Insurance & Pension Industry - Corporate Governance - Role of Directors Including Independent Directors

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Global Trends:

According to the 'World Insurance in 2015' report published by reinsurance major, **Swiss Re**, the re/insurance industry faced another year of moderate global economic growth in 2015. **The global real gross domestic product (GDP) grew by 2.5%.**

The real global Life and non-life insurance premiums are showing growth by 3.8% in 2015. However, in nominal US dollar terms, premiums were down by 4.2% due to wide-spread currency depreciation against USD.

Insurance Density in the World:

Year	Density (World)
2001	USD 11.5
2010	USD 64.4
2015 (Declining)	USD 54.7

Insurance Density in the World - life insurance business

Year	Density	Penetration
2001	USD 9.1	2.15%
2004	-	2.6%
2010	USD 55.7	2.15% (2009
2015 (Declining trend but slight growth in the yr 2015)	USD 43.2	2.72

Over the last 10 years, the penetration of nonlife insurance sector in the country remained steady in the range of 0.5-0.8 per cent. However, its density has gone up from USD 2.4 in 2001 to USD 11.5 in 2015.

Indian Scenario

Indian Insurance in the global scenario

Source: Swiss Re, Sigma No. 3/2016.

Global - Share of life insurance business premium	55.6%
Global - Life insurance premium growth -2015	4%
Global - non-life insurance premium growth	3.6%
India - share in global life insurance market	2.24% - 2015
India - share in global non - life insurance market	0.75%
India - Share of life insurance business	79%
India - growth in Life insurance premium in 2015	7.8%
India - Share of non- life insurance business	21 %
India - non-life insurance premium growth	8.1%
India - Rank in Life insurance business	10/88
India - Rank in non- Life insurance business	18/88

As per the provisional estimates of Annual National Income, **2015-16** released by Central Statistical Organisation (CSO), Ministry of Statistics and Program Implementation (MOSPI), GOI,

Real GDP or GDP at constant (2011- 12) prices for the year 2015-16 is showing a **growth rate of 7.6 percent** against a growth rate of **7.2 for the previous year 2014-15**.

The real GVA i.e. GVA at basic constant (2011-12) prices for the year **2015- 16** is showing a **growth rate of 7.2 percent against 7.1 percent for the previous year 2014-15**.

Financial, real estate & professional services Contributes – 21.5% to the GVA.

Financial Saving of the Household Sector

Preliminary estimates showed that the household net financial saving rate increased to 7.7 per cent of Gross National Disposable income (GNDI) in 2015-16 from 7.5 per cent in 2014-15 and 7.4 per cent in 2013-14. The improvement reflected a higher rate of increase in gross financial assets in relation to that in financial liabilities.

Insurance penetration and density in India

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium).

Year	Penetration (India)
2001	2.71%
2009	5.20%
2014 (Declining)	3.3%
2015 (Slight increase)	3.44%

Particulars	2014-15	2015-16
Commission Expense Ratio – Life Insurance	5.93%	5.52%
OPERATING EXPENSES RATIO : LIFE INSURERS	11.23	10.57

Non- Life Industry – Premium

Particulars	2014-15	2015-16
total direct premium	84686 crore	96379 crore
public sector insurers exhibited growth	9.20%	13.81%
private general insurers registered a growth	9.62	13.12

List of Number of Insurers in India

Particulars	Number
Re-insurance	**2**
ITI Reinsurance Limited (Private Sector) – New Addition	
Life Insurance	**24**
General Insurance (Non-Life Insurers) - Aditya Birla Health Insurance Co. Limited – New Addition	**30**
Total	**56**

6 are health insurers (Private Sector) exclusively doing health insurance business. (Aditya Birla Health Insurance Co. Limited) is the new addition.

Public sector insurers – 8 (Life insurance – 1, General insurance -6, re-insurers – 1)

Swiss Re:
Swiss Reinsurance Company Ltd, generally known as Swiss Re, is a reinsurance company based in Zurich, Switzerland. It is the world's second-largest reinsurer. It acquired GE Insurance Solutions in 2006. Founded in 1863, Swiss Re operates through offices in more than 25 countries. Swiss Re was ranked 118th in Forbes 2000 Global leading companies 2016. It was also ranked 313th in Fortune Global 500 in 2015 - competitor and industry leader Munich Re: 103th. Munich Re is the top reinsurer in the world.

Regulatory Framework in Different Countries Related to Insurance Business

United Kingdom

Member States of the European Union each have their own insurance regulators. However, the EU regulation sets a harmonised prudential regime throughout the whole Union. As United Kingdom is no longer a part of EU from 23rd June, 2016, the EU regulations are no longer applicable to the country.

Regulatory framework:

- Insurance Act, 2015 with effect from 12th August, 2016,
- The Financial Services and Markets Act 2000 (FSMA) as amended, and
- The Financial Services and Markets Act 2000 (Regulated Activities) Order, 2001 (SI 2001/544) (RAO).

As per the Data released by Association of British Insurers, Key highlights of the Insurance market:

- is the 3rd largest insurance & long term savings industry in the world and largest in the EU
- contribute £29bn to UK GDP
- held £1.9trn Invested assets - equivalent to 25% of the UK's total net worth
- paying nearly £12bn in taxes to the Government.
- 334,000 people employed

Association of British Insurers (ABI)

- Formation – 1985.
- Work - does not sell insurance, works on behalf of UK insurers with government, regulators and policymakers - both in the UK and internationally.
- Members - over 250 member companies accounting for over 90% of the UK insurance market.
- Funded by - members' subscriptions.

Aviva is the largest insurance company in the UK.

Regulatory bodies

From 1 April 2013, the body which regulated the UK financial services industry, the Financial Services Authority (FSA), was replaced by two new regulatory bodies.

- The Prudential Regulatory Authority (PRA) regulates key aspects of the financial strength of a firm. It was created as a part of the Bank of England by the Financial Services Act (2012) and its objectives are set out in the Financial Services and Markets Act, 2000 (FSMA).

- The Financial Conduct Authority (FCA) regulates how these firms behave.

Larger financial services firms, such as banks and insurance providers, are regulated by both of these regulators. Smaller financial services firms, such as financial advisers and asset managers, are regulated only by the FCA.

Financial Ombudsman Service (FOS)

In case of any complaint, against a financial services firm, in the first instance complain can be directly made to the firm, to which they are bound to respond to within 8 weeks.

If the complaint is not addressed properly, then the option to complaint to the FOS is also available. The FOS is an independent body which aims to settle complaints between consumers and businesses providing financial services. There is no charge to the consumer for using this service.

Financial Services Compensation Scheme (FSCS)

It is an independent body. It is the compensation scheme of last resort if the firm cannot pay claims made against it depending on the type of business and the circumstances of the claim. There is no charge to the consumer for using this service.

Money Advice Service (MAS)

It is an independent body set up by government to help people make the most of their money which provides free, unbiased money advice to everyone across the country.

United States of America

Historically, US insurance and reinsurance companies were solely regulated at the state level. In 1944, however, a US Supreme Court decision raised doubts about state-level insurance regulation. In response to that McCarran-Ferguson Act was enacted in 1945.

Since passage of the McCarran-Ferguson Act, regulation of insurance and reinsurance companies is primarily performed at the state level. In February 2010, the House voted 406-19 to repeal the McCarran–Ferguson Act with regard to health insurance.

Each State in the country has its own legislature in respect of insurance sector.

Regulatory Bodies:

- **USA Federal Reserve Bank**
- **The Federal Insurance Office (FIO)**

It was established by Title V of the federal Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank). The FIO is housed within the U.S. Department of the Treasury and is headed by a director who is appointed by the secretary of the Treasury.

The FIO's authorities extend to all lines of insurance other than health insurance, long-term care insurance (except that which is included with life or annuity insurance components) and crop insurance, which is governed by the Federal Crop Insurance Act. The FIO does not have supervisory or regulatory authority over the business of insurance. The FIO is charged with monitoring all aspects of the insurance sector, including identifying activities within the sector that could potentially contribute to a systemic crisis to the broader financial system, the extent to which under-served communities have access to affordable insurance products, and the sector's regulation.

In order to carry out these functions, the FIO is authorized to receive and collect data and information on the insurance industry and can enter into information sharing agreements with state regulators.

- **National Association of Insurance Commissioners**

It is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S. It was set up with following objectives:

1. Protect the public interest;
2. Promote competitive markets;
3. Facilitate the fair and equitable treatment of insurance consumers;
4. Promote the reliability, solvency and financial solidity of insurance institutions; and
5. Support and improve state regulation of insurance.

Various Committees of NAIC:

- Executive (EX) Committee
- Internal Administration (EX1) Subcommittee
- Life Insurance and Annuities (A) Committee
- Health Insurance and Managed Care (B) Committee
- Property and Casualty Insurance (C) Committee
- Market Regulation and Consumer Affairs (D) Committee
- Financial Condition (E) Committee
- Financial Regulation Standards and Accreditation (F) Committee
- International Insurance Relations (G) Committee
- NAIC/Consumer Liaison Committee
- NAIC/Industry Liaison Committee
- NAIC/State Government Liaison Committee

- SERFF Advisory Board

Canada

Over the past several years, Canadian life insurance companies have made significant progress in their governance and oversight processes to better identify, measure, manage and price their risk-taking activities.

Regulatory Bodies:

1. Office of the Superintendent of Financial Institutions:

It is an independent federal government agency that regulates and supervises more than 400 federally regulated financial institutions and 1,200 pension plans to determine whether they are in sound financial condition and meeting their requirements. Federally regulated financial institutions includes, all banks, trust, loan companies, insurance companies, cooperative credit associations, fraternal benefit societies and private pension plans.

Office of the Chief Actuary:
The Office of the Chief Actuary is an independent unit housed within OSFI that provides a range of actuarial valuation and advisory services to the federal government.

2. The Financial Institutions Commission of British Columbia (FICOM):

It is a Vancouver-based regulatory agency of the British Columbia Government established in 1989 with five pillars of responsibility namely, pension plans, real estate, mortgage brokers, financial institutions (including credit unions, insurance and trust companies) and the Credit Union Deposit Insurance Corporation.

3. Insurance Bureau of Canada (IBC):

Established in 1964, it is the national industry association representing Canada's private home, auto and business insurers.

Its member companies represent 90% of the Canadian property and casualty (P&C) insurance market. IBC works on a number of fronts to increase public understanding of home, auto and business insurance.

4. The Autorité des marchés financiers (AMF)

It is the body mandated by the government of Québec to regulate the province's financial markets and provide assistance to consumers of financial products and services. It was established under an Act respecting the Autorité des marchés financiers on February 1, 2004.

It distinguishes itself by virtue of its integrated regulation of the Québec financial sector, notably in the areas of insurance, securities, derivatives, deposit institutions (other than banks) and the distribution of financial products and services.

Regulatory Framework

- Office of the Superintendent of Financial Institutions Act and regulations made thereunder.
- Insurance Companies Act and regulations made thereunder.
- Pension Benefits Standards Act, 1985 and Regulations made thereunder

PART – 1: Global Scenario

Recent Trends:

The latest trends of investment in pension fund around the globe show a slight decline. As the Investment in 2015 – USD 24.8 trillion and 2014 - USD 25.2 trillion.

However, when pension fund investments are expressed in national currency, they grew in all countries in 2015, with the exception of Denmark, Luxembourg, Poland and the United States. The overall decline in total OECD pension fund investments is largely driven by the decline in the United States, which represented 58% of all pension fund investments in the OECD area. In addition, the growth rate of pension fund investments was below 2% in Japan, the Netherlands and the United Kingdom, representing altogether a further 22% of investments within the OECD area.

The relative fall of pension fund investments may be explained by low real net investment returns in 2015, coupled with the strengthening of the US dollar vis-à-vis other major currencies.

Real net investment returns were low in 2015, with a weighted OECD average at 0.4%. These low real net returns help explaining the relative fall in OECD pension fund investments. Preliminary real investment rates of return ranged from positive values, peaking at 7.1% in the Netherlands, to negative values, down to -5.9% for Turkey's personal plans. Twenty-two countries witnessed positive investment rates of return, but lower than 2% for eight of them. Three OECD countries had negative returns in 2015: Poland, Turkey and the United States which dragged the OECD weighted average close to zero.

Regulatory framework for Pension in Different Parts of the World

United Kingdom

The UK State Pension system is composed of:

1) **the Basic State Pension** –

a flat-rate payment that requires a contribution record of 44 years to receive full benefits.

2) **the State Second Pension (S2P)**

replaced the old State Earnings (Related Pension Scheme) in order to provide a more generous additional state pension for low and moderate income earners.

3) **the Pension Credit.**

In UK, the concept of pension business, in section 431B ICTA, was introduced in the Finance Act 1956, which was introduced as a tax-advantaged way of saving for retirement. The tax advantage comes through taxing it on a trading profit basis rather than on an I minus E basis. The precise definition of what it constitutes is closely defined by statute so that only schemes approved by the Government qualify for the tax advantages. Pension business includes business relating both to the accrual of pension benefits whilst the policy holder is working and pensions in payment. Pension business includes reinsurance of pension business.

Background to Pensions: Lifetime allowance: There is a limit on the value of retirement benefits that one can draw from the approved pension schemes before tax penalties apply. That limit is called the lifetime allowance.

The previous system was replaced by a universal lifetime allowance on the aggregate value of tax-favored benefits, with a universal maximum accrual in every year.

Canada

While in Canada, pension system is mainly composed of public and private pension schemes. Approximately half of all Canadians rely exclusively on the public pension system, which is made up of two tiers: Tier 1 is a flat-rate pension from the Old Age Security program, and Tier 2 is an earnings-related pension from the mandatory Canada Pension Plan (CPP).

The third tier of Canada's retirement income system is made up of voluntary pension savings. Voluntary employer-sponsored pension plans are formally known as Registered Pension Plans (RPPs).

Australia

Australia has a three-pillar pension system. The first, public pillar, is composed of a means-tested, tax-financed Age Pension that provides basic benefits. The second pillar forms the backbone of the Australian pension system, and is made up of funded individual pension accounts provided by superannuation funds.

Public Pensions

Australia's state pension system operates on a non-contributory basis and is financed by general tax revenues. The Age Pension provides means-tested benefits for men over 65, but at different ages for women, based on their date of birth. By 2014, however, the age limit will be set at 65 for both men and women.

Occupational Pensions

Australia introduced compulsion in 1992, when it made contribution into the superannuation fund system mandatory for all employees older than 17 and younger than 70 earning more than $450 (AUD) a month.

Personal pensions

Retirement savings accounts (RSAs) are low-cost pension schemes offered by deposit-taking institutions or life insurance companies. They operate under the same tax rules as superannuation accounts.

PART – 2: Indian Scenario

The pension sector plays an important role in the growth of the economy. It is a scheme under which retirement benefits accrue and are distributed to the beneficiary employees. India's pension sector is very important for the growth of the country's economy since pension funds can support funding of long-term infrastructure projects, bring stability in capital markets and help its elderly population to be financially independent.

Pension fund nominal and real 5-year average annual returns:
Nominal – 8.2%
Real – 0.6%
Ranking – 7/20 (selected non-OECD countries)

Total investment of pension funds in the selected non-OECD countries, in millions

Year	2010	2011	2012	2013	2014	2015
Investment (National Currency)	150,000	151,696	298,540	422,047	726,098	1,078,020
Investment (USD)	3,347	2,848	5,450	6,819	11,465	16,253
Investment (% of GDP)	0.2	0.2	0.3	0.4	0.6	0.8
nominal net rate of investment returns	-	3.7	11.2	2.8	17.7	6.4
real net rate of investment returns	-	-2.6	0.0	-6.8	12.8	0.7
Variation of end-of-year consumer price index	9.5	6.5	11.2	10.3	4.3	5.6
Share in	-	0.0	7.2	-	-	-

equities						
Share in bills and bonds	-	37.0	34.7	-	-	-
Share in cash and deposits	-	5.7	3.1	-	-	-
Share in the "other" category	-	57.3	55.0	-	-	-
Source - PENSION MARKETS IN FOCUS, OECD 2016						

Evolution of Pension System

The British started the pension system in India after the Indian struggle for independence in 1857. This was the reflection of the pension scheme then prevailing in Britain. But the provisions of this system discouraged the employees for creating a financial cover for their post-retirement life. So, confronting to all these problems, the Indian Pension Act 1871 replaced the Pension System of 1857.
After that, temporary increases were done regularly in pension to compensate the increasing prices, and the concept of dearness allowance came in the light to satisfy the pensioners. But, like in most developing countries, there was no universal social security system to protect the elderly against economic deprivation.

The Royal Commission on Civil Establishments, in1881, first awarded pension benefits to the government employees. The Government of India Acts of 1919 and 1935 made further provisions. These schemes were later consolidated and expanded to provide retirement benefits to the entire working population of the public sector.

Legislative Development

1. India Pension Act introduced in 1871.
2. Liberalized Pension Rules 1950 had provided DCRG/family pension for restricted

period. ½ rd. commutation of pension amount was allowed and provision of nomination.

3. Family pension scheme introduced w.e.f. 1-1-1964 (reducing 2 months DCRG)
4. Provision of Medical Aid introduced through CGHS in 1985.
5. Formation of SCOVA (Standing Committee of Voluntary Agencies) in 1986.
6. Formation of Central Administrative Tribunal in 1985 for Central Govt. Pensioners to get their grievances solved through it.
7. Grant of ex-gratia payment to widows of CPF Retirees in 1986
8. Initiation of Pension Reforms. Establishment of PFDRA
9. 50% Dearness Relief merged with basic Pension w.e.f. 1-4-2004, named as Dearness Pension.
10. Introduction of Defined Contribution under New Pension Scheme.
11. Extension of Defined Contribution to all citizens in 2009.
12. In 2013, The Pension Fund Regulatory and Development Authority Act, 2013 was introduced.

Pension Fund registered u/s 27 of Pension Fund Regulatory and Development Authority Act, 2013 read with Pension Fund Regulatory and Development Authority (Pension Fund) Regulations, 2015 are:

S. No.	**Name**
Pension Funds (PFs) for Government Sector	
1	LIC Pension Fund Limited
2	SBI Pension Funds Pvt. Ltd
3	UTI Retirement Solutions Ltd
Pension Funds (PFs) for Private Sector	
1	HDFC Pension Management Co. Ltd.
2	ICICI Prudential Pension Fund Management Co. Ltd.
3	Kotak Mahindra Pension Fund Ltd. LIC Pension Fund Ltd.
4	Reliance Capital Pension Fund Ltd.
5	SBI Pension Funds Pvt. Ltd
6	UTI Retirement Solutions Ltd
7	Birla Sun Life Pension Management Ltd (Yet to commence)

Pension System in India

1. Public Pensions

Public pensions comprise a limited safety net for the needy elderly population, two pension schemes for civil servants and the New Pension System, which replaces the civil servants' schemes for new entrants. In addition, employees in the public and private sectors with more than five years of tenure receive a gratuity upon retirement or if they leave the company before retirement. This gratuity is paid by the employer.

2. Social security

The National Old Age Pension scheme was introduced in 1995 and is part of the National Social Assistance Programme. It aims to expand the social safety net for the poor.

3. Central Civil Service Pension Scheme/Civil Service Provident Fund

The Central Civil Service Pension Scheme and the Civil Service Provident Fund are mandatory schemes for civil servants that were established in 1972 and 1981, respectively. Both schemes are now only available to existing central government employees.

4. New Pension System

The New Pension System, a defined contribution scheme, was introduced in 2004 and has since covered new entrants to the central government's civil service. An exception is armed forces personnel, which is not in the scope of the New Pension System.

5. Employees' Provident Fund Organization

The mandatory pension scheme for the private sector is managed by the Employees' Provident Fund Organization (EPFO). It was set up in 1952 and covers employees in 181 specified economic sectors at firms with more than 20 employees. It is part of the central government's Labour Ministry and administers and regulates all employee benefits, while outsourcing the management of the scheme's assets to fund managers.

Regulator & Ministries under Pension system

1. **Pension Fund Regulatory Development Authority- http://www.pfrda.org.in/**

The Pension Fund Regulatory & Development Authority Act was passed on 18th September, 2013 and the same was notified on 1st February, 2014. PFRDA is regulating NPS, subscribed by employees of Govt. of India, State Governments and by employees of private institutions/organizations & unorganized sectors.

2. **Ministry of Personnel, Public Grievances and Pensions- http://persmin.nic.in**

The Department of Pension & Pensioners' Welfare is the nodal department for formulation of policies relating to pension and other retirement benefits of Central Govt. employees covered under CCS (Pension) Rules, 1972 Apart from formulation of pension policy for the Central Govt. Pensioners/Family Pensioners, it also seeks to promote pensioner's welfare and serves as a forum for the redressal of Pensioners' grievances.

3. **Standing Committee of Voluntary Agencies (SCOVA)**

On the recommendations of Parliamentary Consultative Committee, DoPPW constituted a Standing Committee of Voluntary Agencies (SCOVA) in 1986. SCOVA consists of 15 Non-official members (5 Standing Group and 10 Rotating Group Members) represented by the Pensioners Associations from various Ministries/Departments/Regions/States etc. Official Members are representatives of various Ministries/Departments of Government of India. It is a useful forum for holding consultation with the stakeholders i.e the pensioners through their Associations and concerned Ministries/Departments. It provides the Associations an opportunity for raising their issues concerning pensioners' welfare etc. directly before the concerned Ministries/Departments.

