of the market can be accomplished only where a large number of companies compete with each other.

Based on the recommendation of the Malhotra committee which was constituted for examining the structure of Insurance industry and suggest any changes to be made more efficient and competitive, the government created an independent regulatory authority namely IRDAI. This was to facilitate the smooth transition from the state monopoly to free market.

The IRDA bill was passed in December 1999 and became an Act in April 2000. In July 2000, immediately after the first meeting of the Insurance Advisory Committee, 11 essential regulations relevant for players entering the Indian market were notified. In October 2000, six licenses were issued to new players in the life and non-life insurance sector. India thus became a liberalised insurance market. This industry has grown huge now (as on 31st March 2018) with 23 Life insurance Companies in the private sector.

Some of the important milestones in the life insurance business in India

Dr Ravi N Kadam in his article [10] traces some important milestones of life insurance industry in India. They are;

1818: Oriental Life Insurance Company, the first life insurance company on Indian soil started functioning.

1870: Bombay Mutual Life Assurance Society, the first Indian life insurance company started its business.

1912: The Indian Life Assurance Companies Act enacted as the first statute to regulate

the life insurance business.

1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

1938: Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.

1956: 245 Indian and foreign insurers and provident societies are taken over by the Central government and nationalised them. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 crore, from the Government of India.

Classification of Risks: In General

In his book on ERM A Vedapuriswar [3] states that Economist Intelligence Unit divided risks into four broad categories namely

1 Hazard Risk related to natural hazards, accidents, fire that can be insured

2. Financial Risk which has to do with volatility in interest rates and exchange rates, defaults on loans, asset Liability mismatch etc.

3. Operational Risks which is associated with systems, processes and people and deals with succession planning, human resources, Information technology, control systems and compliance with regulations.

4. Strategic Risks stems from an inability to adjust changes in the environment such as changes in customer priorities, competitive conditions and geopolitical developments.

Also he concludes that the method of classifying risk in not as important as understanding and analysing them. He goes on to state that the nature of uncertainty implies that it is difficult to identify all risks, leave alone classify them. However for the purpose of this research it is necessary to classify and understand risks with reference to Insurance industry.

Basel Norms and Risk Management

Georges Dionne [1] details out the evolution of international bank regulation (Basel).Basel I-1988. The group of the 10 most industrialised countries (G10) signed an accord in 1988 to regulate banks (although it took effect only in 1992). They agreed they must abide by the minimum principles of the agreement. The agreement obliges banks in member countries to hold a minimum amount of required capital to hedge against various risks. The first accord was limited to credit risk. Each bank was required to set aside a capital reserve of 8% of the value of the securities representing the credit risk in its portfolio.

This ratio serves to create a solvency reserve for the bank. The weights used to calculate the average ratio which depend on the risk, were fairly arbitrary in the beginning. They were modified in 2006 and now based on the external credit ratings issued by independent rating agencies. Basel I accord was criticized because it did not consider market risk. It also took a very conservative stance on credit risk because it overlooked the possibilities of risk diversification and 'netting 'of positions.

In 1996, the first reform of Basel I was proposed to take market risk into account, and the use of internal market risk models was permitted using VaR for market risks.

Basel II- 2004: A major reform related to operational and credit risk took place on 2004 and came into force in 2006. The main purpose of the reform was to make capital calculation more risk sensitive. It added capital formulas for credit risk with the internal method (like the credit Metrics model) to take into account diversification of asset portfolios subject to credit risk. In addition capital calculation rules (standard and advanced) were introduced for operational risk.

Credit risk is estimated to comprise 80% of the total risk, 15% operational risk, and 5% market risk. Basel III in 2010: It added new adequate capital rules to protect banks and improve control of liquidity risk. The accord requires even more risk management for banks and increase bank supervision. Chief Risk Officers (CROs) of banks also be more independent from the Chief Executive Officers (CEOs) This Basel III also had an impact on the Insurance Regulator in India in framing his guidelines on corporate governance.

Classification of Risk in Insurance Companies:

Sanket Kawatkar and Heerak Basu [11] stated that there was no single generally accepted classification system for Insurance Company risks. Instead there were attempts by the insurance companies or the supervisory groups around the world adopted different methods for summarising risks in different ways. According to them, in some countries, the supervisory authorities had as integrated risk classification for the Insurance and Banking Industries.

In the Indian scenario, Reserve Bank of India (RBI) [12] vide in their guidelines for the Banking industry suggested the broad categories of risk classification:

1. Credit Risk
2. Market Risk (which includes Liquidity Risk, Interest rate Risk, Foreign Exchange Rate Risk, Commodity Price Risk, Equity Price Risk)
3. Operational Risks

The nature of some of the above risks may differ in Life insurance Companies from those in banks. Also the period for which Life insurer has exposure would be longer than the Banks. Nevertheless the above classification can be used a base or starting point to develop a classification system for Life Insurance Companies.