Regulatory & Policy Framework

Pension reforms in India — recommendations for the pension sector

1. Project OASIS Committee Report, 2000
2. Pensions Reforms in the Unorganized Sector — IRDA Report, 2001
3. Report of the High-Level Expert Group on New Pensions System, Government of India; P. Bhattacharya Report, 2002

1) The OASIS report

The Oasis report was mainly based on the Multi-Pillar System for pension scheme formulations recommended by the World Bank. The system consists of three pillars, two of which are mandatory and one is voluntary. The system defines Pillar-I for social insurance, which will be publicly managed and, tax financed. Pillar-II for old age savings is fully funded and privately managed, and Pillar-III is voluntary for people wanting more protection for their retirement savings.
The first pillar, based on the concept of social Insurance, is akin to public pension plans. It is completely financed by the state and is a safety blanket, especially for the old and poor, whose lifetime income is inadequate for a comfortable retirement, by providing basic security needs. The second pillar is privately managed in a competitive manner and requires mandatory savings for old age by people, and the benefits are actuarially linked to their contributions. The third pillar, which incorporates annuities and voluntary savings, helps in building additional income for old-age.

2) The IRDA Committee

The IRDA report identified some key reasons for reforms in the Indian pension system in the non-government sector:

- The growing burden of civil service pensions
- Measures needed to meet the pension liabilities of state-owned enterprises

- Liberalization of the insurance sector and entry of potential players that can offer pension products
- Recognition of the need for reforms in the functioning of EPFO

The report also defined a fiduciary relationship of "principle" and "agent" for employers and fund managers, in which fund managers work for a fee with no performance-related guarantee, given that skill and a variety of investment options would be better for participants than publicly managed funds. The Government is advised to provide a tax subsidy for private funds to be accepted. The suggested tax measures are increasing entitlement of contributions toward pension for tax rebate of up to INR 80,000 and providing for tax exemption on the income earned by pension funds, "commute" value and annuity amounts received as pension.

3) The Bhattacharya Report

The report of the High-Level Expert Group on the New Pension System of the Government of India elaborated on the requirement for reforms in the Indian pension system for government employees. It made a strong recommendation against the pure defined contribution scheme, which it describes as unsuitable for government employees. Instead, a hybrid defined benefit/defined two-tier contribution scheme was recommended, in which the first tier consists of a mandatory contribution of 10% by the employer and employee, with the accumulated funds being used to pay pensions in the form of an annuity. The second tier is to promote personal savings, and there is no limit for an employee's contribution, but an employer's contribution would match it and be limited to 5%.

The Pension Fund Regulatory and Development Authority Act, 2013

The Act gives a statutory status to the PFRDA and aims to address apprehensions relating to safety and yield under the NPS. It was passed by the Parliament on 18th September, 2013.

Applicability

It applies to the following pension schemes:

a) The National Pension System
b) Any other pension scheme that is not regulated by any other enactment

Schemes that are not covered under the PFRDA Act:

1. The Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948
2. The Employees' Provident Funds and Miscellaneous Provisions Act, 1952
3. The Seamen's Provident Fund Act, 1966
4. The Assam Tea Plantations Provident Fund and Pension Fund Scheme Act, 1955
5. The Jammu and Kashmir Employees' Provident Funds Act, 1961

<u>Risks associated with pension and annuity contracts:</u>

1. **Market risk**

A key feature of the product design is its inherent exposure to market risk. Market risk can be decomposed into so-called systematic market risk and non-systematic risk or basis risk. Basis risk relates to the extent to which the underlying managed funds do not perfectly track market indices, while systematic covers the risk of indices and other market variables that are moving adversely.

2. **Credit risk**

Implementation of a hedging program would involve employment of a range of derivative and structured instruments. This would introduce exposure to a range of counterparties that will need to be managed. This is in addition to the credit risk component of exposure to "defaultable" bonds in underlying product investments.

3. **Longevity/ mortality risk**

The various types of pension and annuity products that can be offered generally include some element of mortality or longevity risk exposure. Exposure to mortality risk would typically be relatively straightforward to manage, although this is somewhat complicated by the fact that the level of exposure varies with market levels.

A significant fall in market levels could lead to a material increase in exposure to mortality. There is also the risk of selective lapse behavior in such circumstances, with less healthy customers retaining their contracts to benefit from increasingly valuable life benefits.

Longevity risk is relevant for annuity plans, but this is an area of uncertainty for India because of its limited experience in mortality-related improvements.

A variety of reinsurance strategies may be available to mitigate these risks, and triggers and thresholds should be put in place to prompt a review of the risk management strategy.

4. Interest rate risk

Pension and annuity contracts are priced assuming a certain rate of interest. There is a risk that the actual rate may be different from the assumed one. This risk can be minimized by resetting annuity contract periods or guaranteeing annuity rates for a limited period. Risk can also be reduced by using interest rate futures.

5. Asset-allocation risk

Unit-linked pension and annuity contracts allow customers to make their selection from a range of different funds, which may have diverse asset allocation mixes. Pricing is based on assumed average allocation. There is a risk to a company if its actual mixes of selected funds differ from the assumptions. The risk can be reduced by limiting the range of funds and or introducing the policy clauses, which allow a company to change the asset mix if volatility increases.

This is limited in conventional annuity contracts as this is specified in the investment mandate and is approved by the board.

6. Operational risk

These risks include model and pricing risk. This becomes more significant when the hedging program is put in place by a company. This is likely to introduce a range of complex exposures to market risk and interaction between market and behavior risk that does not exist in other products.

7. Pricing risk

The long-term profitability of a product will depend on a wide range of assumptions within pricing models. In practice, experience will differ from these assumptions and profitability may turn out to be less than expected.
The complexity of a product increases the risk of model errors or of results being more sensitive to pricing assumptions than expected.

The business of insurance aims to protect the economic value of assets or life of a person. It involves collection of money from various Policyholders, investing them properly, honouring the obligations of the Policyholders and providing an efficient service. It is important to ensure that the entities providing these services stick to their commitments. Failure to honour commitments by such entities could have major repercussions on the financial services industry.

The history of Insurance business in India is more than more than 200 years old. In order to regulate the segment, the Government has enacted the Insurance Act, 1938, which broadly provides the ground rules for the operating insurance companies in India. However, the sector has begun opening up in the early 1990s and the last two decades and more has seen it been opened up substantially. Presently, there are 29 general insurance companies and 24 life insurance companies operating in the country.

The Government of India, in the year 1993, set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994. Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry and to protect the interests of holders of insurance policies. The IRDA was incorporated as a statutory body in April, 2000. Beside IRDA Act and Insurance Act, 1938, there are some common Act/Regulation to the General and Life Insurance Business in India and some Acts have been made for specific requirement of Life Insurance/General Insurance

Acts governing the life insurance business in India

S. No.	Name of the Act
1)	LIC Act, 1956
2)	Amendments to LIC Act

Acts regulating the Insurance Business in India

S. No.	Name of the Act
1)	The Indian Contract Act 1872
2)	Insurance Act, 1938
3)	IRDA Act, 1999
4)	Insurance Amendment Act, 2002
5)	Foreign Exchange Management Act, 1999 (FEMA)
6)	Insurance Co-op Society
7)	Indian Stamp Act, 1899
8)	Consumer Protection Act, 1986
9)	Insurance Ombudsman

The following Acts affect, circumscribe or regulate in some way or the other, some aspect of the General Insurance Business in India.

S. No.	Name of the Act
1)	General Insurance Business Nationalization Act, 1972
2)	Amendments to GIN Act, 1972
3)	Multi-Modal Transportation Act, 1993
4)	Motor Vehicles Act. 1988
5)	Inland Steam Vessels Amendment Act, 1977
6)	Marine Insurance Act, 1963
7)	Carriage of Goods by Sea Act, 1925
8)	Merchant Shipping Act, 1958
9)	Bill of Lading Act, 1855
10)	Indian Ports (Major Ports) Act, 1963
11)	Indian Railways Act, 1989
12)	Carriers Act, 1865
13)	Indian Post Office Act, 1898
14)	Carriage by Air Act, 1972
15)	Workmens' Compensation Act, 1923
16)	ESI Act, 1948
17)	Public Liability Insurance Act. 1991
18)	Consumer Protection Act, 1986

Indian Contract Act, 1872

The Indian Contract Act, 1872, sets forth the basic requirements of a Contract. As per Section 10 of the Act:

"All agreements are contracts if they are made by the free consent of parties competent to contract, for a lawful consideration and with a lawful object, and are not hereby expressly declared to be void…..".

An Insurance policy is also a contract entered into between two parties, viz., the Insurance Company and the Policyholder and fulfills the requirements enshrined in the Indian Contract Act such as (a) proposal, (b) acceptance (c) consideration, (d) competence to contract, (e) consent of the parties (f) lawful object, (g) Agreement must not be restraint of trade or legal proceedings, (h) Agreement must be certain and not be a wagering contract.

Principle of *Uberrimae fidei* (a Latin phrase), or in simple English words, the Principle of Utmost Good Faith, is a very basic and primary principle of insurance.

- Both the parties i.e. the insured and the insurer should have a good faith towards each other.
- The insurer must provide the insured complete, correct and clear information of subject matter.
- The insurer must provide the insured complete, correct and clear information regarding terms and conditions of the contract.
- This principle is applicable to all contracts of insurance i.e. life, fire and marine insurance.

Insurance Act, 1938

The Insurance Act, 1938 has been segregated into five parts

1. **Part I: (Section 1 to Section 2B)**

Part I of Insurance Act, 1938 deals with Definitions, interpretation of Certain Words and expressions and Appointment of Authority in India

2. **Part II: (Section 2C to Section 64)**

Part II of Insurance Act contains provisions relating to:
(a) Insurers (Section 2 C to Section 26)
(b) Investment, Loans and Management (Section 27 to Section 32C)
(c) Investigation (Section 33)
(d) Appointment of Staff (Section 33A to Section 34)
(e) Control over Management(Section 34A to Section 34H)
(f) Amalgamation and Transfer of Insurance Business (Section 35 to Section 37A)
(g) Assignment or Transfer of Policies and Nominations (Section 38 to Section 39)
(h) Commission and Rebates and Licensing of Agents (Section 40 to Section 44A)
(i) Special Provisions of Law (Section 45 to Section 52)
(j) Management by Administrator(Section 52 A to Section 52G)
(k) Acquisition of the Undertakings of Insurers in certain cases(Section 52H to Section 52N)
(l) Winding up(Section 53 to Section 61)
(m) Special Provisions relating to External Companies(Section 62 to Section 64)

PART II A (Section 64A to Section 64T)

PART II A contains provisions relating to Insurance Association of India, Council of the Association and Committees thereof (Section 64 to Section 64T)

PART IIB (Section 64U to Section 64UM)

PART II B contains provisions relating to TARIFF ADVISORY (Section 64U to Section 64UM)

PART IIC (Section 64 V to Section 64VC)

PART II C contains provisions relating to Solvency Margin, Advance Payment of Premium and Restrictions on the Opening of A New Place of Business

3. **PART III (Section 65 to Section 94)**

Part III contains provisions relating to Provident Societies

PART IIIA (Section 94A)

Part III A contains provisions relating to Insurance Co-Operative Societies

4. **PART IV (Section 95 to Section 101)**

Part IV contains provisions relating to Mutual insurance Companies and cooperative life insurance societies

PART IVA (Section 101A to Section 101C)

Part IV A contains provisions relating To Re-Insurance

5. **PART V (Section 102 to Section 120)**

Part V contains provisions relating to miscellaneous matters

Some Important Provisions of Insurance Act 1938

a) Only Companies formed and registered under the Companies Act 2013, whereunder the foreign equity is not more than 49%, are allowed (IRDA allows only Public limited companies).
b) Every insurer who proposes to do insurance business has to register with IRDA and obtain a licence before they start doing insurance business.
c) Every insurer carrying on insurance business shall have a minimum paid up equity capital of Rs.100 Crores for life insurance, general and health insurance business and Rs.200 crores for an insurer carrying on reinsurance business.
d) The capital of an insurance company shall consist of only Equity Share capital and no other forms of capital are allowed.
e) The Act also provides for restrictions on transfer of shares in an insurance company.
f) Section 7 mandates that every life insurance company shall maintain a sum equivalent to 1% of the total gross premium written in India in any financial year, but not exceeding Rs. 10 Crores with the Reserve Bank of India in the form of Cash or approved securities. In respect of general insurance business, a sum equivalent to 3% of the total gross premium written in India in any financial year, but not exceeding Rs.10 Crores is required to be

maintained. For reinsurance companies, a flat sum of Rs. 20 Crores has been prescribed.

g) Separate books of account are required to be maintained for each class of business. The forms provided in Schedules to the Companies Act, 2013 is not applicable to Insurance companies as they are required to follow the forms prescribed under the IRDA Regulations.

h) Apart from the regular financial statements, the companies are required to maintain the following documents in respect of each class of insurance:
    i) Record of Cover notes specifying the details of the risk covered
    ii) Record of policies
    iii) Record of premiums
    iv) Record of endorsements
    v) Record of Bank guarantees
    vi) Record of claims
    vii) Register of agency force and business procured by each with details of commission
    viii) Register of employees
    ix) Cash Books
    x) Reinsurance details
    xi) Claims register

i) Section 12 provides for audit of the financial statements shall be audited by an auditor. Detailed guidelines have been framed by IRDA on the qualifications of persons who can be appointed as Statutory Auditors of the Company.

j) Section 13 requires investigation of financial condition of the life insurance business carried on by an actuary.

k) The Act provides for the manner and the limit of investments to be made by the Insurance Companies. Investments in the shares or debentures of a Private Limited Company and investments out of Policyholders funds outside India are prohibited.

l) The Act requires every insurer to undertake such minimum percentage of the insurance business for covering risks associated with persons forming part of rural or social sector, workers in the unorganized or informal sector or economically vulnerable or backward classes of society or such classes as prescribed by IRDA.

m) An insurance company needs to have a Chief Executive Officer who is also the Principal Officer of the Company. He is normally on the Board of

Directors of the Company and designated as the Managing Director. Some insurance companies appoint Executive or Whole Time Directors who hold some functional responsibilities in the Company.

n) The appointment of all such positions – i.e. Managing Director, Chief Executive Officer, Principal Officer, Whole Time Director or Executive Director require the prior approval of IRDA.
o) Section 48B prohibits common directors between two life insurance companies.
p) The ceilings of compensation for Insurance Agents / Brokers are also provided for insurance companies which have completed 10 years as per details below :

(a) 35% of the premiums paid (40% for insurance companies which have not completed 10 years of existence) on the first year of an insurance policy, 7.5% for each of the second and third policy years and 5% for subsequent policy years

(b) For single premium annuity policies, the commission rate is 2% of the single premium paid

(c) For regular premium deferred annuity policies, the commission rate shall not exceed 7.5% of the first year's premium and 2% for each of the renewal premiums

q) The Act empowers IRDA to make a report to Central Government if the affairs of a Life insurance Company are carried on in any manner prejudicial to the interests of policyholders.
r) Every insurance company is required to take a approval in advance in IRDA for opening any place of business or for relocation of an existing place of business outside the same city, town or village.
s) The Central Government may at any time direct the Controller or any other person by order, to investigate the affairs of any insurer and report to the central government.
t) IRDA has the power to impose penalty on Insurance Companies for default in complying with the provisions of the Act.
u) Appeals against the orders of IRDAI are to be preferred to SAT as the amended Law provides for any insurer or insurance intermediary aggrieved by any order made by IRDAI to prefer an appeal to the Securities Appellate Tribunal (SAT).

In addition to above the Insurance Companies are also required to comply with the requirement of the Rules, Regulations & Guidelines issued by IRDA from time to time.

Insurance Regulatory and Development Authority of India Act, 1999 (IRDA Act)

After liberlisation and entrance of Private players in Insurance business and seeing the large numbers of customers and high risk potential, Government of India constituted the Insurance Regulatory and Development Authority (IRDA) in the year 1999.

The members of the IRDA are appointed by the Central Government from amongst persons of ability, integrity and standing who have knowledge or experience in life insurance, general insurance, actuarial science, finance, economics, law, accountancy, administration etc. The Authority consists of a chairperson, not more than five whole-time members and not more than four part-time members. Every Chairperson and member of IRDA appointed shall hold office for a term of five years. However, Chairperson shall not hold office once he or she attains 65 years while whole time members shall not hold office beyond 62 years.

Under Section 14 of the IRDA Act, IRDA has the following powers:

a) Issue of Certificate of Registration to insurance companies, renew, modify, withdraw, suspend or cancel the certificate of registration
b) Protection of interests of policyholders in matters concerning assignment of policies, nomination, insurable interest, claim settlement, surrender value and other terms and conditions of insurance contract
c) Specification of requisite qualifications, practical training and code of conduct for insurance agents and intermediaries
d) Specification of code of conduct for surveyors and loss assessors
e) Promoting efficiency in the conduct of insurance business
f) Promoting and regulating professional organizations connected with insurance and reinsurance business
g) Levying fees and other charges for carrying out the purposes of the Act
h) Calling for information from or undertaking inspection of insurance companies, intermediaries and other organisations connected with insurance business

i) Control and regulation of rates, advantages, terms and conditions that may be offered by general insurance companies
j) Specifying the form and manner in which books of account shall be maintained by insurance companies and intermediaries
k) Regulation of investments of funds by insurance companies
l) Regulation of maintenance of margin of solvency
m) Adjudication of disputes between insurers and insurance intermediaries
n) Supervising the functioning of Tariff Advisory Committee
o) Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations
p) Specifying the percentage of insurance business to be undertaken by insurers in rural or social sectors
q) Such other powers as may be prescribed.

FRAMEWORK UNDER

Motor Vehicles Act, 1988

This Act makes it mandatory for the owner of any motor vehicle to obtain, at the minimum, a policy from any General insurance company holding a valid licence from IRDA, which covers the risk of death or bodily injury to third party or damage to any property of a third party arising out of usage of the vehicle in a public place.

The only evidence of the existence of a valid insurance as required by the Motor Vehicles Act acceptable to the police authorities and R.T.O. is a certificate of insurance issued by the insurers.

Where a person holding a Certificate of insurance for a motor vehicle, transfers the ownership of the vehicle to another person, the certificate of insurance and the policy described in the certificate shall be deemed to have been transferred in favour of the person to whom the motor vehicle is transferred with effect from the date of transfer.

For speedy disposal of third party claims and at a minimum cost, the Claims Tribunals have been constituted by different State Governments.

Marine Insurance Act, 1963

The consignment is exposed to the perils associated with transportation through sea and hence requires an insurance cover against sea perils such as tempest

which could result in damage to the ship as well as the goods consigned. A Marine insurance can cover the land as well as the sea risks
associated with the goods transported.

Public Liability Insurance Act, 1991

This Act provides for mandatory public liability insurance for installations handling hazardous substances to provide minimum relief to victims of accidents, other than employees. The Act imposes no fault liability, i.e. irrespective of any wrongful act, neglect or default on the owner to pay relief in the event of (a) death of or injury to any person (other than workman) or (b) damage to property of any person arising out of accident while handling any hazardous substance.

Employer's Liability Policy

This is also known as the Workmen's Compensation Insurance. The policy protects the employers against their legal liability for payment of compensation arising as a result of death of disablement of the employees arising out of and in the course of employment. The policy provides indemnity against legal liability under the Workmen's Compensation Act, Fatal Accidents Act and Common Law.

Insurance Ombudsman

The Governing Body of the Insurance council shall consist of representatives of each of the insurance companies, which shall ordinarily be the Chairman or the Managing Director or one of the Directors of the insurance companies. The Governing body shall appoint one or more persons as Ombudsman for the purpose of resolving insurance disputes. Any person who has a grievance against the insurer may himself or through the legal heirs make a complaint in writing to the Ombudsman within whose jurisdiction the branch or office of the insurer complained against is located.

An Ombudsmen is empower to entertain the following disputes:

a. A complaint as specified under Rule 13
b. Partial or total repudiation of claims by an insurer
c. Dispute with regard to the premium paid or payable in terms of the policy

d. Dispute on the legal construction of policies with regard to claims
e. Delay in settlement of claims
f. Non-issuance of any insurance document to customers after receipt of premium

General Insurance Business Nationalisation Act, 1972

The object of the Act was primarily,

i. To provide for the acquisition of the shares of the existing general insurance companies
ii. To serve the needs of the economy by development of general insurance business
iii. To establish the GIC by the central government under the provisions of the Companies Act of 1956, with an initial authorized share capital of seventy – five crores
iv. To aid, assist, and advise the companies in the matter of setting up of standards in the conduct of general insurance business
v. To encourage healthy competition amongst the companies as far as possible
vi. To ensure that the operation of the economic system does not result in the concentration of wealth to the common detriment.
vii. To ensure that no person shall take insurance in respect of any property in India with an insurer whose principal registered office is outside India
viii. To carry on of any part of the general insurance business if it thinks it desirable to do so
ix. To advice the companies in the matter of controlling their experience and investment of funds.

Consumer Protection Act, 1986

Consumer Protection Act is an act of Parliament enacted in 1986 to protect interests of consumers in India. Consumer means any person who buys goods or avails services for consideration. Services under this Act, includes insurance service as well. A complaint may be filed by the consumer to whom the goods are sold or services are provided, for the fault, imperfection or a shortcoming in the quality quantity, potency, purity or standards of goods or services, which is required to be maintained by or under any law for the time being in force. A complaint may be filed at District Consumer Disputes Redressal Forum or State Consumer Disputes Redressal Forum or National Consumer Disputes Redressal Forum depending on the eligibility criteria.

Indian Stamp Act, 1899

Stamp duty payable on insurance policy is governed by the Indian Stamp Act, 1899. The Schedule 1 to the Indian Stamp Act, 1899 lays down the manner of calculation of stamp duty on insurance policy. If a policy of insurance is renewed or otherwise modified whereby the sum insured exceeds the sum previously insured, duty is payable on the excess sum, so insured.

Unit -3
Features of Insurance Industry

Insurance is a valuable risk-financing tool. Few organizations have the reserves or funds necessary to take on the risk themselves and pay the total costs following a loss. Purchasing insurance, however, is not risk management. A thorough and thoughtful risk management plan is the commitment to prevent harm. The insurance has the following features which are, generally, observed in case of life, marine, fire and general insurances.

1. Sharing of Risk:

Insurance is a device to share the financial losses which might befall on an individual or his family on the happening of a specified event. The event may be death of a bread-winner to the family in the case of life insurance, marine-perils in marine insurance, fire in fire insurance and other certain events in general insurance, e.g., theft in burglary insurance, accident in motor insurance, etc. The loss arising nom these events if insured are shared by all the insured in the form of premium.

2. Co-operative Device:

The most important feature of every insurance plan is the co-operation of large number of persons who, in effect, agree to share the financial loss arising due to a particular risk which is insured. Such a group of persons may be brought together voluntarily or through publicity or through solicitation of the agents.

An insurer would be unable to compensate all the losses from his own capital. So, by insuring or underwriting a large number of persons, he is able to pay the amount of loss. Like all cooperative devices, there is no compulsion here on anybody to purchase the insurance policy.

3. Value of Risk:

The risk is evaluated before insuring to charge the amount of share of an insured, herein called, consideration or premium. There are several methods of evaluation of risks. If there is expectation of more loss, higher premium may be charged. So, the probability of loss is calculated at the time of insurance.

4. Payment at Contingency:

The payment is made at a certain contingency insured. If the contingency occurs, payment is made. Since the life insurance contract is a contract of certainty, because the contingency, the death or the expiry of term, will certainly occur, the payment is certain. In other insurance contracts, the contingency is the fire or the marine perils etc., may or may not occur. So, if the contingency occurs, payment is made, otherwise no amount is given to the policy-holder.
Similarly, in certain types of life policies, payment is not certain due to uncertainty of a particular contingency within a particular period. For example, in term-insurance then, payment is made only when death of the assured occurs within the specified term, may be one or two years. Similarly, in Pure Endowment payment is made only at the survival of the insured at the expiry of the period.

5. Amount of Payment:

The amount of payment depends upon the value of loss occurred due to the particular insured risk provided insurance is there up to that amount. In life insurance, the purpose is not to make good the financial loss suffered. The insurer promises to pay a fixed sum on the happening of an event.
If the event or the contingency takes place, the payment does fall due if the policy is valid and in force at the time of the event, like property insurance, the dependents will not be required to prove the occurring of loss and the amount of loss. It is immaterial in life insurance what was the amount of loss at the time of contingency. But in the property and general insurances, the amount of loss as well as the happening of loss, are required to be proved.

6. Large Number of Insured Persons

To spread the loss immediately, smoothly and cheaply, large number of persons should be insured. The co-operation of a small number of persons may also be insurance but it will be limited to smaller area. The cost of insurance to each member may be higher. So, it may be unmarketable.

Therefore, to make the insurance cheaper, it is essential to insure large number of persons or property because the lesser would be cost of insurance and so, the lower would be premium. In past years, tariff associations or mutual fire insurance associations were found to share the loss at cheaper rate. In order to function successfully, the insurance should be joined by a large number of persons.

7. Insurance is not a gambling:

The insurance serves indirectly to increase the productivity of the community by eliminating worry and increasing initiative. The uncertainty is changed into certainty by insuring property and life because the insurer promises to pay a definite sum at damage or death.

From a family and business point of view all lives possess an economic value which may at any time be snuffed out by death, and it is as reasonable to ensure against the loss of this value as it is to protect oneself against the loss of property. In the absence of insurance, the property owners could at best practice only some form of self-insurance, which may not give him absolute certainty.

Similarly, in absence of life insurance, saving requires time; but death may occur at any time and the property, and family may remain unprotected. Thus, the family is protected against losses on death and damage with the help of insurance.

From the company's point of view, the life insurance is essentially non-speculative; in fact, no other business operates with greater certainties. From the insured point of view, too, insurance is also the antithesis of gambling. Nothing is more uncertain than life and life insurance offers the only sure method of changing that uncertainty into certainty.

Failure of insurance amounts gambling because the uncertainty of loss is always looming. In fact, the insurance is just the opposite of gambling. In gambling, by bidding the person exposes himself to risk of losing, in the insurance; the insured is always opposed to risk, and will suffer loss if he is not insured.

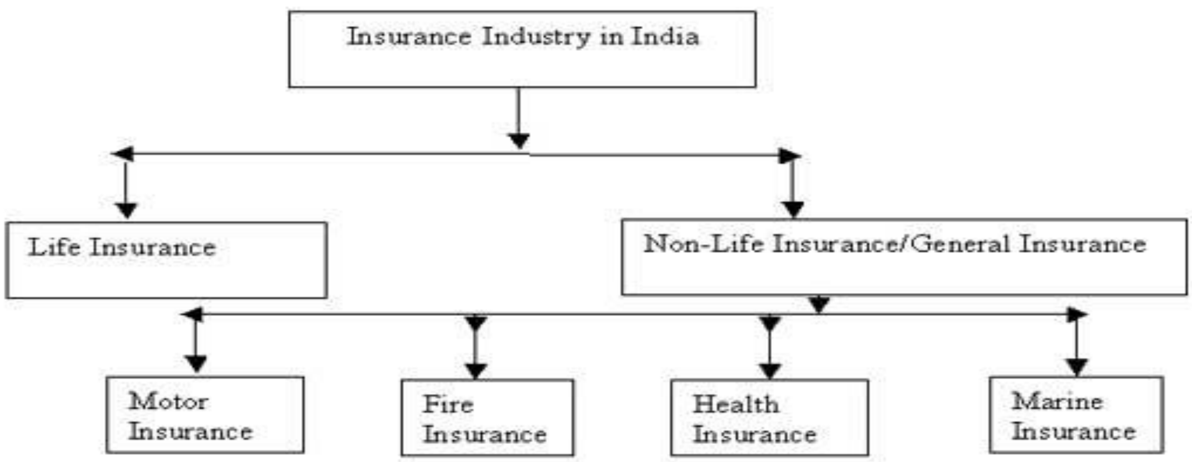
By getting insured his life and property, he protects himself against the risk of loss. In fact, if he does not get his property or life insured he is gambling with his life on property.

8. Insurance is not Charity:

Charity is given without consideration but insurance is not possible without premium. It provides security and safety to an individual and to the society although it is a kind of business because in consideration of premium it guarantees the payment of loss. It is a profession because it provides adequate sources at the time of disasters only by charging a nominal premium for the service.

The following are the various types of insurance businesses recognised under the Insurance Act, 1938:

a) Life insurance business
b) General insurance business (also called "Non-Life" business). This is sub divided into the following three sub-categories:
    i. Fire insurance business
    ii. Marine insurance business
    iii. Miscellaneous insurance business



Life insurance business covers the risk of contingencies dependent on human life. For example, payment of an amount (called "sum assured") on the death of the life assured. Further, annuity contracts (which provide for periodic payments to life assured as long as the policyholder is alive) or the provisions of accident benefits also form part of life insurance business.

There are certain basic forms of life insurance. The different types of life insurance policies include:

Sr No.	Type of Life Insurance Policy	Features
1	**Term Life Insurance**	Term insurance is a life insurance product offered by an insurance company which offers financial coverage to the policy holder for a specific time period.
2	**Whole Life Policy**	The policyholder pays regular premiums until his death, upon which the corpus is paid out to the family.
3	**Endowment Plans**	Endowment plans pay out the sum assured under both scenarios - death and survival
4	**Unit Linked Insurance Plans**	ULIP is a life insurance product, which provides risk cover for the policy holder along with investment options to invest in any number of qualified investments.
5	**Money Back Policy**	Money back plan is a life insurance product as well as an investment plan which provides life insurance cover against death of the policy holder along with periodic returns as a percentage of sum assured.

All businesses other than Life are classified as General insurance business.

a) Fire insurance, as the name suggests covers the risks associated with loss due to a fire accident to properties.

b) Marine insurance means the business of effecting insurance contracts upon vessels of any description, including cargoes, freights and other interests which may be insured for transit by land or water or both and includes warehouse risks or similar risks incidental to such transit.

c) Miscellaneous insurance includes all insurance businesses other than Fire and Marine insurance business (and Life insurance business). It includes Motor, Liability, Health and Burglary insurances etc.

Various types of General Insurance are as follows –

A. Health Insurance

Every human being is exposed to various health hazards. Medical emergency can strike anyone without pre-warning. The reasons why health insurance is a must:

B. Motor Insurance

Motor insurance protects against damage caused to a vehicle or third party if there is an accident. It is a contract between insured and the insurance company. Insured agrees to pay the premium and the insurance company agrees to pay losses as defined in the policy. Motor insurance provides property, liability and medical coverage:

1. Property coverage pays for damage to or theft of car.
2. Liability coverage pays for legal responsibility to others for bodily injury or property damage.

C. Home Insurance

Fire, earthquakes, and floods are all too often a part of life today. With natural disasters and man-made accidents not just a possibility, but an eventuality, it is essential to secure the property from natural and man-made disasters. Home insurance provides compensation for loss of or damage to a home and it’s contents.

D. Personal Accident Policy

Personal Accident is an insurance cover which is recommended in the event of accidental death (which life insurance already does), but also to cover disablement, leading to loss of earning capacity. Personal accident policies cover for one or more of four contingencies in the event of an accident: death, permanent total disability, permanent partial disability and temporary total disability.

E. Travel Insurance

Travel insurance policies have been intended to insure against certain events when the insured is on holiday or trip. Medical treatment abroad can be costly and one never knows when one would require it. There might also be other situations, that one might face like loss of passport, flight delay, baggage and so on. Without appropriate travel insurance, a person may be exposed to significant financial liability.

F. Commercial Insurance

Large corporations or even Smaller Companies have varied needs for insurance. Most insurance companies offer a comprehensive set of products designed to protect business, assets, liabilities, vehicles, construction/engineering/marine cargo/logistics activity & employees against sudden and unforeseen loss or damage.

(a) Group Health

Comprehensive health insurance solutions, designed for the employees of a company and their family members. It covers employees and their family members from hospital and medical expenditure that arise out of an illness or accident. Family members include spouse and two dependent children.

(b) Fire (property)

Fire Insurance is designed to cover business assets against sudden and accidental loss or damage due to wide range of perils. It can also insure Consequential loss of profits following damage to assets due to insured perils.

(c) Engineering

Engineering Insurance provides comprehensive insurance solutions for Construction and Erection projects as well as Operational insurance covers like Contractor’s Plant and Machinery, Electronic Equipments, Machinery Breakdown Insurance.

(d) Marine

Marine insurance protects assets against loss or damage while in transit by Rail/Road/Air/Sea.

(e) Liability

Provides complete range of business and commercial insurance liability policies, covering the legal liability of a company and its directors towards third parties and employees.

(f) Group Personal Accident

Accidents can happen to anyone anytime, anywhere. Medical expenses could pile up, adding to the financial burden of employee. Group Personal Accident Insurance provides cover to employees against accidental bodily injury, death or disablement. Cover can be arranged on a 24 hours basis or only to cover accidents occurring during the period of employment. It doesn't just cover employees; it also covers their dependants which include their spouse, dependent children and parents if they choose to cover.

(g) Casualty

Casualty insurances encompass a wide range of insurances like Money, Burglary, Fidelity Guarantee & Plate glass and Neon Sign Board.

An Overview of Insurance Industry in India

India's life insurance sector is the biggest in the world with about 360 million policies which are expected to increase at a Compound Annual Growth Rate (CAGR) of 12-15 per cent over the next five years.

Insurance growth drivers

Listed below, are the various underlying growth drivers for insurance industry:

- Growth of the financial industry as a whole
- Growth of life and non-life industry
- Promoting innovation and removing inefficiency
- Competition and orderly growth
- Growth of specific insurance segments such as motor insurance

Emerging trends

- Multi-distribution i.e. increasing penetration through new modes of distribution such as the internet, direct and telemarketing.
- Product innovation i.e. increased levels of customization through product innovation

- Claims management i.e. timely and efficient management of claims to prevent delays which can increase the claims cost
- Profitable growth i.e. expanding product range, developing innovative products and expanding distribution channels
- Regulatory trends i.e. mandated regulatory changes by the IRDA to promote a competitive environment in both the life and non-life insurance sectors

What is Governance?

Governance is not a new concept in the world. The principles of good governance are as old as good behaviour, which needs no formal definition. It exists ever since the first civilisation of the world i.e. it is as old as the civilisation of Ancient Mesopotamia (6500BC). The concept of governance has over the years gained momentum and a wider meaning. It has become a buzz word in the corporate world since last two and a half decades. The actual meaning of the concept depends on the level of governance we are talking about, the goals to be achieved and the approach being followed.

Going by a simple dictionary meaning, we can define Governance as follows:

It is regarding establishment of policies, and continuous monitoring of their proper implementation, by the members of the governing body of an organization. It includes the mechanisms required to balance the powers of the members (with the associated accountability), and their primary duty of enhancing the prosperity and viability of the organization.

Governance is "the process of decision-making and the process by which decisions are implemented (or not implemented)". The term *governance* can apply to corporate, international, national, local governance or to the interactions between other sectors of society. It is a general concept and is applicable to all types of entities.

Apart from being a mechanism of public affairs management, or a measure of political development, governance has become a useful instrument to enhance the acceptability of the public jurisdiction.

Corporate Governance

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of a company's stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. The concept has been drawn up defining the role of the Board of directors, establishing directors' accountability to the shareholders, investors and interest group and setting out guidelines for more effective and a new quality of performance, changing the face of relation between the Board and the executive officers.

It provides a principled process and structure through which the objectives of the company, the means of attaining the objectives and systems of monitoring performance are also set. It is about commitment to values, ethical business conduct, transparency and makes a distinction between personal and corporate funds in the management of a Company.

Corporate governance therefore calls for following factors:

a) Transparency in decision-making;
b) Accountability, which follows from transparency because responsibilities could be fixed easily for actions taken or not taken;
c) The accountability is for the safeguarding the interests of the stakeholders and the investors in the organization;
d) Commitment of the management for the principle of integrity;
e) Compliance with legal and the administrative framework created by the government.

Why Corporate Governance?

1) For Improving the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders.
2) Good corporate governance helps companies operate more efficiently, improve access to capital, mitigate risk and safeguard against mismanagement.
3) It makes companies more accountable and transparent to investors and gives them the tools to respond to legitimate stakeholder.
4) Good corporate governance ensures corporate success and economic growth.
5) It helps in brand formation and development.

6) There is a positive impact on the share price.
7) For overall development of a company.
8) It improves strategic thinking at the top by inducting independent directors who bring a wealth of experience, and a host of new ideas.
9) It rationalizes the management and monitoring of risk that a firm faces globally.
10) It limits the liability of top management and directors, by carefully articulating the decision making process.
11) It has long term reputational effects among key stakeholders, both internally (employees) and externally (clients, communities, political/regulatory agents).

Ideal CG framework

Ideal corporate governance is characterized by a firm commitment and adoption of ethical practices by an organization across its entire value chain and in all of its dealings with a wide group of stakeholders encompassing employees, customers, vendors, regulators and shareholders (including the minority shareholders), in both good and bad times. To achieve this, certain checks and practices should be embraced whole-heartedly.

- ✓ Code of Conduct should not only be for the directors and senior management, but should cover the entire organisation.
- ✓ The whistle blower policy should not be a mere document, but should be communicated across the organisation and also practiced.
- ✓ Appointment of independent directors should not be a mere ritual to comply with the law, but the process of selection itself should be rigorous, transparent and in line with the company's needs.
- ✓ Diversity of skills on the Board of directors is essential for effective risk management.
- ✓ Compensation of directors and senior management should be related to their performance in the company's affairs.
- ✓ Criteria for performance should be based on transparency and measures taken by the directors in relation to the betterment of the company.

- ✓ Effectiveness of corporate governance should be monitored by exclusive specialists in corporate governance.
- ✓ In case of non-compliance the directors should be held responsible not only by the regulators but also by the company.

Corporate governance rests on four pillars i.e.., transparency, full disclosure, independent monitoring and being fair to all, especially to minority shareholders. The Corporate Governance framework should ensure that timely and accurate disclosures are made on all material matters regarding the corporation, including financial situation, performance, ownership and governance of the company. Further good corporate governance also lowers the cost of capital by reducing risk and creates higher firm valuation thereby boosting real investments.

How Good Corporate Governance can be in place?

The essence of good corporate governance is ensuring trustworthy relations between the corporation and its stakeholders. Therefore, good governance is a lot more than compliance. Good corporate governance is a culture and a climate of Consistency, Responsibility, Accountability, Fairness, Transparency, and Effectiveness that is Deployed throughout the organization. (The “CRAFTED” principles of governance).

“CRAFTED” principles of governance:

The communication and behavior of each institution influences not only how its own resources are utilized, but also those of its stakeholders. Therefore, **consistency** of the policies of a corporation is key to ensure that right expectations are formed throughout the value chain, thereby making the whole value chain stronger.

In order to create value, a balanced risk taking and making difficult decisions on a timely basis are essential. Therefore, decision makers at all levels should assume the **responsibility** to take initiative and be **accountable** for their decisions. Each decision requires balancing the interests of different stakeholders. Those who are deemed to be **fair** in their decisions are able to establish longer term relationships which are critical for long term sustainable development.

Every company needs to gain the trust of others not only for financial resources, but also for all other resources that it uses to create value. Trust can only be gained with **transparency**. Unless the mobilized resources are used effectively, it would not be possible to mobilize additional resources. Therefore, **effectiveness** and the communication of effectiveness are critical for long term success.

As each decision maker within the organization has an important role in establishing the reputation of the corporation, **deployment** of these principles throughout the organization is important for having successful corporate governance.

PART – 1: International Evolution (from Cadbury Committee to OECD)

Cadbury Committee is the first one established in 1992 and given its report on corporate governance. It further developed its research through a series of seminal works of La Porta et al (1997). In 1992, COSO (Committee of Sponsoring Organizations of the Treadway Commission) published Internal Control-Integrated Framework which was superseded and not available from December, 2015. It has also published several papers on ERM in 2009. Hampel committee was established in England which had given various reports and recommendations on corporate governance. The international papers on origins trace the development of corporate governance in India and analyses the status of governance in terms of the country's legal system, ownership structures (Gollakota and Gupta, 2006) institutions that are involved in governance (Chakrabarti et al 2008). King Committee established of South Africa had given various reports on corporate governance in the year 1994, 2002 & in 2008.

The OECD which was established in 1961 prescribed various principles on corporate governance. The OECD principles are one of the 12 key standards for sound financial systems of the Financial Stability Board (FSB) and form the basis for the corporate governance component of the Report on the Observance of Standards and Codes of the World Bank Group. It has updated its principles which were adopted by the OECD in July, 2015.

Cadbury Report

The Cadbury Report, titled "Financial Aspects of Corporate Governance", is a report of the committee chaired by Adrian Cadbury that sets out recommendations on the arrangement of company boards and accounting systems to mitigate corporate governance risks and failures. The report was published in 1992. The report's recommendations have been adopted in varying degree by the European Union, the United States, the World Bank, and others. The Committee was set up in May 1991 by the Financial Reporting Council, the London Stock Exchange and the Accountancy Profession to address the financial aspects of corporate governance. Some of the main recommendations made are as follows:

- The majority of non-executive directors should be independent of management and free from any business or other relationship;
- non-executive directors should be appointed for specified terms;
- service contracts should not exceed three years;
- executive remuneration should be subject to the recommendations of a Remuneration Committee made up entirely or mainly of non-executive directors; and
- an Audit Committee, comprising of at least three non-executives, should be established.

King Report

In 1994 the King Report on Corporate Governance (King I) was published by the King Committee on Corporate Governance, headed by former High Court judge, Mervyn King S.C. King I, incorporating a Code of Corporate Practices and Conduct, was the first of its kind in the country and was aimed at promoting the highest standards of corporate governance in South Africa.

Over and above the financial and regulatory aspects of corporate governance, King I advocated an integrated approach to good governance in the interests of a wide range of stakeholders. Although ground-breaking at the time, the evolving global economic environment together with recent legislative developments necessitated that King I be updated. To this end, the King Committee on Corporate Governance developed the King Report on Corporate Governance for South Africa, 2002 (King II).

The King Committee, formed in 1993 by the Institute of Directors in Southern Africa (IoD) was established to investigate the role of boards of directors in South African firms. Chaired by businessman and former judge Mervyn E. King, the committee included Phillip Armstrong, Nigel Payne, and Richard Wilkinson. Mervyn E. King is senior counsel and former judge on the Supreme Court of South Africa, "Professor extraordinaire" at the College of Economic and Management Sciences of the University of South Africa, Chairman of the King Committee on corporate governance in South Africa, Member of the private sector advisory group on corporate governance to the World Bank and Chairman of the Eminent Persons Group to review the governance and oversight of the United Nations.

Hampel Report

The Hampel Committee was established in 1996 to review and revise the earlier recommendations of the Cadbury and Greenbury Committees. It was recognised that good corporate governance will largely depend on the particular situation of each company. Hampel viewed governance from a strict principal/agent perspective regarding corporate governance as an opportunity to enhance long term shareholder value, which was asserted as the primary objective of the company. This was a new development from the Cadbury and Greenbury Codes which had primarily focused on preventing the abuse of the discretionary authority entrusted to management. In particular, the report favored greater shareholder involvement in company affairs. For example, while the report recommended that unrelated proposals should not be bundled under one resolution shareholders, particularly institutional shareholders, were expected to adopt a, 'considered policy' on voting.

Another key advance was in the area of accountability and audit. The Board was identified as having responsibility to maintain a sound system of internal control, thereby safeguarding shareholders' investments (although the Board was not required to report on the effectiveness of the controls). Further, the Board was to be held accountable for all aspects of risk management, as opposed to just the financial controls as recommended by Cadbury.

Higgs Review

Sir Derek Alan Higgs (3rd April 1944 – 28th April 2008) was an English businessman and merchant banker. He was knighted in 2004. After graduating from the University of Bristol in 1966, Sir Derek joined Price Waterhouse, a large accountancy firm, and after training he qualified as a Chartered Accountant. In 1969 he became a corporate finance executive at Baring Brothers, a merchant bank. He moved-on and joined S. G. Warburg & Co. in 1972 and continued his career in merchant banking. He was also a board member of several companies including Prudential, British Land, and Coventry City Football Club.