There are some unique risks peculiar to Insurance companies only, like underwriting risk, Claims Risk, Solvency Risk and Persistency risks all coming under the common roof of Insurance risks.

The best would be to add risks peculiar to Life Insurance Industry under one common category of risks namely 'Insurance Risks' to the above broad classification. Thus it can safely conclude the following broad classification for Life Insurance Companies are

1. Insurance Risk (including Underwriting risk, Mortality risk, Persistency Risk, Claims risk, Solvency Risk, Expense Risk under reserving risk.
2. Market Risk including (Equity Price Risk. Debt Price Risk, Interest Rate Risk,
3. Credit Risk which includes Default Risk, Down gradation Risk which leads to Non- Performing Assets (NPA)
4. Operational Risk including (Information Technology Risk, Process risk, Compliance Risk)

Risk Management and the other Regulators

The Regulators in India other than IRDAI are Reserve Bank of India (RBI) and Securities Exchange Board of India (SEBI) that regulate and control various institutions. Reserve Bank of India (RBI): It acts as a central bank and monitory authority controlling the finances of the Indian economy. It covers Banks, Financial Institutions, Non-Banking Finance Companies, NABARD, SIDBI and NHB. When it comes to Risk Management guidelines, RBI in their guidelines [12] has defined broad parameters of risk management functions covering a) Risk Management structure b) comprehensive risk management approach c) guidelines and other parameters used to govern risk taking including detailed structure of prudential limits etc.

Securities and Exchange Board of India (SEBI): It takes care of the function of controlling capital Markets and covers in its ambit issuer companies, Stock Exchanges, Mutual Funds, Credit rating agencies, Registrars and underwriters, Investment Banks, Depository Participants and Foreign Institutional Investors (FIIs). SEBI [13] under clause 49 of the Listing agreement of stock exchanges has under Board disclosures specified that 'the company shall lay down procedures to inform Board members about the risk assessment and minimisation procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of properly defined frame work.'

Also they have specified in the Management Discussion and Analysis report which forms a part of Annual Report to the shareholders should include 'Risks and concerns' as one of the items.

SEBI also suggested that the company may train its Board members in the business model of the company as well as the risk profile of the business parameters of the company, their responsibilities as directors and the best ways to discharge them. Although it is a welcome sign to have multiple gate keepers for corporate governance according to Kshama V Kaushik and Rewa P Kamboj [14], multiplicity of regulators create problems in inter-regulatory coordination. They also point out there might be problems of overlap, there could be also instances of gaps between or among regulators creating blind spots in regulatory oversight. And this may lead to situation of 'regulatory arbitrage'.

Insurance Legislations in India and Risk Management:

Prior to 1912 India had no legislation to regulate insurance business. In the year 1912, The Life Insurance Companies Act and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary.

But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage. The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over insurance business.

Insurance Act 1938 [15] and Risk Management:

It is one of the most comprehensive act amended time to time to take care current needs. It has addressed the most important risk of a life insurance company namely Solvency Risk by prescribing the minimum capital for new entrants of the private sector after insurance sector opened up in 2000.

Also it has addressed Concentration Risk, Liquidity Risk and Expense Risk and penalties for non-compliance.

Risk Management and Life Insurance Corporation Act. 1956 [16]

The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956 and the Life Insurance Corporation of India was created on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country providing them adequate financial cover at a reasonable cost.

This Act was for monitoring the LIC and taking care of Solvency Risk and Corporate governance of LIC. It also gave a unique status to LIC by giving guarantee by the Central Government of India for payment of Insurance Claims and maturity claims of LIC.

Risk Management and IRDA Act and Regulations:

Once the Insurance sector was open back to private again IRDA Act 1999 and subsequent regulations, circulars and guidelines to bring more focus on the following aspects of Risk Management in a comprehensive way

1. Investment Functions Segregation, Separation of Chief of Finance (CFO) and Chief of Investment (CIO) and Investment Policy to bring in internal controls
2. Investment Risk Management System & Processes: Introduction of Concurrent auditor for checking 100% of the transactions of the investments operations and process and Report of the concurrent Auditor's report once a quarter.

3. Risk Management reporting responsibility on the Appointed Actuary of the Life Insurer: Appointed Actuary made responsible to submit an Appointed Actuaries Annual Report (AAAR) including a separate Chapter on Risk Management.
4. Risk Management Auditor Appointment and Report: Insurers to appoint Risk Management Auditor and submit a report on System and Process related to Investments once in two years.
5. Corporate Governance: Insurers to appoint Chief Risk Officer (CRO) and mandatory committees for corporate governance.

Public Disclosure on the website of Insurers: IRDA vide circular [17] has mandated all insurance companies to publish disclosures on various parameters for improving transparency. IRDA wanted life insurance companies to take necessary action to ensure compliance with public disclosure requirement from the period ending 31st March, 2010.

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