In 2002 the British Labour Government commissioned Sir Derek to chair the "*Review of the role and effectiveness of non-executive directors"*. The report, widely known as the "Higgs review" or "Higgs report", was published on 20 January 2003 and many of its recommendations for large companies have been implemented. It reviewed of the role and effectiveness of non-executive directors and of the audit committee, aiming at improving and strengthening the existing Combined Code. He advocated more provisions with more stringent criteria for the board composition and evaluation of independent directors. According to Higgs, the key characteristics of an effective unitary board are –

- A chairman who has a strong, complementary relationship with the chief executive and the members of the Board is a central element of an effective board.
- A proper balance of skills and experience and the need for boards to include both executive and non- executive directors in the boardroom, such that no one group or individual dominates.
- The Board as a whole should be well informed about the company.

The non-executive directors should meet as a group at least once a year without the chairman or executive directors present. There should be a statement in the annual report on whether the non-executive directors have met without the chairman or executives present.

Blue Ribbon Committee

In October 1998, the New York Stock Exchange and the National Association of Securities Dealers created the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees. The Blue Ribbon Committee was headed by John C. Whitehead (Former Deputy Secretary of State and Retired Co-Chairman and Senior Partner Goldman, Sachs & Co.) and Ira M. Millstein (Senior Partner Weil, Gotshal & Manges LLP). In February 1999, the committee issued its report, which contains ten recommendations designed to (1) strengthen the independence of audit committees; (2) increase the effectiveness of audit committees; and (3) improve the relationship between boards and their audit committees the activities of auditors and management. In December 1999, the Securities Exchange Commission approved changes to its rules to implement several of the Blue Ribbon Committee's recommendations with respect to audit committee composition and practices. Some of the important recommendations of the Blue Ribbon Committee are as follows:

1) Members of the audit committee shall be considered independent.
2) Listed companies with a market capitalization above $200 million (or a more appropriate measure for identifying smaller-sized companies should have an audit committee comprised solely of independent directors.
3) An audit committee should have a minimum of three directors, each of whom is financially literate.
4) A formal written charter should be adopted by the listed company.
5) Audit committee for each reporting company to disclose in the company’s proxy statement for its annual meeting of shareholders certain information with regard to the audit committee.
6) Audit committee charter for every listed company should specify that the outside auditor is ultimately accountable to the board of directors and the audit committee.
7) Audit committee charter for every listed company specify that the audit committee is responsible for ensuring its receipt from the outside auditors of a formal written statement delineating all relationships between the auditor and the company.
8) Company’s outside auditor should discuss with the audit committee.
9) A letter from the audit committee in the company’s annual report.

Smith Report

The Smith Report was a report on corporate governance submitted to the UK government in 2003. It was a report and proposed guidance by an FRC (Financial Reporting Council) appointed group chaired by Sir Robert Smith. It was concerned with the independence of auditors in the wake of the collapse of Arthur Andersen and the Enron scandal in the US in 2002. Its recommendations now form part of the Combined Code on corporate governance, applicable through the Listing Rules for the London Stock Exchange. It was substantially influenced by the views taken by the EU Commission.http://en.wikipedia.org/wiki/Smith_Report_-cite_note-0 One important point was that an auditor himself should look at whether a company's corporate governance structure provides safeguards to preserve his own independence.

Robert Haldane Smith, Baron Smith of Kelvin (born 8th August 1944) is a Scottish businessman, most notably known as a former Governor of the British Broadcasting Corporation before the advent of the BBC Trust. He is the present Chancellor of the University of the West of Scotland. He is currently Chairman of The Weir Group plc and Scottish and Southern Energy and a non-Executive Director of 3i Group plc, Standard Bank Group Limited, and Aegon UK plc. He is also Patron of the Scottish Community Foundation. Smith was a member of the Financial Services Authority from 1997 to 2000 and is a member of the Financial Reporting Council. As Chairman of the FRC Group on Audit Committees Combined Code Guidance he was responsible for The Smith Report (2003).

Turnbull Report

"Internal Control: Guidance for Directors on the Combined Code" (1999) also known as the "Turnbull Report" is a report drawn up with the London Stock Exchange for listed companies. The committee which wrote the report was chaired by Nigel Turnbull of The Rank Group plc. The report informs directors of their obligations under the Combined Code with regard to keeping good "internal controls" in their companies, or having good audits and checks to ensure the quality of financial reporting and catch any fraud before it becomes a problem. The Combined Code on Corporate Governance is a set of principles of good corporate governance and provides a code of best practice aimed at companies listed on the London Stock Exchange.

Nigel Turnbull graduated as a scientist from St Andrews University and was then articled as an accountant in the City of London. He joined The Rank Group as finance director in 1987, retiring in 1999. He was chairman of the working party responsible for providing guidance to directors on internal control which created the Turnbull Report. In addition to his position with The Risk Advisory Group, he is on the council of the Institute of Chartered Accountants in England and Wales, and is chairman or non-executive director of a number of companies.

OECD

Organization for Economic Cooperation and Development (OECD) was established in 1961. Its headquarter is situated at Paris, France. Currently, it has 35 member countries. The OECD Principles are one of the 12 key standards for sound financial systems of the Financial Stability Board (FSB) and form the basis for the corporate governance component of the Report on the Observance of Standards and Codes of the World Bank Group.

The Principles are developed with an understanding that corporate governance policies have an important role to play in achieving broader economic objectives with respect to investor confidence, capital formation and allocation. The principles themselves are evolutionary in nature. It prescribed the six chapters. It has last updated its principles in July, 2015.

Global Scenario

US and UK

Corporate governance in various manifestations has been in existence since the concept of corporate entity was recognized. The Foreign Corrupt Practices Act, 1977 (USA) made specific provisions regarding establishment, maintenance and review of systems of internal control. In 1979, US Securities Exchange Commission prescribed mandatory reporting on internal financial controls. Due to high profile failures in the US, the Treadway Commission constituted in 1985 highlighted the need of putting in place a proper control environment, desirability of constituting independent boards and its committees and objective internal audit function. As a consequence, the Committee of Sponsoring Organizations was formed which prescribed a control framework in 1992. After the Enron debacle of 2001, came other scandals involving large US Companies such as WorldCom, Owest, Global Crossing and the auditing lacunae that eventually led to the collapse of Andersen. These developments triggered another phase of reforms in the area of corporate governance, accounting practices and disclosures - this time more comprehensive than ever before. In July 2002, less than a year from the date when Enron filed for bankruptcy, the Sarbanes-Oxley Act popularly called SOX was enacted. The Act made fundamental changes in virtually every aspect of corporate governance in general and auditor independence, conflict of interests, corporate responsibility, enhanced financial disclosures and severe penalties for willful default by managers and auditors, in particular.

To prevent the recurrence of business failures, the **Cadbury Committee** was set up by the London Stock Exchange in May 1991 inter alia to help raise standards of corporate governance. In its report and associated "Code of Best Practices" (1992), it spelt out the methods of governance needed to achieve a balance between the essential powers of the Board of Directors and their proper accountability. Subsequently constituted Paul Ruthman Committee, to some extent, watered down the Cadbury committee’s proposal. It restricted the reporting requirements to internal financial controls as against the effectiveness of the company's system of Internal control. After about 5 years Ron Hampel Committee on Corporate Governance was appointed to assess the impact of Cadbury committee’s recommendations and to develop further guidance. **Greenbury Committee**, which submitted its report in 1995, addressed the issues pertaining to director's remuneration.

The cumulative effect of above efforts was the formulation of London Stock Exchange's Combined Code appended to the listing rules of the Exchange and its compliance being made mandatory by all listed companies. Listing Rules of the Exchange require a listed company to include in the annual report a disclosure statement that should be in two parts. In the first part the Company has to add a report as to how it applies the principles in the Combined Code while in the second part of the statement the Company has either to confirm that it complies with the Code provisions or alternatively add an explanation where it does not. In UK, the Hampel Committee considered the introduction or compulsory voting for institutional shareholders as is the case in the USA.

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France

As nationalized companies became increasingly uncompetitive, the Jacques Chirac govt. of 1986-88 started taking privatization drive exactly in line with Margaret Thatcher's govt. in UK. In order to protect fledgling private companies from takeover, these were given in the hand of a 'noyeandur' (hard core) management-friendly shareholders.

Corporate governance in France reflects the country's political, economic and social history. The State, banks and corporate management hold the controlling interests in the French governance structure. The government protects industry in indirect ways. For example, any non european company desirous to buy more than 20% of the capital of a French company must require prior approval of the government. The government plays a powerful role in non-state owned companies also.

The French law provides for various kinds of corporate structure.

1) **Societes anonymes (SAa)**
   These are the large French public companies which are similar to the AG companies in Germany or the pic. in UK.

2) **Societes a responsibilite Limitee (SARL)**
   These are limited liability companies similar to the GmbH in. Germany or the ltd. company in UK.

3) **EURL**
   It is exactly same as a SARI but with one exception that in such a company, the entire capital is held by a single shareholder.

Management and Boards of SAs

In France, the SAs have a choice of two quite distinct systems of board governance. They may adopt either a unitary boardroom structure like Anglo-American model or a two-tier structure like German companies.

System 1

It is the traditional French system for SAs and has two' main components: a) the PDG and b) the board.

(a) The PDG (President directeur-general)

The PDG is elected by the board and the board is appointed by the shareholders. In reality, the PDG picks the board and the shareholders ratify its appointment. In French law, executive authority rests with PDG only. France is the only western country in the world where one man (PDG) determines the strategy of the company, executes it and controls it. The PDG has virtual control over the board of directors. He dictates the subjects of discussion in the board. He can only delegate his power. His authority is wider and greater than that of the CEO in the UK or USA. He may, on his desire, set up a management board or an executive committee.

Though the PDG has absolute power over the board and its selection, he would definitely pay attention to the wishes of his owners in choosing new board members. In fact, the banks are generally represented on the board of most SAs. The board has the power to dismiss the PDG though exercise of it is very rare. If he is removed, then he is not entitled to receive compensation from the company. He is not protected by the social regulations. He is not even entitled to official holidays. The PDG is responsible not only for day-to-day operations but also for the long-term strategic direction of the company for which he may have to even seek opinion of the government. In principle, a PDG retires on attaining the age of 65 years but there are many exceptions in this regard.

(b) The Board (The Counseil de Administration)

The board must consist of minimum 3 and maximum 12 members. Maximum l/3rd of the members may be represented by the executives having minimum 2 years' service with the company. Therefore, at least 2/3rd of the -members must be non-executive. Sometimes, the institutions having considerable shareholdings do appoint nominees to the board. Besides, there is a provision of 2 staff representatives on the board (one representing the executives and one from the workers) but they are not considered as full directors.

The members are elected by the shareholders in the assemble generale (the general meeting), though a strong PDG has a considerable role in choosing them. If shareholders are powerful, their support is essential. So they are consulted beforehand. Generally, the people of substance having considerable experience, reputation & influence in the commercial and industrial world are chosen as board members. No member can sit for more than 8 boards. Directors must hold minimum number of qualification shares prescribed in the articles (actions de guarantie) of the company.

System II

In 1966, the French government introduced legislation to provide companies with the option of an alternative structure i.e. two-tier structure. In this system, there is an executive committee (directoire) and a supervisory board (counseil de) surveillance). The supervisory board overseas the activities of the executive committee (directoire). This structure is extremely similar to the German system of Vorstand I Aufsichtsrat. In this system, management is in the hands of the executive board (directoire). It has 2 to 5 members appointed for 2 to 6 year term by the supervisory board. The supervisory board (counseil de surveillance) has 3 to 12 members. The members of the executive board cannot be dismissed by the supervisory board. This can only be done by the shareholders in general meeting through a simple majority.

The executive board (directoire) is vested with full executive authority and is empowered to take decision on day-to-day affairs of the company by majority. It's members do not require to hold shares. But members of the supervisory board must hold qualification shares and they cannot sit on more than 8 boards. A small company having capital less than FF 1 million, may have oneman directorate called a directeur general unique (DGU). The DGU or the executive board must submit a quarterly report to the supervisory board.

In state-owned companies, the government, for a period of 3-year term, appoints the PDG. The government maintains a strong interest in the strategic decision of the company. The directors are selected by the state from staff representatives, civil servants and qualified people. The directors generally are not permitted to sit on more than 4 boards.

Japan

Japan rebuilt its economy in the years following World War II. In Japan, there appears to be a general consensus that although 'profit' is important, the long-term preservation and prosperity of the family (companies) are primarily the objectives and not profit maximization or shareholders immediate gain in terms of dividend. Finally, the emphasis on 'family' and 'continuity' has led the Japanese to adopt a policy of insurance for which they are prepared to pay a substantial premium. It has developed a unique corporate governance structure. Some' of its remarkable features are noted hereunder:

1. Powerful government intervention dominated by the Japanese Ministry of Finance (MoF). It maintains strong regulatory control and supervises every aspect of industrial activity inducting capital flows.
2. Cross-shareholding by affiliated companies to counter hostile takeover and spreading of corporate growth throughout the group.
3. Close links and relationships between Corporates and government sectors.
4. Focus of Corporate priorities on 'growth' and 'market share', not 'profit' or 'shareholders' returns except through capital appreciation.
5. No market control for corporates and minimal takeover activity There are three main general features affecting Japanese attitudes towards corporate governance. They are:
    a) concept of' obligation',
    b) concept of, family' and
    c) concept of consensus. All these concepts are interlinked. In fact, the Japanese system is based on 'community logic' unlike the U.S. system, which is based on 'market logic'. When a company in a group is beyond salvage, then it is dismembered or sold and its staff gets redeployed: But when a whole basic industry is threatened, the Japanese show their resilience as the French to protect it.

Corporations-Government Relations:

The relations between the Japanese 'companies and the government are close and amicable. The Japanese govt. sees itself not so much as an impartial regulator, but as a promoter and protector of domestic industry. The govt.

bureaucracy enforces laws mainly by informal administrative guidance. Meetings between the Ministry of Finance (MoF), the institutions and the companies are quite common and regular.

The Board of Directors

The governing structure of Japan's major listed companies (called as Kabushiki Kaisha) is similar to that of US, UK and Indian companies i.e. a board of directors elected by shareholders. As per 1992 survey, around 76% of the directors of listed companies were 'internal' appointees and 24% external appointees. The outside directors in the large companies represent major lenders and in small companies they come from the business partners & associates. The board of directors shall decide administration of affairs of the company and supervise execution of duties of directors.

The president, in practice, chooses directors by nomination or consultation with the other superior board members and chairman. They are first nominated by the board and then elected by the shareholders in general meetings. Growth is the most important goal because it maximizes the welfare of the shareholders through capital gains.

Several amendments to the Japanese Commercial Code, involving shareholder lawsuits, shareholder access to the company books and records, the audit system, were put into effect in October 1993. The change to the audit system has a long-term substantial implication on the corporations in Japan.

The role of the companies in Japanese society is changing. Now several cases of diseases caused by industrial pollution have enlarged the corporate responsibilities to the community. A pledge not to damage the immediate environment is now increasingly common. Companies are under pressure to extend this pro environmental attitude to domestic and international operations. Health care, particularly for the retired citizens, is another area of growing concern to the community and the companies are now compelled to respond.

PART – 2: Evolution in India (from Kumar Mangalam Birla Committee to LODR)

Corporate Governance was not in agenda of Indian Companies until early 1990s and no one would find much reference to this subject in book of law till then. In India, weakness in the system such as undesirable stock market practices, boards of directors without adequate fiduciary responsibilities, poor disclosure practices, lack of transparency and chronic capitalism were all crying for reforms and improved governance. As a part of liberalization process, in 1999 the Government amended the Companies Act, 1956. Further amendments have followed subsequently in the year 2000, 2002 and 2003. A variety of measures have been adopted including the strengthening of certain shareholder rights (e.g. postal balloting on key issues), the empowering of SEBI (e.g. to prosecute the defaulting companies, increased sanctions for directors who do not fulfil their responsibilities, limits on the number of directorships, changes in reporting and the requirement that a 'small shareholder's nominee' be appointed on the Board of companies with a paid up capital of Rs. 5 crore or more)

In India, after independence various committees were constituted to develop and promote a code for Corporate Governance. The first among them was CII. In April 1998, it released a Task Force report entitled "Desirable Corporate Governance: A Code". Then Kumar Mangalam Birla Committee was constituted by SEBI on 1999 with 18 members under the Chairmanship of Kumar Mangalam Birla. In early 2000, Clause 49 of Listing Agreement was introduced by SEBI. In 2003 another committee known as Narayana Murthy committee was Constituted under the Chairmanship of Shri N. R. Narayana Murthy, Chairman and Chief Mentor of Infosys Technologies Limited. Adi godrej committee was formed by the Ministry of Corporate March 2012. Then this concept was introduced in the Companies Act, 2013.

The major corporate governance initiatives launched in India since the mid 1990s are discussed below:

The CII Code

On account of the interest generated by Cadbury Committee Report of UK, the Confederation of Indian Industry (CII) took special initiative with the objective to develop and promote a code of Corporate Governance to be adopted and followed by Indian Companies both in private & public sector, Banks and Financial Institutions. The final draft of the code was circulated in 1997 and the final code called 'Desirable Corporate Governance Code' was released in April 1998. The code was voluntary, contained detailed provisions with focus on listed companies.

Kumar Mangalam Birla Committee Report

The second major initiative was undertaken by the Securities and Exchange Board of India (SEBI) which set up a committee under the chairmanship of Kumar Mangalam Birla in 1999 with the objective of promoting and raising of standards of good corporate governance. The SEBI Board accepted and ratified the key recommendations of this committee and these were incorporated into Clause – 49 of the Listing Agreement of the Stock Exchanges. These recommendations, aimed at providing the standards of corporate governance, are divided into mandatory and non-mandatory recommendations. The recommendations have been made applicable to all listed companies with the paid-up capital of Rs. 3 crore and above or net worth of Rs.25 crore or more at any time in the history of the company. The ultimate responsibility of putting the recommendations into practice rests directly with the Board of Directors and the management of the company

Report of Task Force

In May 2000, the Department of Corporate Affairs (DCA) formed a broad based study group under the chairmanship of Dr. P.L. Sanjeev Reddy, Secretary of DCA. In November 2000 the Task Force on Corporate Excellence set up by the group produced a report containing a range of recommendations for raising governance standards among all companies in India. It also recommended setting up of a Centre for Corporate Excellence.

Naresh Chandra Committee Report

Another committee was appointed by Ministry of Finance and Company Affairs in August 2002 under the chairmanship of Naresh Chandra. The committee made recommendations in two key aspects of corporate governance: financial and non-financial disclosures: and independent auditing and board oversight of management.

Narayana Murthy Committee Report

The SEBI Committee on Corporate Governance (the "Committee") was constituted under the Chairmanship of Shri N. R. Narayana Murthy, Chairman and Chief Mentor of Infosys Technologies Limited. The Committee was constituted by SEBI to review the performance of corporate governance in the country as well as to determine the role of companies in responding to rumour and other price sensitive information circulating in the market in order to enhance the transparency and integrity of the market. The Committee submitted its report to SEBI in February 2003. Some of the important recommendations are:

1) Audit committees of publicly listed companies should be required to review the following information mandatorily:
    a. Financial statements and draft audit report, including quarterly / half-yearly financial information;
    b. Management discussion and analysis of financial condition and results of operations;
    c. Reports relating to compliance with laws and to risk management;
    d. Management letters / letters of internal control weaknesses issued by statutory / internal auditors; and
    e. Records of related party transactions.
2) All audit committee members should be "financially literate" and at least one member should have accounting or related financial management expertise.

Adi godrej committee report

The committee, headed by industrialist Adi Godrej, was set up by the Corporate Affairs Ministry in March 2012, for framing a 'National Corporate Governance Policy' to suggest a comprehensive policy frame work to enable corporate governance of highest quality in all classes of companies without impinging on their internal autonomy to order their affairs in their best judgment.

The panel had the mandate to elicit opinions about the "necessity of having a formal policy document on corporate governance" besides examining the prospects for making sustainability reporting an integral part of the corporate governance policy framework. Also, the committee looked into steps needed for a "comprehensive policy framework to enable corporate governance of highest quality in all classes of companies without impinging on their internal autonomy to order their affairs in their best judgment".

The ‘Guiding Principles of Corporate Governance’, formulated by the Committee set up by the Ministry of Corporate Affairs, under the chairmanship of Mr. Godrej, present some practical suggestions on strengthening corporate governance within the existing legal framework. The Principles aim to transform corporate governance from a ‘tick-box’ exercise to an actual roadmap. The guidelines were presented to Dr M Veerappa Moily, Minister for Corporate Affairs and Power at CII’s 8th International Corporate Governance Summit held on 18 September 2012 at Mumbai. The set of 17 guiding principles covers issues such as the tone at the top, board composition and diversity, gender diversity, lead independent director, The G20/OECD principles of corporate governance was originally developed in May 1999 then it was revised in 2004 and then again in 2015. The updated principles were succession planning, whistle blower, risk management, investor activism, etc.

J.J. Irani Committee Report

The Government further took a fresh initiative and constituted a committee in December 2004 under the chairmanship of Dr. J.J. Irani with the task of advising the government on the proposed revisions to the Companies Act 1956.The recommendations of the Committee submitted in May 2005 mainly relate to management and board governance, related party transactions, minority interest, investors education and protection, access to capital, accounts and audit, mergers and amalgamations, offences and penalties, restructuring and liquidation, etc.

Central Coordination and Monitoring Committee

A high powered Central Coordination and Monitoring Committee (CCMC) co-chaired by Secretary, Department of Corporate Affairs’ and Chairman, SEBI was set up by the Department of Corporate Affairs to monitor the action taken against the vanishing companies and unscrupulous promoters who misused the funds raised from the public. It was decided by this committee that seven Task Forces be set up at Mumbai, Delhi, Chennai, Kolkata, Ahmedabad, Bangalore and Hyderabad with Regional Directors/Registrar of Companies of respective regions as convener, and Regional Offices of SEBI and Stock Exchanges as Members.

National Foundation of Corporate Governance

In the year 2003, the Ministry of Company Affairs has set up National Foundation for Corporate Governance (NFCG) in association with Confederation of Indian Industry (CII), Institute of Company Secretaries of India (ICSI) and Institute of Chartered Accountants of India (ICAI) to focus on the following areas:

- Creating awareness on the importance of implementing good corporate governance practices both at the level of individual corporations and for the economy as a whole.
- Encouraging research capability in the area of corporate governance in the country
- Working with the regulatory authorities at multiple levels to improve implementation and enforcement of various laws related to corporate governance.
- Working In close co-ordination with the private sector, work to install a commitment to corporate governance reforms and facilitate the development of a corporate governance culture.
- Cultivating international linkages and maintaining the evolution towards convergence with international standards and practices for accounting, audit and non-financial disclosure.
- Setting up of 'National Centers for Corporate Governance' across the country, which would provide quality training to Directors as well as produce quality research and aim to receive global recognition.

SEBI (Listing Obligation & Disclosure Requirement) Regulation 2015 – LODR

SEBI notified LODR in September 2015 to consolidate and streamline the provisions of existing listing agreements for different segments of capital markets such as equity shares (including convertibles), non-convertible debt securities, etc. and disclosure norms in relation thereto, thereby ensuring better enforceability. The regulation has been made effective w.e.f. 1st December, 2015 thereby replacing the Listing Agreement with the Stock Exchange completely.

The compliance with the corporate governance provisions as specified in following regulations:

- Regulation 17: Board of Directors
- Regulation 18: Audit Committee
- Regulation 19: Nomination and remuneration committee
- Regulation 20: Stakeholders Relationship Committee
- Regulation 21: Risk Management Committee
- Regulation 22: Vigil mechanism
- Regulation 23: Related party transactions
- Regulation 24: Corporate governance requirements with respect to subsidiary of listed entity
- Regulation 25: Obligations with respect to independent directors
- Regulation 26: Obligations with respect to directors and senior management
- Regulation 27: Other corporate governance requirements
- Regulation 46(2)(b) to (i): Disseminate of various information on the website:
- Schedule V Para C: Corporate Governance Report
- Schedule V Para D: Declaration signed by the chief executive officer stating that the members of board of directors and senior management personnel have affirmed compliance with the code of conduct of board of directors and senior management.
- Schedule V Para E: Compliance certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance.

Governance Framework: Corporate Governance Guidelines, 2016

Before Financial year 2016-17, Guidelines on Corporate Governance for insurance companies vide circular dated 5th August, 2009, Guidelines on Reporting of Key Persons dated 9th October, 2013 and stipulations regarding appointment of Statutory Auditors issued vide Circulars dated 25.07.2005 and 22.04.2009.

On May 18th, 2016, IRDAI issued revised Corporate Guidelines for Insurers.

In the wake of new Companies Act, 2013 and the transparency, accountability of the Board, Appointment on the Board and Statutory Auditors, IRDAI issued Guidelines for Corporate Governance for insurers in India.

IRDA via its Circular No. IRDA/FM/GDL/CG/100/05/2016 dated June 6, 2016 clarified that

Insurers who need to change their auditors in view of the revised Guidelines on Corporate Governance for insurers, may continue with their existing auditors for one more year, i.e. FY 2016-17. Such insurers shall ensure adherence to the stipulations regarding appointment of auditors from FY 2017-18 onwards.

Applicability

- Onwards the Financial Year 2016-17.

Certain Exceptions

- Reinsurance companies may not be required to have the Policyholders' Protection Committee under Para 7.4 of the Guideline.
- Branches of foreign reinsurers in India may not be required to constitute the Board and its mandatory committees as indicated herein.

Text in Red Color relates to Corporate Governance Guidelines date August 5, 2009.

Index of the new Guidelines

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Unless specific approval from Authority:

No transfer of Promoter’s Share up to 5 years from date of COBC
Transfer of shares which makes shareholding of transferee more than 5% of paid up capital.
Above Limit was 2.5% in case transferee Company is banking or Investment Company
Transfer of shares more than 1% by any individual, firm, group, constituents of a group, or body corporate under the same management, jointly or severally.

Section 2 (7A) of the Insurance Act, 1938 (amended by 2015 Act) prescribed the ceiling of Foreign Investment in Indian Insurance Companies at 49%.
Related Party transaction shall be according to CA, 2013
Board shall formulate a Policy on Related Party Transactions laying matters provided in the Guidelines in this regard.
This Policy shall be reviewed on Yearly basis.
In the case of insurance cover given by the insurance company to the group companies, price/ premium quoted by the companies under File & Use guidelines should be considered as arm’s length.
Auditors, Actuaries, Directors and Key Management Persons shall not simultaneously hold two positions in the insurance company that could lead to conflict or potential conflicts of interest.
</td></tr>
<tr><td>4</td><td>Governance Structure

Insurance Companies in India are yet to listed, even if
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	unlisted, are also well advised to initiate necessary steps to address the extant "gaps" [SEBI(LODR)]that are so identified to facilitate smooth transition at the time of their eventual listing in course of time. • Chairman may be executive or non-executive.
5	**Board of Directors** **5.1 Composition of Board** • As per Insurance Act, Insurance Companies can be a public Company only. • Insurance companies should ensure that the Board comprises of competent and qualified Directors. • Shareholders of the companies elect or nominate Directors from various areas of financial and management expertise such as accountancy, law, insurance, pension, banking, securities, economics, etc., with qualifications and experience that is appropriate to the company. • Board shall have 3 IDs except for to the Board of Insurers of whom 5 years from the Certificate of Registration have not been elapsed. Transition period of 1 year has been given to comply with this guideline. • At a minimum, where the company has a non-executive Chairman, at least one third of the directors should be independent and in other cases at least fifty percent of the directors should be independent. While the above intention is desirable and would facilitate smooth transition on the listing of the companies, the companies should have a minimum of two independent directors so long as they are unlisted. • Appointment of IDs shall be in terms of CA, 2013. • Where the Chairman of the Board is non-executive, the Chief Executive Officer should be a whole time director of the Board. • There shall be at least one Woman Director on the Board of every Insurance company. • As a matter of prudence, not more than one member of a family or a close relative as defined in the Companies Act or

	an associate (partner, director etc) should be on the Board of an Insurer. **5.2 Role & Responsibility of Board** • Annexure 1 is referred. • Overall direction of the business of the insurance company. • Obligation to fully comply with the Statutes. • Addressing conflicts of interest. • Developing a corporate culture that recognizes and rewards adherence to ethical standards. • Ensuring fair treatment of policyholders and employees. **5.3 Fit & Proper Criteria** • Due diligence enquiry should be undertaken on the person to be appointed as Director or for the continuance of the existing Directors only after obtaining a declaration from the proposed/existing Directors in the format given in *Annexure 2*, at the time of their appointment/re-appointment. • Directors of insurers have to meet the "fit and proper" criteria. **5.4 Disclosures about Meetings of the Board & its Committees** • Meetings of Board and Committees shall be in compliance with relevant provisions of CA, 2013 and SS-1 issued by ICSI. • Director's Report shall disclose- ❖ Number of Meeting of Board and Committees. ❖ Details (Name, Qualification, Specialization, Status of Directorship) of Composition of Board and Committees. ❖ Attendance in meeting of Board and Committees. ❖ Details of remuneration to the Board.
6	**Control Functions** • Board shall be responsible for the oversight over the control functions of an Insurer. • Board shall lay down the policy framework to put in place: ❖ Independence of the control functions

	❖ Robust and efficient mechanisms for the identification, assessment, quantification, control, mitigation and monitoring of the risks. ❖ Appropriate processes for ensuring compliance with the Board approved policy, and applicable laws and regulations. ❖ Internal audit function capable of reviewing and assessing the adequacy and effectiveness of, and the insurer's adherence to its internal controls.
7	**Delegation of functions of the Board – Committees** • Following aspects need to be defined in respect of the role and functions of the Committees: ❖ Constitution ❖ Objectives ❖ Responsibilities ❖ Frequency of meeting / quorum requirements ❖ Appointment and removal of members ❖ Reporting to the Board • Mandatory Committees: ❖ Audit Committee ❖ Investment Committee ❖ Risk Management Committee ❖ Policyholder Protection Committee(Except Reinsurance Companies) ❖ Nomination and Remuneration Committee ❖ Corporate Social Responsibility (Applicable only if Company falls in criteria given by Companies Act, 2013) ❖ With Profits' Committee (Applicable only to Insurers in the Business of Non-Linked Insurance Products) As per Section 45(d) IRDA (Non-linked Insurance Products) Regulations, 2013 • Non Mandatory Committees: ❖ Ethics Committee ❖ Asset Liability Management (ALM) Committee

	7.1 Audit Committee
	• Minimum of 3 directors with majority of Independent Directors.
	• No such requirements.
	• Chairperson should be an Independent Director and with an accounting/finance/audit experience and may be a Chartered Accountant or a person with a strong financial analysis background.
	• Committee shall meet at least four times in a year and not more than four months shall elapse between two successive meetings of such Committees.
	• No such requirements.
	• The quorum shall be two members or one-third of the members of the Committee, whichever is greater. At least one such independent director or his alternate director, should necessarily be present to form the quorum.
	• No such requirements.
	
	7.2 Investment Committee
	• Committee shall have
	  ❖ At least two Non-Executive Directors
	  ❖ Chief Executive Officer,
	  ❖ Chief of Finance,
	  ❖ Chief of Investment,
	  ❖ Chief Risk Officer and
	  ❖ CRO was not required
	  ❖ Appointed Actuary.
	• Committee shall meet at least four times in a year and not more than four months shall elapse between two successive meetings of such Committees.
	• No clarification on gap between two meetings.
	• The quorum shall be two members or one-third of the members of the Committee, whichever is greater.
	• No such requirements.

	7.3 Risk Management Committee • Risk management function should be under the overall guidance and supervision of the Chief Risk Officer (CRO) with a clearly defined role. • Committee shall recommend to the Board the Risk Management policy and processes for the organization • Committee shall meet at least four times in a year and not more than four months shall elapse between two successive meetings of such Committees. • The quorum shall be two members or one-third of the members of the Committee, whichever is greater. • Committee shall monitor implementation of Anti-fraud policy for effective deterrence, prevention, detection and mitigation of frauds. Asset Liability Management Committee (mandatory for life insurers. **7.4 Policyholder Protection Committee (Not required for Reinsurers)** • Committee shall be headed by a Non-Executive Director. • No such requirements. • It shall include an expert/representative of customers as an invitee to enable insurers to formulate policies and assess compliance thereof. • No such requirements. • Committee shall recommend a policy on customer education for approval of the Board. • Board shall review the status report on policyholders' protection issues, submitted by the Committee, in each of its meeting. **7.5 Nomination and Remuneration Committee** **Nomination Committee and Remuneration Committee were to non-mandatory Committee in the Guidelines, No composition or meeting requirement were there.**

	- Committee shall have - Three or more non-executive directors out of which not less than one-half shall be independent directors (Guideline refers to CA, 2013). - Chairman of the Committee shall be an independent director. - Committee may meet as and when required by Board. - The quorum shall be two members or one-third of the members of the Committee, whichever is greater. At least one such independent director or his alternate director, should necessarily be present to form the quorum. - Committee shall follow directions given in **Annexure 4** for appointment and reporting of Key Management Persons. - Committee shall determine insurance company's policy on remuneration packages and any compensation payment, for the CEO, the Executive Directors, Key management Persons of the company. - Committee shall ensure that the remuneration packages of the Key Management Persons of the company are as per the Remuneration Policy approved by the Board. **7.6 Corporate Social Responsibility Committee** **Not in existence** - Applicable on Every company having - net worth of rupees five hundred crore or more, or - turnover of rupees one thousand crore or more or - net profit of rupees five crore or more during any financial year. - Eligible Company shall constitute a CSR Committee. - Committee shall have a Corporate Social Responsibility Policy (approved by Board), which shall indicate the activities to be undertaken by the company as specified in Schedule VII of the Companies Act, 2013. - Board's Report shall have details about CSR Committee.

	7.7 With Profit Committee • This Committee shall be incorporated by the Insurers who are in the Business of above products in accordance with IRDA (Non-Linked Insurance Products) Regulations 2013. • With Profits Committee shall be constituted with ❖ one independent director of the Board, ❖ CEO, ❖ Appointed Actuary and ❖ An independent actuary. • The report of with profits committee shall be appended to the Actuarial Report and Abstract. • Committee shall determine: ❖ The share of assets attributable to the policyholders. ❖ The investment income attributable to the participating fund of policyholders. ❖ The expenses allocated to the policyholders. **7.8 Other Committees** • Ethics Committee • Asset Liability Management (ALM) Committee (functions of ALM shall be part of Risk Management Committee if Insurer does not want to constitute ALM Committee. Asset Liability Management Committee (mandatory for life insurers).
8	**Key Management Persons** **MD/CEO/Whole-time Director** • Prior approval of the Authority for appointment, re-appointment, termination of appointment or remuneration of a managing or whole-time director, or of a manager or a chief executive officer, by whatever name called, is required. • Managing Director or other Officer of a life insurance company from being a Managing Director or Other Officer of any other Life insurance company or of a Banking company or an Investment Company.

	- The Authority requires the proposal to be submitted with the approval of the Board at least a month before the completion of the tenure of the incumbent. The application to the Authority in **Form A (Annexure 5)** shall be accompanied with information as prescribed in **Form B** and **Form C** as indicated in and **Annexure 6** of these guidelines. - Checklist of due diligence to be conducted by the Board Nomination and Remuneration Committee before recommending consideration of appointment of a person as a Managing or Whole-time Director is attached (**Form A of Annexure 5** & **Form B of Annexure 6**). **Appointed Actuary** - As per Regulation 5 of IRDA (Appointed Actuary) Regulations, 2000, a life insurer shall not carry on business of insurance without an appointed actuary. - Regulations also stipulate that prior approval of the Authority shall be taken for the appointment of the Appointed Actuary. **Statutory Auditors** - The IRDAI (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002 empower the Authority to issue directions/guidelines on appointment, continuance or removal of auditors of an insurer. - These guidelines/directions may include prescriptions on qualifications and experience of auditors, their rotation, period of appointment, etc. as may be deemed necessary by the Authority. - The statutory auditors should also have access to the Board of Directors through the Audit Committee.
9	**Disclosure Requirements** Where finalization of annual accounts extends beyond 90 days from the end of the Financial Year, the status on disclosure in the financial statements required under this clause may be made within 15 days of adoption of annual accounts by the Board of

	Directors of the Insurers.
10	**Outsourcing Arrangements** The arrangement shall be for a defined duration of not more than 3 years and should have provision for premature cancellation without attracting penalties • All outsourcing arrangements of an Insurer shall have the approval of a Committee of Key Management Persons and should meet the terms of the Board approved outsourcing policy. • An insurer shall not outsource any of the company's core functions as per Clause 2 of Guidelines on Outsourcing of Activities by Insurance Companies dated February 1, 2011, other than those that have been specifically permitted by the Authority.
11	**Interaction with & Reporting to the Authority (IRDAI)** • Insurers should observe and achieve compliance (where not already in compliance) within a period of three months from the date of notification of these guidelines. • All the arrangements should be in place to ensure full compliance with the guidelines from the financial year 2016-2017. If such compliance is not possible for any specific reason, the insurance companies should write to the IRDAI for further guidance. • Each insurer should designate Company Secretary as the Compliance officer whose duty will be to monitor continuing compliance with these guidelines. • Any person can be a Compliance Officer. • Annual Report of insurers shall have a separate certification from the Compliance Officer in the format attached herewith as **Annexure 8**. • All insurers are required to file a report on status of compliance with the Corporate Governance guidelines on an annual basis. This report shall be filed within 3 months from the end of the financial year, i.e., before 30 June. The report shall be filed as per the format in the **Annexure 9.**

12	**Whistle Blower Policy** • Insurers shall have "Whistle-blower" policy for employees to raise concerns internally about possible irregularities, governance weaknesses, financial reporting issues or other such matters.
13	**Evaluation of Board & Independent Directors** Not in existence. • Insurance Companies shall follow Schedule IV (Code for Independent Directors) of the Companies Act, 2013 in this regard. • As per Clause VII of the Schedule, The independent directors of the company shall hold at least one meeting in a year, without the attendance of non-independent directors and members of management. • The performance evaluation of independent directors shall be done by the entire Board of Directors, excluding the director being evaluated.
14	**Applicability** These guidelines shall be applicable to all insurers granted registration by the Authority except that: • reinsurance companies may not be required to have the Policyholders' Protection Committee; and • branches of foreign reinsurers in India may not be required to constitute the Board and its mandatory committees as indicated herein.
Annexure 1	**Responsibilities of the Board**
Annexure 2	**Declaration and Undertaking by Directors**
Annexure 3	**Deed of Covenant for Directors**
Annexure 4	**Appointment and Reporting of KMPs**
Annexure 5	**Form A – Application for seeking approval for appointment/ reappointment** **of MD/ CEO**
Annexure 6	**Form B – Form of Declaration and undertaking to be furnished by MD &** **CEO,** **Form –C Form of Details of remuneration of MD/ CEO**

Annexure 7	**Appointment of Statutory Auditors** • Be in continuous practice for a period of fifteen years; • Minimum number of partners, their qualification and experience in the audit firm as employee/partner; • At least one partner/employee should have CISA/ISA or equivalent qualification. • One of the joint auditors may have a term of 5 years and the other 4 years in the first instance. Thereafter, the maximum duration for which an auditor can be retained is a period of five years. • In appointment of the statutory auditors, the insurer must ensure compliance with the requirements on 'cooling off' period of two years on completion of the tenure of 4/5 years as the case may be. • No Audit Firm shall carry out more than two statutory audits of Insurance Companies (Life /Non-Life/Reinsurance).
Annexure 8	**Certificate from Compliance Officer**
Annexure 9	**Corporate Governance compliance Status Report**

Para 3

Control on Ownership of Insurance Company

IRDAI prescribes a minimum lock-in period of 5 years from the date of certificate of commencement of business of an insurer (R3) for the promoters of the insurance company.

No transfer of shares of the promoters is permitted within this period without the specific approval of the Authority.

It may be noted that the Word R3 used here Name of Form in which Certificate of Commencement of Business is issued by IRDAI under Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000.

This "R3" word is not be confused with R3 CEV blockchain consortium.

R3 is a financial innovation firm that leads a consortium partnership of leading financial institutions. The firm collaborates with partner institutions on research, experimentation, design and engineering, and has a team of financial industry veterans, technologists, blockchain and crypto currency experts.

Section 2 (7A) of the Insurance Act, 1938 has prescribed the ceiling of Foreign Investment in Indian Insurance Companies at 49%, subject to the Indian Insurance Company being Indian owned and controlled.

The expression **"control"** shall include

- the right to appoint a majority of the directors or
- to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.

Method of Calculation of Shareholding: It may be noted that investment up to 26% is without approval and further investment in this regard will require approval of FIPB.

This shareholding calculation is done on Proportionate basis.

Applicable Rules:

- **Indian Insurance Companies (Foreign Investments) Rules, 2015** and
- **Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000**

Insurance (Amendment), 2015 raise FDI to 49% by amending Section 2(7A) of the Insurance Act, 1938. Also this Act, empowers the Insurers by amending Section 6 of the Act that, they may enhance their capital.

Proviso to Section 6 of Insurance Act, 1938 empowers the Insurers to enhance their capital by Public Issue.

The manner of computation of Foreign Investment to satisfy this requirement is specified in the Rules and Regulations issued by the Government and IRDAI from time to time.

Thus, Insurer has to make express provisions in the agreements between the promoters/ shareholders and/ or the Articles of Association that the ownership as well as control does not lie with foreign entities but ultimately rests with resident Indian citizens at all times.

Section 6A(4)(b)(iii) and Section 6A(4)(b)(ii) Insurance Act, 1938 stipulates prior approval of the IRDAI for registration/transfer of shares, exceeding on 1 per cent and /or which involve holding of share capital, after such transfer, in excess of 5 per cent of the paid-up capital of the company.

The Board of Directors of the company shall ensure that the registration of shares is in compliance with the above provisions of the Act, Regulations and circulars issued by IRDAI from time to time.

<u>Conflict of Interest</u>

Contracts and agreement with related parties shall be as per Companies Act, 2013. Insurers shall have adequate systems, policies and procedures to address potential conflicts of interest and compliance with the provisions of Companies Act, 2013 which shall include Board level review of key transactions, disclosure of any conflicts of interest to manage and control such issues.

Where the transactions with related parties are in the nature of transactions such as reinsurance arrangements or investment transactions or outsourcing to related parties, for which specific regulations or guidelines have been notified, compliance with the respective regulations or guidelines shall also be ensured.

Policy on Related Party Transaction shall include following:

- Definition of Transactions in the ordinary course of the insurance business giving examples specific to the insurance company.
- Method of determination of arm's length pricing
- List of items requiring approvals from various authorities, Audit Committee, Board, Shareholders etc.
- Any other matter relevant to the related party transactions.

Companies Act, 2013 does not have any provision regarding to this Policy. LODR only mandates the Companies to have a Policy but does not provide any contents in this regard.

This Policy shall be reviewed by Board on Annual basis.

In the case of insurance cover given by the insurance company to the group companies, price/ premium quoted by the companies under File and Use guidelines should be considered as arm's length.

The disclosures about payments made to group entities of the insurer out of the policyholders funds, shall be made as a part of the related party disclosures in terms of para 9(Disclosure Requirements) and all such transactions may be grouped together under the related party transactions.

Auditors, Actuaries, Directors and Key Management Persons shall not simultaneously hold two positions in the insurance company that could lead to conflict or potential conflicts of interest.

While planning or examining options for capital augmentation of the Company, Board shall ensure ongoing compliance with the statutory requirements on capital structure.

Para 4

Governance Structure

- Insurance Companies are yet to be listed in India, as power given by Insurance (Amendment), 2015
- The Authority advises all Indian Insurance Companies to familiarize themselves with Corporate Governance structures and requirements appropriate to listed entities. The companies, even if unlisted, are also well advised to initiate necessary steps to address the extant “gaps” [of SEBI(LODR), 2015]that are so identified to facilitate smooth transition at the time of their eventual listing in course of time.
- Insurance companies presently could have different structures with the Board of Directors headed by an Executive or Non-executive Chairman with distinct oversight responsibilities over the other Directors and Key Management Persons. It is expected that whatever form is taken, the broader elements of good Corporate Governance are present.
- The governance structure of the insurer could also be influenced by its association with an insurance group or a larger financial/ non-financial conglomerate. Insurers who are a part of a financial group could also be subject to the regulatory requirements on governance policies and practices established for the group level and implemented uniformly across the group.

However, these practices should be reoriented at the level of the insurer taking into account its specific business and risk profile and sectoral regulatory requirements. Such insurers should nevertheless strive to maintain consistency in policies and practices in order to reinforce controls across the group.

Para 8

Key Management Persons:

CEO/ Managing Director/ Whole-Time Director

- Section 34A of the Insurance Act, 1938 requires prior approval of the Authority appointment, re-appointment, termination of appointment or remuneration of a managing or whole-time director, or of a manager or a chief executive officer, by whatever name called.
- In case the CEO resigns, the Authority should be kept informed of such resignation and the reasons therefor.
- Section 32A of Insurance Act also prohibits the Managing Director or other Officer of a life insurance company from being a Managing Director or Other Officer of any other Life insurance company or of a Banking company or an Investment Company.

Provided that the Authority may permit such managing director or other officer to be a managing director or other officer of any other insurer carrying on life insurance business for the purpose of amalgamating the business of the two insurers or transferring the business of one insurer to the other.

- According to Section 34A of Insurance Act, the appointment of the CEO is made with the prior approval of the IRDAI, Board should take proactive steps to decide on the continuance of CEO well in time before the expiry of his tenure or to identify the new incumbent.
- The Authority requires the proposal to be submitted with the approval of the Board at least a month before the completion of the tenure of the incumbent. The application to the Authority in **Form A (Annexure 5)** shall be accompanied with information as prescribed in **Form B** and **Form C** as indicated in and **Annexure 6** of these guidelines.
- Checklist of due diligence to be conducted by the Board Nomination and Remuneration Committee before recommending consideration of

appointment of a person as a Managing or Whole-time Director is attached (Form A of Annexure 5 & Form B of Annexure 6).

- The Form 'C' which is required to be submitted to the Authority for considering approval to the appointment of Managing/Whole-time Director is also attached (Annexure 6).

Role of Appointed Actuaries

- IRDA (Appointed Actuary) Regulations, 2000, is the applicable framework for Appointed Actuaries.
- As per Regulation 5 of IRDA (Appointed Actuary) Regulations, 2000, a life insurer shall not carry on business of insurance without an appointed actuary.
- Regulations also stipulate that prior approval of the Authority shall be taken for the appointment of the Appointed Actuary.
- The Appointed Actuary should qualify and satisfy the 'Fit & Proper' criteria and other eligibility conditions as mentioned in Regulation 3(2) of IRDA (Appointed Actuary) Regulations, 2000, which are:
    - ❖ ordinarily resident in India;
    - ❖ a Fellow Member of the Actuarial Society of India;
    - ❖ an employee of the life insurer, in case of life insurance business;
    - ❖ an employee of the insurer or a consulting actuary, in case of general insurance business;
    - ❖ a person who has not committed any breach of professional conduct;
    - ❖ a person against whom no disciplinary action by the Actuarial Society of India or any other actuarial professional body is pending;
    - ❖ not an appointed actuary of another insurer;
    - ❖ a person who possesses a Certificate of Practice issued by the Actuarial Society of India; and
    - ❖ not over the age of seventy years.
- The insurance companies shall clearly set forth the Appointed Actuary's responsibilities and any advisory role vis-à-vis the Board or the management as well as his/her rights and obligations. These shall be in addition to the duties of the Appointed Actuaries as specified in the IRDA Regulations and any other directions of IRDA in the matter.

Functions of Appointed Actuary

- As soon as the Appointed Actuary realizes that the entity does not comply or is likely to fail in complying with the requirements of solvency and other parameters of sound operations, he/she shall inform the Board of the insurer. If no viable/acceptable action is taken by the Board, then he/she has to inform the same to IRDAI.
- Appointed Actuary shall provide professional advice in regard to:
    - ❖ Estimation of technical provisions in accordance with the valuation framework set up by the insurer
    - ❖ Identification and estimation of material risks and appropriate management of the risks
    - ❖ Financial condition testing
    - ❖ Solvency margin requirements
    - ❖ Appropriateness of premiums (and surrender value)
    - ❖ Allocation of bonuses to with-profit insurance contracts Management of participating funds (including analysis of material effects caused by strategies and policies)
    - ❖ Product design, risk mitigation (including reinsurance) and other related risk management roles.
- The appointed actuaries in case of non-life insurance companies shall provide such advice/certification to the extent applicable. In order to facilitate the Appointed Actuary in discharging his/ her responsibilities, he/ she shall at all times be provided access to the information as required.

External Audit - Appointment of Statutory Auditors

- The IRDAI (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002 empower the Authority to issue directions/guidelines on appointment, continuance or removal of auditors of an insurer.
- These guidelines/directions may include prescriptions on qualifications and experience of auditors, their rotation, period of appointment, etc. as may be deemed necessary by the Authority.

- The detailed guidelines as regards appointment of auditors and the reporting about all the auditors appointed by insurers are given in Annexure 7 to these guidelines.
- The Board should therefore ensure that the statutory auditors are compliant with the regulatory requirements and there are no conflicts of interest in their appointment.
- The auditors should possess the competence and integrity to alert the appropriate authorities promptly of any event that could seriously affect the insurance company's financial position or the organization structure of its administration or accounting and of any criminal violations or material irregularities that come to his notice.

Access to Board and Audit Committee

- The Audit Committee should have discussions with the statutory auditors periodically about internal control systems, the scope of audit including the observations of the auditors (where applicable) and review the quarterly/half yearly and annual financial statements as the case may be before submission to the Board of Directors and also ensure compliance with the internal control systems.
- The statutory auditors should also have access to the Board of Directors through the Audit Committee.

<u>Para 9</u>

Disclosure Requirements

The IRDAI (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002, have prescribed certain disclosures in the financial statements.

It may be ensured by the Board that the information on the following, including the basis, methods and assumptions on which the information is prepared and the impact of any changes therein are also disclosed in the annual accounts:-

- Quantitative and qualitative information on the insurance company's financial and operating ratios, viz. incurred claim, commission and expenses ratios.
- Actual solvency margin details vis-à-vis the required margin

- Insurers engaged in life insurance business shall disclose persistency ratio of policies sold by them
- Financial performance including growth rate and current financial position of the insurance company
- Description of the risk management architecture
- Details of number of claims intimated, disposed of and pending with details of duration
- All pecuniary relationships or transactions of the Non-Executive Directors vis-à-vis the insurance company shall be disclosed in the Annual Report
- Elements of remuneration package (including incentives) of MD & CEO and all other directors and Key Management Persons
- Payments made to group entities from the Policyholders Funds Any other matters, which have material impact on the insurer's financial position.

Where finalization of annual accounts extends beyond 90 days from the end of the Financial Year, the status on disclosure in the financial statements required under this clause may be made within 15 days of adoption of annual accounts by the Board of Directors of the Insurers.

<u>Para 10</u>

Outsourcing Arrangements

- All outsourcing arrangements of an Insurer shall have the approval of a Committee of Key Management Persons and should meet the terms of the Board approved outsourcing policy.
- The Board or the Risk Management Committee should be periodically apprised about the outsourcing arrangements entered into by the insurer and also confirmation to the effect that they comply with the stipulations of the Authority as well as the internal policy be placed before them.
- An insurer shall not outsource any of the company's core functions other than those that have been specifically permitted by the Authority.

Core Activities, as per Clause 2 of Guidelines on Outsourcing of Activities by Insurance Companies dated February 1, 2011-

i. Underwriting,

ii. Product design and all Actuarial functions and Enterprise wide Risk Management
iii. Investment and related functions
iv. Fund Accounting including NAV calculations
v. Admitting or Repudiation of all Claims
vi. Bank Reconciliation
vii. Policyholder Grievances Redressal
viii. Approving Advertisements
ix. Market Conduct issues
x. Appointment of Surveyors and Loss Assessors
xi. Compliance with AML, KYC etc.
xii. All integral components of the above activities shall be treated as Core Activities

- Every outsourcing contract shall contain explicit safeguards regarding confidentiality of data and all outputs from the data, continuing ownership of the data with the insurer and orderly handing over of the data and all related software programs on termination of the outsourcing arrangement.
- The management of the insurance company shall monitor and review the performance of agencies to whom operations have been outsourced at least annually and report findings to the Board.
- The Authority reserves the right to access the operations of the outsourced entity to the extent these are relevant to the insurance company and for the protection of policyholder**.**

Para 11

Interaction with the Regulator

IRDAI for the check of effective corporate governance in Insurance Company, can:

- Seek confirmation that the insurance company has adopted and effectively implemented sound corporate governance policies and practices;
- Assess the fitness and propriety of board members;
- Monitor the performance of boards;
- Assess the quality of insurance company's internal reporting, risk management, audit and control functions;

- Evaluate the effects of the insurance company's group structure on the governance strategies;
- Assess the adequacy of governance processes in the area of crisis management and business continuity.

Reporting to IRDAI

- Insurers should observe to what extent they are currently conforming to these guidelines and initiate immediate action to achieve compliance (where not already in compliance) within a period of three months from the date of notification of these guidelines.
- All the arrangements should be in place to ensure full compliance with the guidelines from the financial year 2016-2017. If such compliance is not possible for any specific reason, the insurance companies should write to the IRDAI for further guidance.
- Each insurer should designate Company Secretary as the Compliance officer whose duty will be to monitor continuing compliance with these guidelines.
- Annual Report of insurers shall have a separate certification from the Compliance Officer in the format attached herewith as **Annexure 8**.
- All insurers are required to file a report on status of compliance with the Corporate Governance guidelines on an annual basis. This report shall be filed within 3 months from the end of the financial year, i.e., before 30 June. The report shall be filed as per the format in the **Annexure 9.**

Para 12

Whistle Blower Policy

- Insurers shall have "Whistle-blower" policy for employees to raise concerns internally about possible irregularities, governance weaknesses, financial reporting issues or other such matters.
- Policy shall cover:
    - ❖ Awareness of the employees that such channels are available, how to use them and how their report will be handled.

    - ❖ Handling of the reports received confidentially, for independent assessment, investigation and where necessary for taking appropriate follow-up actions.
    - ❖ A robust anti-retaliation policy to protect employees who make reports in good faith.
    - ❖ Briefing of the board of directors.
- Appointed actuary and the statutory/internal auditors shall have duty to "whistle-blow" and shall inform to IRDAI, in case company fails to take steps for rectification so that policyholder's interest remains safe.

<u>Para 13</u>

Evaluation of Board of Directors including Independent Directors

- Insurance Companies shall follow Schedule IV (Code for Independent Directors) of the Companies Act, 2013 in this regard.
- As per Clause VII of the Schedule, The independent directors of the company shall hold at least one meeting in a year, without the attendance of non-independent directors and members of management.
- The performance evaluation of independent directors shall be done by the entire Board of Directors, excluding the director being evaluated.

<u>Para 14</u>

Applicability

These guidelines shall be applicable to all insurers granted registration by the Authority except that:

- reinsurance companies may not be required to have the Policyholders' Protection Committee; and
- branches of foreign reinsurers in India may not be required to constitute the Board and its mandatory committees as indicated herein.

<u>Annexure 7</u>

Appointment of Statutory Auditors by Insurers

- Section 12 of Insurance Act, 1938 prescribes that all insurers must be audited annually by the Auditors.
- Insurers shall comply with the provisions relating to appointment of Auditors as contained in the Companies Act, 2013.
- Subject to shareholder's approval, Board shall appoint Statutory Auditor on recommendation of Audit Committee, on the approved remuneration by Shareholders.
- The eligibility, qualifications and other requirements of the auditors are detailed below:

    - The Auditor of an insurer shall be a firm, including a Limited Liability Firm, constituted under the LLP Act, 2008.
    - The Firm should have been established and in continuous practice for at least 15 years.
    - The auditor should have:
        - a minimum of 5 full-time partners, of whom,
            - at least 2 should have been in full-time practice as partners exclusively associated with the firm for a continuous period of minimum of 10 years, and
            - at least 2 other partners should have been in continuous association with the audit firm either as partner or as employee for a minimum period of 5 years, and
            - one partner in full-time practice with the firm as a partner for a minimum period of 1 year, and
            - out of the total partners of the firm, at least two should be FCA and be in practice for a minimum period of 5 years as FCA.

        OR (Alternatively),

        - a minimum of 7 Chartered Accountants,
            - of which not less than 2 are partners in full-time practice exclusively associated with the firm for a continuous period of a minimum of 10 years, and
            - at least 3 other Chartered Accountants in continuous association with the audit firm as partner or employee for a minimum period of 5 years, and
            - at least 2 Chartered Accountants should be FCA and be in practice for a minimum period of 5 years as FCA.

- ❖ At least one partner or employee of the audit firm should possess the DISA/ CISA or equivalent qualification as may be recognized by the IRDAI from time to time and such partner or employee must be involved in the audit of the insurer.
- ❖ The Audit firm should have a minimum experience of 5 years in audit assignments of entities in the financial sector.
- ❖ At least one of the joint statutory auditors of an insurer must have experience in insurance company audits of at least two years.

- For the above purposes, a full-time partner shall not include a person who is –
  - ❖ a partner in other CA firm(s) or
  - ❖ employed full time/ part time elsewhere, practicing in own name, or engaged in practice otherwise or engaged in other activity which would be deemed to be in practice under section 2(2) of the Chartered Accountants Act, 1949.
- Insurers should verify to their satisfaction that the proposed auditors meet the eligibility criteria before considering / approving their appointment. A declaration in the prescribed format **(Form A1)** shall be obtained by insurers at the time of appointment of auditors.
- Any change in the constitution of the Audit firm/information submitted/certifications submitted which affects the eligibility criteria indicated in these guidelines, should be duly informed by the Audit firm to the Insurers within 7 working days of such change. In such cases, the insurer must ensure compliance with the guidelines within six months from date of such intimation.
- The Authority must be informed about appointment of auditors within 7 working days thereof with a certification to the effect that the above eligibility stipulations have been met, as per the enclosed format **(Form A2)**.
- Insurers are also advised to file a Return on an annual basis as per the enclosed **(Format A3)** giving details of Chartered Accountant firms engaged in various capacities like Statutory Auditors, Internal Auditors, Concurrent Auditors, Tax Auditors etc.
- If it comes to the notice of the Authority that the appointment of auditors by insurers is not in line with these guidelines, the appointment is liable for

cancellation and it shall be open for the Authority to consider such further action as may be deemed necessary in this regard.

- An insurer shall not remove its statutory auditor without the prior approval of the Authority.

Maximum Number of Statutory Audits of Insurers that can be accepted by an audit firm at a time:

- An Audit firm shall be entitled to carry out Statutory Audits of not more than three Insurers (Life/Nonlife/Health /Reinsurer) at a time.

Provided that an audit firm shall not have the audit assignments of more than 2 insurers in one line of business (i.e. life insurance, general insurance, health insurance and reinsurance) at a time.

Explanation: An audit firm shall include its associate/ affiliate firms which are under the same network or other firm(s) whose name or trade mark or brand is used by the audit firm or any of its partners.

Rotation of Joint Auditors:

- Each insurer shall have a minimum of two auditors as joint auditors. A joint auditor of an insurer shall not include other associate/ affiliate firms which are under the same network or whose name or trade mark or brand is used by the firm or any of the partners of the other joint auditor.

Provided that requirement of joint auditors would not be applicable in case of new insurers during their first year of operations. The requirement shall be mandatory from the financial year succeeding the year in which the Certificate of Registration is granted by the Authority.

- An audit firm which completes the tenure of five years at the first instance in respect of an insurer may be reappointed as statutory auditors of that Insurer for another term of five years. Thus, an audit firm may be appointed as statutory auditors by an insurer for a continuous period of up to ten years. Thereafter there shall be a cooling-off period of five years. The incoming auditor during the cooling-off period shall not include other associate/ affiliate firm(s) which are under the same network or whose name or trade mark or brand is used by the firm or any of the partners of the retiring auditor. The retiring/ outgoing statutory auditor or its associate/ affiliate as explained above, shall not undertake the investment risk management, or concurrent audit of the insurer during cooling-off period.

It is clarified that the period for which the auditors have already served as on the date of effect of these guidelines shall be counted towards determining the term of appointment of statutory auditors for five years.

This is in line with Section 139(4) of Companies Act, 2013 read with Rule 5 of Companies (Audit and Auditors) Rules, 2014

Statutory Auditors taking up other assignments:

Statutory auditor may take up other assignments with the insurer subject to compliance of the following:

a) Any additional work other than statutory audit that is entrusted to the auditor or other firms under the same network/ associate/ affiliate firms whose name or trade mark or brand is used by the audit firm or any of its partners, shall be specifically approved by the Board or Audit Committee thereof;
b) The board or its committee while approving the assignment shall ensure the independence and integrity of the audit relationship.
c) The aggregate of the fees for the additional work in a financial year shall not exceed the Statutory Audit Fees for the said financial year. It is clarified that the fees for the quarterly and half yearly audit/ review may be excluded for the purpose of calculating the aggregate fees for other assignments of the statutory auditors. All fees/ remuneration for such other work entrusted to the auditor or other firms whose name or trade mark or brand is used by the firm or any of its partners shall be specifically disclosed in the Notes to Accounts forming part of the annual accounts of the insurer.
d) Insurers shall ensure compliance with Section 144 of the Companies Act 2013 and Chartered Accountants Act, 1949 and Regulations issued thereunder, and the applicable guidelines of ICAI issued from time to time

in this regard, before considering to provide any additional work to Statutory auditors.

This Part includes –

- **Corporate Governance Guidelines of Year 2016 including the citations of Companies Act, 2013 and SEBI (LODR) Regulations, 2015**

<u>Para 5</u>

<u>Board of Directors Composition</u>

Since Insurance Company can be a Public Company under Companies Act, 2013 only, according to Section 2(7A) of Insurance Act, 1938.

Insurers shall abide by Composition of Board prescribed under the Act and rules.

Insurers shall ensure that Board is comprised of competent and qualified Directors and are from areas of financial and management expertise such as accountancy, law, insurance, pension, banking, securities, economics, etc., with qualifications and experience that is appropriate to the company.

The Board of Directors is required to have a minimum of three "Independent Directors". Transitional Period of one year has been provided for adherence of this guideline.

However, this requirement is relaxed to 'two' independent directors, for the initial five years from grant of Certificate of Registration to insurers.

An independent Director shall fulfill all the conditions specified under Section 149 of the Companies Act, 2013. An appointment letter shall be issued to the Independent director laying down the terms and conditions, including his duties, responsibilities, sitting fees, etc.

In case the number of independent directors falls below the required minimum laid down, such vacancy shall be filled up before the immediately following Board meeting or 3 months from the date of such vacancy, whichever is later, under intimation to the Authority.

Where the Chairman of the Board is non-executive, the Chief Executive Officer should be a whole time director of the Board.

It may be worth Noted that:

As per Section 149(4) of Companies Act, 2013

- A listed Company shall have at least 1/3 of total number of directors as Independent Directors.
- Rule 4 of The Companies (Appointment and Qualification of Directors) Rules, 2014 provides that, Public Companies having paid up share capital of ten crore rupees or more or having turnover of one hundred crore rupees or more or having, in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees, shall have at least 2 directors on Board.

As per Regulation 17(1) (b) of SEBI (LODR), 2015

- Listed Entity shall have 1/3 of total number of Directors of Board as Independent Directors, if

The chairperson of the board of directors is a non-executive director.

- Listed Entity shall have 1/2 of total number of Directors of Board as Independent Directors, if

The listed entity does not have a regular non-executive chairperson, or,
The regular non-executive chairperson is a promoter of the listed entity or
is related to any promoter or person occupying management positions at the level of board of director or at one level below the board of directors.
There shall be at least one Woman Director on the Board of every Insurance company.

As per Rule 3 of Companies (Appointment and Qualification of Directors) Rules, 2014

The following class of companies shall appoint at least one-woman director-

i. every listed company;
ii. every other public company having –
    a. paid–up share capital of one hundred crore rupees or more; or
    b. turnover of three hundred crore rupees or more.

Any intermittent vacancy of a woman director shall be filled-up by the Board at the earliest but not later than immediate next Board meeting or three months from the date of such vacancy whichever is later.

As per Regulation 17(1) (a) of SEBI (LODR), 2015, every listed company shall have at least one woman directors on its Board.

Role and Responsibility of Board

The Board would primarily concentrate:

- on the direction, control and governance of the insurer and in particular should articulate and commit to a corporate philosophy and governance that will shape the level of risk adoption, standards of business conduct and ethical behavior of the company at the macro level.

Senior Management (CEO & KMPs) shall be made accountable for two way information flow. This can be understood as Information to Board and its Committees.

Board in consultation with Senior Management shall establish and evaluate strategies and policy keeping in mind:

- Overall direction of the business of the insurance company, including policies, strategies and risk management across all the functions;
- Projections on the capital requirements, revenue streams, expenses and the profitability. While laying down the projections, the Board must address the expectations of the shareholders and the policyholders.
- Obligation to fully comply with the Insurance Act, 1938 and the regulations framed thereunder, and other statutory requirements applicable to it;
- Addressing conflicts of interest;
- Ensuring fair treatment of policyholders and employees;
- Ensuring information sharing with and disclosures to stakeholders, including investors, policyholders, employees, the regulators, consumers, financial analysts and/or rating agencies.
- Establishing channels for encouraging and facilitating employees raising concerns or reporting a possible breach of law or regulations, with appropriate measures to protect whistle blowers;
- Developing a corporate culture that recognizes and rewards adherence to ethical standards.

In Annexure 1 of the Guideline, following Roles and Responsibilities of Board are prescribed:

In short, this prescribes that, Board shall

- *ensure that Insurers is adhered by all applicable statutes,*
- *defining and periodically reviewing Business strategy, underwriter policy, retention and reinsurance policy, policy on appointments and qualification requirements for human resources, defining standards for business conduct and ethical standards, standards in regards to redressal of grievances of policyholders,*
- *establishments of system to regulate the risk appetite and risk profile of the Company,*
- *ensure that the IT systems in the company are appropriate and have built-in checks.*

1. The Board should ensure that the Governance principles set for the insurer comply with all relevant laws, regulations and other applicable codes of conduct.
2. The Board should set the following policies in consultation with the Management of the Company.
   a) Define and periodically review the business strategy.
   b) Define the underwriting policy of the insurer.
   c) Determine the retention and reinsurance policy and in particular, the levels of retentions of risk by the insurer and the nature and extent of reinsurance protection to be maintained by the insurer.
   d) Define the policy of the insurer as regards investment of its assets consistent with an appropriate asset liability management structure.
   e) Define the insurer's policy on appointments and qualification requirements for human resources and ensure that the incentive structure does not encourage imprudent behavior.
3. The Board should define and set the following standards:
   a) Define the standards of business conduct and ethical behavior for directors and senior management.
   b) Define the standards to be maintained in policyholder servicing and in redressal of grievances of policyholders.
4. The Board would be responsible to provide guidance for implementation of business strategy and review the same periodically.

5. As an integral part of proper implementation of the business strategy, the Board should take action as under:-
    a) Establish appropriate systems to regulate the risk appetite and risk profile of the Company. It will also enable identification and measurement of significant risks to which the company is exposed in order to develop an effective risk management system.
    b) Ensure that all directions of IRDAI are submitted to the Board and the recommendations are implemented as per the Board philosophy.
    c) Ensure that the IT systems in the company are appropriate and have built-in checks and balances to produce data with integrity and put in place a business continuity and disaster recovery plan.
    d) Ensure that the company has put in place a robust compliance system for all applicable laws and regulations.
    e) Prescribe requirements and frequency of reporting in respect of each of the above areas of responsibility as may be decided by the Board.
6. In discharge of the above and other Governance functions, the Board may delegate the responsibilities to mandated/ other recommended Empowered Committees of Directors while retaining its primary accountability.

<u>Fit and Proper Criteria</u>

Similar to IRDAI, **RBI mandates 'Fit and Proper' Criteria for Directors on the Boards of Banks and Non-Banking Financial Companies** for having a policy for fit and proper criteria for appointment on Board.

The Insurance Act prohibits

- an insurance intermediary/ agent to be the Director of an insurance company (except with prior approval of the Authority); and
- the common directorship among life insurance companies.

Prescribed by Section 48A of Life Insurance Act

The fit and proper requirements seek to ensure that

- the Director should not have been convicted or come under adverse notice of the laws and regulations involving moral turpitude or of any professional body.

Due diligence enquiry should be undertaken on the person to be appointed as Director or for the continuance of the existing Directors only after obtaining a declaration from the proposed/existing Directors in the format given in **Annexure 2**, at the time of their appointment/re-appointment.

Disclosures about Meetings of the Board and its Committees

Insurers shall ensure compliance with the provisions of the Companies Act, 2013 and the Secretarial Standards issued by the ICSI from time to time as regards conduct of the meetings of the Board of Directors and their committees.

In addition to the above, all insurers shall disclose the following in the Director's Report:

- Number of meetings of the Board of Directors and Committees mandated under these Guidelines, in the financial year.
- Details of the composition of the Board of Directors and Committees mandated, setting out name, qualification, field of specialization, status of directorship held etc.
- Number of meetings attended by the Directors and members of the Committee.
- Details of the remuneration paid, if any, to all directors (including Independent Directors).

Para 6

Control Functions

Board shall be liable for the oversight over the control functions of an Insurer.

In short Board shall have Policy/Policies for risk management, compliances of statutes, internal controls, internal audit and independent control functions.

Board shall lay down the policy framework to put in place:

- robust and efficient mechanisms for the identification, assessment, quantification, control, mitigation and monitoring of the risks;
- appropriate processes for ensuring compliance with the Board approved policy, and applicable laws and regulations;
- appropriate internal controls to ensure that the risk management and compliance policies are observed;

- an internal audit function capable of reviewing and assessing the adequacy and effectiveness of, and the insurer's adherence to its internal controls as well as reporting on its strategies, policies and procedures; and
- Independence of the control functions, including the risk management function, from business operations demonstrated by a credible reporting arrangement.

For insurers within a group, apt and effective group-wide risk control systems should be in place in addition to the control systems at the level of the insurer.

The Boards of the respective insurers are required to lay down requisite policy framework to ensure that such risks are adequately addressed.

This Part includes –

- **Corporate Governance Guidelines of Year 2016 including the citations of Companies Act, 2013 and SEBI (LODR) Regulations, 2015**
- **Risk Policy and Framework**
- **Fraud Prevention and Detection Policy**

Para 7

Delegation of Functions- Committees of the Board:

To give more time to corporate functions, Board may setup Committees to the Board and can delegate responsibility to these committees. This guideline provides aspects which should be taken care of while setting up a committee-

- Constitution
- Objectives
- Responsibilities
- Frequency of meeting / quorum requirements
- Appointment and removal of members
- Reporting to the Board

Mandatory Committees:

- Audit Committee
- Investment Committee
- Risk Management Committee
- Policyholder Protection Committee
- Nomination and Remuneration Committee
- Corporate Social Responsibility (Applicable only if Company falls in criteria given by Companies Act, 2013).
- With Profits' Committee (Applicable only to Insurers in the Business of Non-Linked Insurance Products) As per Section 45(d) IRDA (Non-linked Insurance Products) Regulations, 2013

Non Mandatory Committees:

- Ethics Committee
- Asset Liability Management (ALM) Committee

<u>Mandatory Committees:</u>

Audit Committee:

<u>Composition</u>

- Minimum of 3 directors with majority of Independent Directors (Guideline refers to CA, 2013)
- Chairperson

In addition to Companies Act, 2013, SEBI (LODR), 2015 and this Guideline requires that Chairperson should be an Independent Director and with an accounting/finance/audit experience and may be a Chartered Accountant or a person with a strong financial analysis background.

<u>Meeting Requirements</u>

- Committee shall meet at least four times in a year and not more than four months shall elapse between two successive meetings of such Committees.
- The quorum shall be two members or one-third of the members of the Committee, whichever is greater. At least one such independent director or his alternate director, should necessarily be present to form the quorum.

<u>Function</u>

- The Audit Committee shall oversee the financial statements, financial reporting, statement of cash flow and disclosure processes both on an annual and quarterly basis.
- It shall set-up procedures and processes to address all concerns relating to adequacy of checks and control mechanisms.
- Committee will oversee the efficient functioning of the internal audit department and review its reports.

- Committee shall be directly responsible for the recommendation of the appointment, remuneration, performance and oversight of the work of the auditors (internal/statutory/Concurrent).
- Committee shall ensure that insurance companies comply with Section 144 (Auditor not to render certain services) of the Companies Act, 2013 before deciding to provide any additional work to the Statutory Auditors.

Investment Committee

Composition

- At least two Non-Executive Directors
- Chief Executive Officer,
- Chief of Finance
- Chief of Investment
- Chief Risk Officer
- Appointed Actuary.

Meeting Requirements

- Committee shall meet at least four times in a year and not more than four months shall elapse between two successive meetings of such Committees.
- The quorum shall be two members or one-third of the members of the Committee, whichever is greater.

Function

- The Committee shall be responsible to recommend investment policy and lay down the operational framework for the investment operations of the insurer, focusing on a prudential Asset Liability Management (ALM) supported by robust internal control systems.
- The investment policy and operational framework should, inter alia, encompass aspects concerning liquidity for smooth operations, compliance with prudential regulatory norms on investments, risk management / mitigation strategies to ensure commensurate yield on investments and above all protection of policyholders' funds.
- The Investment Committee shall be responsible for implementing the Investment Policy duly approved by the Board.

- Members of the Committee should familiarize themselves and be conversant with the various Acts, Rules, Regulations, Guidelines, Circulars, etc., issued by the Authority.
- For assessment of credit risk and market risk, the members of the Committee should not be influenced only by the credit rating. The committee should independently review their investment decisions and ensure that support by the internal due diligence process is an input in making appropriate investment decisions.
- The Committee shall formulate an effective reporting system to ensure compliance with the policy set out by it apart from Internal /Concurrent Audit mechanisms for a sustained and ongoing monitoring of Investment Operations.
- The Committee shall review investment operations and submit a report to the Board on the performance of the investment portfolio with regard to its safety and soundness.

Risk Management Committee

Composition

- No such requirements.
- The risk management function should be under the overall guidance and supervision of the Chief Risk Officer (CRO) with a clearly defined role.

Meeting Requirements

- Committee shall meet at least four times in a year and not more than four months shall elapse between two successive meetings of such Committees.
- The quorum shall be two members or one-third of the members of the Committee, whichever is greater.

Function

- Establish effective Risk Management framework and recommend to the Board the Risk Management policy and processes for the organization.
- Set the risk tolerance limits and assess the cost and benefits associated with risk exposure.
- Review the Company's risk- -reward performance to align with overall policy objectives.

- Discuss and consider best practices in risk management in the market and advise the respective functions.
- Assist the Board in effective operation of the risk management system by performing specialized analyses and quality reviews.
- Maintain an aggregated view on the risk profile of the Company for all categories of risk including insurance risk, market risk, credit risk, liquidity risk, operational risk, compliance risk, legal risk, reputation risk, etc.
- Advise the Board with regard to risk management decisions in relation to strategic and operational matters such as corporate strategy, mergers and acquisitions and related matters.
- Report to the Board, details on the risk exposures and the actions taken to manage the exposures; review, monitor and challenge where necessary, risks undertaken by the Company
- Review the solvency position of the Company on a regular basis.
- Monitor and review regular updates on business continuity.
- Formulation of a Fraud monitoring policy and framework for approval by the Board.
- Monitor implementation of Anti-fraud policy for effective deterrence, prevention, detection and mitigation of frauds.
- Review compliance with the guidelines on Insurance Fraud Monitoring Framework in its circular no. IRDA/SDD/MISC/CIR/009/01/2013 dated 21st January 2013, issued by the Authority.

Policyholder Protection Committee

Composition

- Committee shall be headed by a Non-Executive Director.
- It shall include an expert/representative of customers as an invitee to enable insurers to formulate policies and assess compliance thereof.

Meeting Requirements

- Committee shall meet at least four times in a year and not more than four months shall elapse between two successive meetings of such Committees.
- The quorum shall be two members or one-third of the members of the Committee, whichever is greater.

Functions

- The Committee shall recommend a policy on customer education for approval of the Board and ensure proper implementation of the same.
- The Committee should put in place systems to ensure that policyholders have access to redressal mechanisms and shall establish policies and procedures, for the creation of a dedicated unit to deal with customer complaints and resolve disputes expeditiously.
- Indian Insurance companies are also required to report on the number and nature of complaints to the IRDAI at monthly intervals to enable IRDAI to assess the governance and market conduct issues with respect to each insurance company.
- Adopt standard operating procedures to treat the customer fairly including time-frames for policy and claims servicing parameters and monitoring implementation thereof.
- Establish effective mechanism to address complaints and grievances of policyholders including mis-selling by intermediaries.
- Put in place a framework for review of awards given by Insurance Ombudsman/Consumer Forums. Analyze the root cause of customer complaints, identify market conduct issues and advise the management appropriately about rectifying systemic issues, if any.
- Review all the awards given by Insurance Ombudsman/Consumer Forums remaining unimplemented for more than three (3) months with reasons therefor and report the same to the Board for initiating remedial action, where necessary.
- Review the measures and take steps to reduce customer complaints at periodic intervals.
- Ensure compliance with the statutory requirements as laid down in the regulatory framework.
- Ensure adequacy of disclosure of "material information" to the policyholders. These disclosures shall comply with the requirements laid down by the Authority both at the point of sale and at periodic intervals.
- Provide details of grievances at periodic intervals in such formats as may be prescribed by the Authority.
- Ensure that details of insurance ombudsmen are provided to the policyholders.

- Review of Claims Report, including status of Outstanding Claims with ageing of outstanding claims.
- Reviewing Repudiated claims with analysis of reasons.
- Status of settlement of other customer benefit payouts like Surrenders, Loan, and Partial withdrawal requests etc.
- Review of unclaimed amounts of Policyholders, as required under the Circulars and guidelines issued by the Authority.

The Board shall review the status report on policyholders' protection issues, submitted by the Committee, in each of its meeting.

The Authority has, therefore, notified the following Regulations/Guidelines/Circulars to protect policyholder's' interests:

i. Protection of Policyholders' Interests Regulations, 2002
ii. Insurance Advertisements and Disclosure Regulations, 2002
iii. Master Circular on Insurance Advertisements in August, 2015
iv. Guidelines on Public Disclosure for insurance companies
v. Guidelines on Advertisements, Promotion & Publicity of Insurance Companies and Insurance Intermediaries in May 2007
vi. Various Circulars on Handling and Disclosure of the Unclaimed Amounts pertaining to the Policyholders
vii. Guidelines on Grievance Redressal by Insurance Companies in July 2010 and Handling of Complaints/Grievances from Policyholders in April 2015
viii. Guidelines on Electronic Mode of Payments for Claims

Nomination and Remuneration Committee

<u>Composition</u>

- Three or more non-executive directors out of which not less than one-half shall be independent directors (Guideline refers to CA, 2013).
- Chairman of the Committee shall be an independent director.

<u>Meeting Requirements</u>

- No such requirement, but on appointment or reappointment of Directors and KMPs.

Functions

- The Nomination and Remuneration Committee shall scrutinize the declarations of intending applicants before the appointment/reappointment/election of directors and KMPs by the shareholders at the General Meetings.
- The Nomination and Remuneration Committee is required to determine on behalf of the Board and on behalf of the shareholders with agreed terms of reference, the insurance company's policy on remuneration packages and any compensation payment, for the CEO, the Executive Directors, Key management Persons of the company.
- The remuneration package shall be aligned appropriately with the performance objectives laid down for the Key Management Persons.
- The Nomination and Remuneration Committee shall ensure that the remuneration packages of the Key Management Persons of the company are as per the Remuneration Policy approved by the Board.
- The Committee shall also ensure that the proposed appointments/ re-appointments of Key Management Persons or Directors are in conformity with the Board approved policy on retirement/ superannuation.

Certain Aspects related to Appointment and Remuneration to Directors and KMPs

- The insurance companies are further advised that they should obtain an **annual declaration from the Directors/KMPs** that the information provided in the declaration at the time of appointment/ reappointment has not undergone any change subsequently and the changes, if any, are apprised by the concerned Director to the Board.
- The Directors are also required to enter into a **Deed of Covenant** as per the format placed at **Annexure 3**, with the insurance company, duly approved by the Board, pursuant to their terms of appointment to ensure that there is a clear understanding of the mutual role of the company, the Directors and the Board in Corporate Governance. The appointment and reporting of Key Management Persons should be as per the directions given in Annexure 4.
- Provisions of Section 34 (A) (1) of the Insurance Act, 1938 which stipulates that the remuneration of CEOs/Whole-time Directors of Indian insurance companies is subject to statutory approval of the IRDAI.

- The appointment and reporting of Key Management Persons should be as per the directions given in *Annexure 4***:**

  - "Key Management Person" means members of the core management team of an insurer including all whole-time directors/ Managing Directors/ CEO and the functional heads one level below the MD/CEO, including the CFO, Appointed Actuary, Chief Investment Officer, Chief Risk Officer, Chief Compliance Officer and the Company Secretary.

This is only an illustrative list.

  - The appointment of MD/CEO/Whole-time Director and Appointed Actuary shall be governed by the provisions of the Insurance Act, 1938 and Regulations made thereunder.
  - Appointment/termination of KMPs shall be made on approval of Board on recommendation of NRC.
  - Insurers shall ensure that appointee is "fit and proper" and obtain declaration in Form **KMP-1** annexed to these guidelines from the proposed KMP prior to their consideration for appointment.
  - Insurers shall within a period of 30 days notify the Authority in the event of any position of 'key Management person' falling vacant, with the details of the person who will officiate in that position.
  - At no point of time the position of any 'Key Management Person' shall remain vacant for a continuous period of more than 180 days.
  - The names and designations of all the 'KMPs' shall be disclosed on their respective websites by all Insurers.
  - In order to develop the accountable organizational reporting structures, it shall be ensured that any information that is called for by the Authority, shall be submitted only by the concerned 'Key Management Person'. The Board of the Insurer or Committee thereof may also delegate the powers to any of the 'Key Management Person' for submitting such information to the Authority.
  - Every Insurer shall submit an annual compliance certificate **(KMP-2)** or declaration as a part of the Corporate Governance Check-list, to the Authority.

- ❖ Insurers shall ensure that no single individual is simultaneously holding more than one position of Key Management Person that may have potential conflict of interest. Where a person is going to have two or more positions of Key Management Person simultaneously, insurer shall furnish a note highlighting the reasons for such appointment, to the Authority prior to such dual/ multiple appointments.

It is worth noting that Section 203(3) of Companies Act, 2013 provides that a whole-time key managerial personnel shall not hold office in more than one company except in its subsidiary company at the same time.

However, this guideline includes, in addition to CA, 2013 also includes Appointed Actuary, Chief Investment Officer, Chief Risk Officer, Chief Compliance Officer in definition of KMP. So this is relevant for that position.
Section 178(3) of the Companies Act, 2013 Nomination and Remuneration Committee shall formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration for the directors, key managerial personnel and other employees.

Corporate Social Responsibility Committee

This Committee is not applicable to all insurers. Applicability of this Committee is checked in reference with Section 135(1) of Companies Act, 2013.

<u>Applicability</u>

Every company having

- net worth of rupees five hundred crore or more, or
- turnover of rupees one thousand crore or more or
- a net profit of rupees five crore or more during any financial year.

<u>Meaning of “Net Profit”</u>

“Net profit” means the “profit/(loss) before tax” as per its financial statements prepared in accordance with the applicable provisions of the Insurance Act, 1938 and the Regulations framed thereunder, but shall not include the following, namely

i. Any profit arising from any overseas branch or branches of the company, whether operated as a separate company or otherwise; and
ii. any dividend received from other companies in India, which are covered under and complying with the provisions of section 135 of the Companies Act.

Provided that net profit in respect of a financial year for which the relevant financial statements were prepared in accordance with the provisions of the Insurance Act, 1938, shall not be required to be re-calculated in accordance with the provisions of the Companies Act.

<u>Composition</u>

- Three or more directors
- at least one director shall be an independent director.

<u>What if Company falls in eligibility criteria?</u>

- Company shall constitute a CSR Committee.
- Committee shall have a Corporate Social Responsibility Policy (approved by Board), which shall indicate the activities to be undertaken by the company as specified in Schedule VII of the Companies Act, 2013.
- Board's Report shall have details about CSR Committee.
- Board of Directors of the Company shall ensure that the Company spends not less than 2% of the three years' average Net Profits as CSR activities.

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities.

If the company fails to spend such amount, the Board shall, in Board's report shall specify the reasons for not spending the amount. This make this provision "comply or explain".

<u>Meeting Requirements</u>

- No such requirements.

<u>Certain Points for CSR Expenditure</u>

- The expense incurred on CSR shall not be included for the purpose of calculation of ceilings on Expenses of Management under Section 40B or Section 40C, as the case may be.

These sections were amended by Insurance (Amendment) Act, 2015.

Section 40B of Insurance Act, 1938:

No insurer shall, in respect of insurance business transacted by him in India, spend as expenses of management in any financial year any amount exceeding the amount as may be specified by the regulations made under this Act.

Section 40C of Insurance Act, 1938:

Every insurer transacting insurance business in India shall furnish to the Authority, the details of expenses of management in such manner and form as may be specified by the regulations made under this Act.

In this regard:

Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting life insurance business) Regulations, 2016 prescribes that:

- *"Expenses of Management" shall include all expenses in the nature of operating expenses including commission, remuneration to the insurance agents, intermediaries and insurance intermediaries which are charged to Revenue Account. However, it shall not include the Charges as defined in these Regulations.*

Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting General or Health Insurance Business) Regulations, 2016 prescribes that:

- *"Expenses of Management" shall include all expenses in the nature of operating expenses including commission, brokerage / remuneration to the insurance agents, intermediaries and insurance intermediaries* *which are charged to Revenue Account. However, it shall not include the Charges.*

- *'Charges' means charge against profit such as income tax and wealth tax and other taxes like Service Tax borne by the insurer and other charges which are levied against the profit.*

- The expenses incurred on CSR activities should not be charged to the Policyholders' Account.

Policyholder's Account or Revenue Account is prescribe is prepared in accordance with Part V of the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000 in form A-RA.

With Profits Committee

As per IRDA (Non-Linked Insurance Products) Regulations 2013

"Non-linked Whole Life products" means non linked insurance products which do not have a definite policy term and the policy terminates on death of the life assured. This can be issued with item Limited premium payment products, Regular Premium Product, and Single premium products.

"Limited premium payment products" means the non-linked insurance products where the premium payment period is limited compared to the policy term and are paid at regular intervals like yearly, half-yearly etc.

"Regular Premium Products" means non linked insurance products where the premium payment is throughout the term of the product and are paid in regular intervals like yearly, half-yearly etc.

"Single premium products" means non linked insurance products, where the premium payment is made by a single payment at the inception of the policy.

<u>Applicability</u>

This Committee shall be incorporated by the Insurers who are in the Business of above products in accordance with IRDA (Non-Linked Insurance Products) Regulations 2013.

<u>Composition</u>

The With Profits Committee shall be constituted with

- one independent director of the Board,
- CEO,
- Appointed Actuary and
- An independent actuary.

Meeting Requirements

The Committee shall meet as often as is required. However, the report of with profits committee shall be appended to the Actuarial Report and Abstract.

Function

Determination of:

- The share of assets attributable to the policyholders.
- The investment income attributable to the participating fund of policyholders.
- The expenses allocated to the policyholders.

Non-Mandatory Committees:

It is worth noting that if Board decides not to constitute non-mandatory committees, then the functions and responsibilities of such committee can be as per Board's decision.

However, If Board decided to constitute such committee, then such constituted committee shall follow the guideline in this regard.

Merging of two Mandatory Committees

If Board of Insurance Company decides to merger, mandatory committees, which do not affect the independence and objectivity envisaged in the corporate governance structure, then Company may do so by specific approval of Board and by intimation to the Authority.

However, **Audit Committee and the Investment Committee** can never be merged in any circumstances.

Ethics Committee

Composition

No such guideline in this regard.

<u>Meeting Requirements</u>

Committee may meet as and when required.

<u>Function</u>

- Monitoring the compliance function and the insurance company's risk profile in respect of compliance with external laws and regulations and internal policies, including its code of ethics or conduct.
- Receiving reports on the above and on proactive compliance activities aimed at increasing the insurance company's ability to meet its legal and ethical obligations, on identified weaknesses, lapses, breaches or violations and the controls and other measures in place to help detect and address the same.
- Supervising and monitoring matters reported using the insurer's whistle blowing or other confidential mechanisms for employees and others to report ethical and compliance concerns or potential breaches or violations.
- Advising the board on the effect of the above on the insurer's conduct of business and helping the board set the correct "tone at the top" by communicating, or supporting the communication, at all levels of the insurer of the importance of ethics and compliance.
- Approving compliance programmes, reviewing their effectiveness on a regular basis and signing off on any material compliance issues or matters.

Asset Liability Management (ALM) Committee

Asset Liability Management is an ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities to achieve an organization's financial objectives, given the organization's risk appetite, risk tolerances and business profile. The need for ALM cannot be over-emphasized as it lays down the framework to ensure that the insurer invests in a manner which would enable it to meet its cash flow needs and capital requirements at a future date to mitigate liquidity risk and solvency stipulations.

Asset Liability management was also mentioned in Appointed Actuary's Annual Report.

<u>For Life Insurers</u>

IRDA via its Cir No. IRDA-ACTL-CIR-ALM-005-01-2012 on ALM dated January 3, 2012, issued guideline on Asset Liability Management and Stress Testing for Life Insurers.

These Guidelines are applicable from April 1, 2012 and are briefed following:

- Insurers shall have an ALM policy approved by the Board of the insurer and shall be submitted to the Authority within 90 days from the date of this circular. The Board shall approve the insurer's ALM policy, considering the asset-liability relationships, the insurer's overall risk tolerance, risk and return requirements, solvency position and liquidity requirements.
- The Board shall regularly review such policy at the year-end or at more frequent intervals, if required, and submit to the Authority any changes in the ALM policy along with the Appointed Actuary's Annual Report.
- The ALM policy should, at least consider:
    - ❖ understand the risks they are exposed to;
    - ❖ develop ALM policies to manage them effectively;
    - ❖ apply techniques appropriate for the nature of their business, the risks they undertake and specific /local market conditions; and
    - ❖ measure the interest rate risk, in particular, faced by the insurers and thereby improving the assessment of the asset liability management strategies of the insurers.
- Insurer shall examine all risks requiring the coordination of its assets and liabilities. These may include risks like:
    - ❖ Market Risk
        - ▪ interest rate risk (including variations in market credit spreads)
        - ▪ equity, real estate and other asset value risks
        - ▪ currency risk
        - ▪ related credit risk
    - ❖ Underwriting Risk
    - ❖ Liquidity Risk

<u>For Non- Life Insurers</u>

IRDAI vide its Circular No: IRDA/ACT/CIR/MISC/081/05/2010, May 13, 2010, has mandated all the non-life insurers to provide the details of ALM activities undertaken by them on 'Investments and ALM' of Financial Condition Report

(FCR) and also discussed the framework of ALM in its guidelines on Corporate Governance Guidelines 2009.

IRDAI via its Circular No. IRDA/ACTL/CIR/ALM/005/01/2012 revised the guidelines, which came into effect on April 1, 2012. This Guideline is briefed as following:

- Insurers shall have an ALM policy approved by the Board of the insurer and shall be submitted to the Authority within 90 days from the date of this circular. The Board shall approve the insurer's ALM policy, considering the asset-liability relationships, the insurer's overall risk tolerance, risk and return requirements, solvency position and liquidity requirements.
- The Board shall regularly review such policy at the year-end or at more frequent intervals, if required, and submit to the Authority any changes in the ALM policy along with the Financial Condition Report.
- The ALM policy should, at least consider:
    - ❖ understand the risks they are exposed to;
    - ❖ develop ALM policies to manage them effectively;
    - ❖ apply techniques appropriate for the nature of their business, the risks they undertake and specific /local market conditions; and
    - ❖ measure the interest rate risk, in particular, faced by the insurers and thereby improving the assessment of the asset liability management strategies of the insurers.
- Insurer shall examine all risks requiring the coordination of its assets and liabilities. These may include risks like:
    - ❖ Market Risk
        - ▪ interest rate risk (including variations in market credit spreads)
        - ▪ equity, real estate and other asset value risks
        - ▪ currency risk
        - ▪ related credit risk
    - ❖ Underwriting Risk
    - ❖ Liquidity Risk

<u>Functions</u>

- Setting the insurer's risk/reward objectives and assessing policyholder expectations.

- Quantifying the level of risk exposure (e.g. market, credit and liquidity) and assessing the expected rewards and costs associated with the risk exposure.
- Formulating and implementing optimal ALM strategies and meeting risk-reward objectives at both product and enterprise level.
- Ensuring that liabilities are backed by appropriate assets and manage mismatches between assets and liabilities to ensure they remain within acceptable monitored tolerances for liquidity, solvency and the risk profile of the entity.
- Monitoring risk exposures at periodic intervals and revising ALM strategies where required. Reviewing, approving and monitoring systems, controls and reporting used to manage balance sheet risks including any mitigation strategies.
- Regular review and monitoring of mismatch between assets and liabilities and the acceptable tolerance limits for mismatch, if any.
- Ensuring that management and valuation of all assets and liabilities comply with standards, prevailing legislation and internal and external reporting requirements.
- Submitting the ALM information before the Board at periodic intervals. Annual review of strategic asset allocation.
- Reviewing key methodologies and assumptions including actuarial assumptions, used to value assets and liabilities
- Managing capital requirements at the company level using the regulatory solvency requirements
- Reviewing, approving and monitoring capital plans and related decisions over capital transactions (e.g. dividend payments, acquisitions, disposals, etc.).

Corporate Governance in Companies Act, 2013 including Internal Financial Control Framework

- Composition of Board
  - One Resident Director on Board of Every Company u/s Section 149(3) of the Companies Act.
  - One Woman Director on Board of a Company which Second Proviso to Section 149(1):
    - Is a listed company.
    - Public Company having paid up share capital of Rs. 100 Crore or turnover of Rs. 300 Crore or more.
- Independent Director Section 149(4):
  - Every listed shall have 1/3 of IDs on Board.
  - Public Companies having paid up share capital of ten crore rupees or more, or, turnover of one hundred crore rupees or more, or, have, in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees shall have at least 2 IDs.

- Maximum Tenure of ID in a Company Section 149(10),(11):

  IDs shall hold office for a term up to five consecutive years on the Board of a company, but shall be eligible for re- appointment on passing of a special resolution by the company and disclosure of such appointment in the Board's report.

  IDs shall hold office for more than two consecutive terms, but such independent director shall be eligible for appointment after the expiration of three years of ceasing to become an independent director.

- Schedule IV **Code for Independent Directors** prescribes that:
  - IDs shall have a separate meeting without presence of no-independent directors and members of the Board.
  - They shall:

- review the performance of non-independent directors and the Board as a whole;
- review the performance of the Chairperson of the company, taking into account the views of executive directors and non-executive directors;
- assess the quality, quantity and timeliness of flow of information between the company management and the Board that is necessary for the Board to effectively and reasonably perform their duties.

- On the basis of the report of performance evaluation independent directors done by the entire Board of Directors, excluding the director being evaluated, it shall be determined whether to extend or continue the term of appointment of the independent director.

- Liability of Independent and Non-Executive Director: Section 149(12)

  ID and NED shall be held liable, only in respect of such acts of omission or commission by a company which had occurred with his knowledge, attributable through Board processes, and with his consent or connivance or where he had not acted diligently.

- Transparency and Accountability to the Stakeholders is the key to Corporate Governance. Companies Act, 2013 has following committee in place in this regard:

  - Audit Committee:

    - Every Listed Company and Public Company having paid up share capital of Rs. 10 Crore or turnover of Rs. 100 Crore or more, or , having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more, shall have an Audit Committee of minimum 3 directors and with a majority of IDs.
    - Functions of Audit Committee: Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include,—

- ✓ the recommendation for appointment, remuneration and terms of appointment of auditors of the company;
- ✓ review and monitor the auditor’s independence and performance, and effectiveness of audit process;
- ✓ examination of the financial statement and the auditors’ report thereon;
- ✓ approval or any subsequent modification of transactions of the company with related parties;

  [Provided that the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as may be prescribed;]
- ✓ scrutiny of inter-corporate loans and investments;
- ✓ valuation of undertakings or assets of the company, wherever it is necessary;
- ✓ evaluation of internal financial controls and risk management systems;
- ✓ monitoring the end use of funds raised through public offers and related matters.

- Vigil Mechanism: Every listed company and Companies which accept deposits from the public, or, Companies which have borrowed money from banks and public financial institutions in excess of fifty crore rupees, shall have a Vigil Mechanism.

- Nomination and Remuneration Committee (Section 178): Every Listed Company and Public Company having paid up share capital of Rs. 10 Crore or turnover of Rs. 100 Crore or more, or, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more, shall have an NRC comprising of three or more non-executive directors out of which not less than one-half shall be independent directors.

- Stakeholder Relationship Committee (Section 178): The Board of Directors of a company which consists of more than one thousand shareholders, debenture-holders, deposit-holders and any other security holders at any time during a financial year shall constitute a Stakeholders Relationship Committee consisting of a chairperson who shall be a non-executive director and such other members as may be decided by the Board.

- Corporate Social Responsibility Committee (Section 135): Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director. CSR Activities can be taken from Schedule VII of Companies Act, 2013.

Unit -12
Way forward

Insurance sector is one the most important financial intermediary in India. This sector helps in mobilizing savings of general public to financial assets. Insurance sector also act as a stabilizer and it helps people in the situation of crisis.

Major problems in insurance sector are:
- Rising cost of insurance products.
- Slowing growth and insufficient penetration throughout India.

Faster Clearance cycle for Insurance products typically an insurance product which is not complicated takes around 45 days in clearance.

- IRDA to consider 30-Day norm for clearing the product.
- All banking correspondents will be allowed to sell the insurance products.
- Reduction in service tax on first year regular premium as well as single premium policies.
- IRDA to evolve and notify guidelines for reduction in arbitrage between UNITS and traditional products.

Before liberalization Public sector insurance companies had the monopoly over the market. Due to lot of private sector Company's entry post liberalization number of people with insurance cover have improved significantly but it still falls below the satisfactory levels. There are 56 insurers registered in India till date.

The Indian insurance market is poised for strong growth in the long run. It stands at the threshold of moving towards a stable position, delivering "stable profitable growth."

Significant latent market - The insurance market has a considerable amount of latent potential, given the fact that the Indian economy is expected to do well in the coming decades leading to increase in per capita incomes and awareness.

Channelizing industry focus - In meeting the significant potential, the industry has an increased role and responsibility. Three areas of focus could be — a) product innovation matching the risk profile of the policy holders b) reengineering the distribution and more significantly c) making sales and marketing more responsible and answerable.

Distribution - Distribution channels evolved in response to market dynamics and changing consumer preferences. The alignment of economic incentives with distribution dynamics should be driven by market forces rather than regulatory intervention.

Regulation - The industry should be given time to adjust to regulatory changes in a phased manner aligned with a regulatory impact assessment. Regulations need to drive transparency and simplification of products and services.

The stakeholders should eventually work toward maintaining a favourable environment for stable growth, increasing the penetration of insurance to rural and underpenetrated areas and increasing the contribution to the economy.

Unit -13
Role of Ministry, Institutions and Professional in Corporate Governance

Ministry of Corporate Affairs (MCA) -

The Ministry of Corporate Affairs is the main authority for regulating and promoting efficient, transparent and accountable form of corporate governance in the Indian corporate sector. It is constantly working towards improvement in the legislative framework and administrative set up, so as to enable easy incorporation and exit of the companies, as well as convenient compliance of regulations with transparency and accountability in corporate governance. It is primarily concerned with administration of the Companies Act, 2013 and related legislations.

Ministry of Finance –

PFRDA and IRDA are governed by Department of Financial Services, a department under Ministry of Finance.
Insurance Division is administratively concerned with the activities of life and non-life segments of the nationalized insurance industry and Insurance Regulatory and Development Authority (IRDA). The Functions of Division are:

- Policy formulation and administration of the following Acts of Parliament:-
    - Insurance Act, 1938
    - Life Insurance Corporation Act, 1956
    - General Insurance Business (Nationalization) Act, 1972
    - IRDA Act, 1999
    - Actuaries Act, 2006

- Constant review and monitoring of the performance of the National Insurance Companies.
- Framing of rules and regulations in respect of service conditions of employees of Public sector Insurance Companies.
- Appointment of Chief Executives and Directors on the Board of Public sector Insurance Companies and on the IRDA.
- Implementation of government sponsored insurance scheme like Universal Health insurance scheme, Aam Aadmi Bima Yojana, Varisht Pension Yojana Etc.

In case of Pension Sector, PFRDA has been set up by the department and this department is responsible for the following:

- Issues / Policy matters relating to Pension Reforms including National Pension System (NPS), Atal Pension Yojana (APY), Swavalamban / NPS-Lite
- Policy formulation and Regulation of Pension Fund Regulatory and Development Authority Act, 2013.
- Appointment process of Chairman/ Members in PFRDA/ Government nominee Trustees on the Board of NPS Trust.
- Formulation of legislative proposals/ Rules concerning the Pension Fund Regulatory and Development Authority (PFRDA), Administrative work relating to PFRDA
- Examination of FIPB proposals concerning FDI in Pension Fund.
- Reply of Parliament Questions, Parliament Assurances, VIP/PMO/Email references, DPG grievances and RTI matters relating to Pension reforms.

Insurance Regulatory and Development Authority (IRDA) –

Insurance Regulatory Development Authority has been entrusted with the regulatory responsibility to protect the interests of the policyholders and accordingly would like to ensure that appropriate governance practices are in place in the insurance companies for maintenance of solvency, sound long term investment policy and assumption of underwriting risks on a prudential basis, particularly as most of the insurance companies are yet to be listed.

IRDA has therefore evolved Corporate Governance Guidelines for Insurance companies dated 18th May, 2016. These guidelines have been evolved to ensure fairer corporate governance in public and private insurance companies to safeguard the investments of lakhs of policy holders, alignment with Companies Act, 2013 and SEBI Regulations in this regard.

According to Section 14 of the IRDA Act, 1999, some of the important functions of the regulatory authority include:

- Protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;

- Promoting efficiency in the conduct of insurance business;
- Calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organisations connected with the insurance business; etc.

Hence the Insurance Regulator has an important responsibility of protecting the interests of several policyholders and it needs to ensure that good governance practices are in place for maintenance of solvency, sound long term investment policy and assumption of underwriting risks on a prudential basis.

National Foundation of Corporate Governance

In the year 2003, the Ministry of Company Affairs has set up National Foundation for Corporate Governance (NFCG) in association with Confederation of Indian Industry (CII), Institute of Company Secretaries of India (ICSI) and Institute of Chartered Accountants of India (ICAI) to focus on the following areas:

- Creating awareness on the importance of implementing good corporate governance practices both at the level of individual corporations and for the economy as a whole.
- Encouraging research capability in the area of corporate governance in the country
- Working with the regulatory authorities at multiple levels to improve implementation and enforcement of various laws related to corporate governance.
- Working In close co-ordination with the private sector, work to install a commitment to corporate governance reforms and facilitate the development of a corporate governance culture.
- Cultivating international linkages and maintaining the evolution towards convergence with international standards and practices for accounting, audit and non-financial disclosure.
- Setting up of 'National Centers for Corporate Governance' across the country, which would provide quality training to Directors as well as produce quality research and aim to receive global recognition.

Professionals:

Professionals are an important key towards successful accomplishment of corporate governance in any country. Company Secretaries in India are the governance professionals. They fulfil their responsibility of compliance management and achieving corporate governance in the following way:

- ✓ providing advice to the directors and officers in relation to directors' duties and other aspects of the applicable statutes.

- ✓ advising the board on corporate governance principles and implementation of programmes and risk management frameworks.

- ✓ development, implementation, communication and maintenance of governance, risk and compliance policies, processes and procedures.

Insurance Laws (Amendment) Act, 2015 paved way for capital enhancement by public issue. This Act also empowers General Insurance Corporation of India, National Insurance Company Limited, New India Assurance Company Limited, Oriental Insurance Company Limited and United India Insurance Company Limited to go public for increasing their business in rural and social sectors, to meet solvency margin and such other purposes.

- ✓ Life / Non-Life Insurance Companies can go for public by following SEBI Guidelines. However, prior approval of IRDAI is required and also other requirements to be adhered provided in IRDAI (Issuance of Capital by Indian Insurance Companies transacting Life Insurance business) Regulations, 2015 and IRDAI (Issuance of Capital by Indian Insurance Companies transacting other than Life Insurance Business) Regulations, 2015.

Dr. Rajkumar Adukia Profile

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Dr. (CA) Rajkumar S. Adukia is an eminent international corporate governance exert practicing for last 34 years. He did his Phd in ideal corporate governance of mutual fund. He has been addressing seminar and lectures across various countries. Having graduated from Sydenham College of Commerce & Economics in 1980 as **5th rank** holder in Bombay University, he received a Gold Medal for highest marks in Accountancy & Auditing. Passed the Chartered Accountancy with **1st Rank** in Inter CA and **6th Rank** in Final CA examination. He also secured **3rd Rank** in Final Cost Accountancy Course in 1983. He has been awarded G.P.Kapadia prize for best student of the year 1981. Besides, he holds Degree in law, PhD in Corporate Governance in Mutual Funds, MBA, **Diploma IFRS (UK)**, Diploma in Labour law and Labour welfare, Diploma in IPR, Diploma in Criminology.

He has be Hon. Sec. of Western India Regional Council of Institute of Chartered Accountants of India in 1991-92 and Chairman of WIRC in 1997-98, International Member of Professional Accountants in Business Committee (PAIB) of International Federation of Accountants (IFAC) from 2001 to 2004. He has been Chairman of Research Committee, Board of Studies, Public Relation Committee, Members in Industry, University & Higher Secondary Board Liaison Committee, Peer review Board & International Trade Law & WTO OF ICAI, Member of Inspection Panel of Reserve Bank of India, Member of J.J. Irani committee which drafted Companies Bill 2008, Member of Secretarial Standards Board of ICSI, Member of working group of Competition Commission of India, National Housing Bank, NABARD, RBI, CBI etc. He has also been Independent Director of Mutual Fund Company and Asset Management Company.

He has written more than 100 books on wide variety of topic ranging from those dealing with Trade, GST, Taxation, Finance, Real Estate to topics like Time Management and Professional Opportunities. He is Successful Practicing Chartered Accountant since last 30 years in varied field of Financial Planning, Taxation and Legal Consulting. He has been a business advisor for various companies on varied subjects and has travelled across the globe for his professional work and knowledge sharing. He has widely travelled three fourth of globe addressing international conferences and seminar on various international issues like Corporate Social Responsibility, Corporate Governance, Business Ethics etc.

He is currently Member of Quality Review Board under Chartered Accountants Act 1949, Member of CAG Advisory Audit Committee, **Member of International Financial Reporting Standards Foundation SME Group**.

He has been actively involved with ICAI as a Central Council Member during the period when the convergence to IFRS was conceptualized in India and has been instrumental in materializing the idea. He has written two books on IFRS viz. Encyclopedia on IFRS and Handbook on IFRS. He has given Lecture on IFRS at various prestigious forums including National Academy of Audit and Accounts. He has been associated with numerous corporate and banks (like DENA Bank & Central Bank of India)in their convergence procedure both directly and by giving training on Ind AS to their staff members. He has also trained staff members of various regulatory bodies like Regional Director and Registrar of Companies, Western Region, Ministry of Corporate Affairs, CBDT and CBEC.

He has won numerous awards like The Jeejeebhoy Cup for proficiency and character, State Trainer by the Indian Junior Chamber, “Rajasthan Shree” by Rajasthan Udgosh, a noted Social Organization of Rajasthan and many other awards as a successful leader in various fields.

He has done various certification courses of ICAI namely

1. concurrent audit of banks, 2. forensic audit and fraud prevention, 3. master in business finance, 4. arbitration