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Corporate Governance in Indian Insurance Companies

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ABSTRACT

The initiative of Liberalization, Privatisation and Globalization ("LPG") policy by the then government of P.V. Narasimha Rao in 1991 has widened the scope of corporate governance mechanism in India. In a short span of time, after the introduction of the LPG policy, the Indian economy faced several corporate scams, (the Satyam Computer Scam, Sahara Scam, Harshad Mehta Scam, IL&FS Scam etc) and to deal with such issues, the government has taken pivotal steps with help of Statutory Framework of Corporate Governance mechanism. The paper aims to deal with the legislative steps taken by the government to improvision the corporate governance system in India's Insurance Companies. The paper analysis the execution effect of the legislative framework introduced by the government for a strong corporate governance mechanism:

i. Insurance Regulatory and Development Authority of India Act, 1999.

ii. Insurance Regulatory and Development Authority of India ("IRDAI").

iii. Comprehensive Guideline on Corporate Governance issued in 2016 by IRDAI.

iv. Brief Discussion on the Insurance Act, 1938.

The paper aims to analyse the execution of the corporate governance statutory framework introduced for insurance companies, how they helped in enhancing corporate governance, to what extent able to deal with the problems of scams and what corporate compliance is required under these statutory frameworks. The paper first outline the meaning and the scope of corporate governance, and what it means. The paper further deals with the imposition of penalties, liabilities arising, or any punishment if prescribed under the Act in the event of non-compliance with the statutory requirements. The paper covers all or every incidental and allied topic to justify the title of the paper i.e., "Corporate Governance and Insurance Companies".

Keywords: *Corporate, Governance, Insurance, Statutory, Compliance.*

I. INTRODUCTION

In India, the insurance sector is mainly divided into two broad categories i.e., (i) Life Insurance and (ii) General Insurance (Non-life Insurance). "The concept of Insurance in India is not a new

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concept, as the same can be observed in the writings of "Yagnavalkya (Dharmasastra), Manu (Manusmrithi) and Kutilya (Arthasastra)", talks in the terms of pooling of resources and distribution at the time of the fire, floods, epidemics, climates change etc. In the initial year, the insurance sector in India was governed as per the Insurance Act, of 1938, before this there was another act called the Life Assurance Companies Act, of 1912 (mainly enforced at the time of the British era). The first life insurance company created by the Indian government was Life Insurance Corporation (LIC) under the Life Insurance Corporation Act, of 1956 and the same has been privatized in the year 2022. Later with the advent of the private sector in the insurance sector, and the market becoming competitive, the government decided to establish a separate autonomous body to deal with the insurance companies. Similar to the Securities and Exchange Board of India (SEBI) established under the Securities and Exchange Board of India Act, 1992 to deal with the security market". The government for the insurance market passed a central Insurance Regulatory and Development Authority of India Act, 1999, which established the Insurance Regulatory and Development Authority of India ("IRDAI") to regulate the insurance market. From time to time the IRDAI has issued various rules, circulars, and guidelines for the governance of the insurance market in India. Further, in 2016 the IRDAI issued a comprehensive guideline related to corporate governance in insurance companies. This paper aims to analyse those guidelines issued by IRDAI, how far these guidelines are sufficient and find loopholes if there are any.

(A) Research Problem

There are laws available in India to regulate the insurance market and the autonomous body IDRAI has been established by the Indian government under the Insurance Regulatory and Development Authority of India Act, of 1999. The present paper aims to deal with the problem is that, whether these available laws are sufficient to govern the corporate governance system in insurance companies. In other words, what steps have been taken by the government of India to establish a corporate governance mechanism in insurance companies and are these steps sufficient?

(B) Research Question

i. To understand the meaning and scope of the phrase "corporate governance".

ii. To understand the objective of the authority to introduce these guidelines.

iii. Comprehensive analysis of 2016 guidelines by IDRAI related to corporate governance in insurance companies

(C) Scope of the Paper

The scope of the present paper is limited to Indian insurance companies. The paper aims to analyse the corporate governance system in Indian Insurance Companies in the light of the Indian statutory framework.

II. CORPORATE GOVERNANCE: MEANING

The phrase corporate governance cannot be defined by any single definition and the scope of corporate governance is wide and the same also cannot be defined by any definition. Several stalwarts of corporate, financial, marketing and economist, government committees etc have given their different definition. "The word corporate is derived from the Latin term "Corpus" which means a "body". The word governance means administering the processes and systems placed for satisfying stakeholder expectation". The concept of corporate governance is evolved from five main theories:

i. **"Agency Theory**: According to this theory, managers act as 'Agents' of the corporation. The owners set the central objectives of the corporation. Managers are responsible for carrying out these objectives in the day-to-day work of the company. Corporate Governance is control of management through designing the structures and processes".

ii. **Stockholder/shareholder Theory**: "According to this theory, it is the corporation which is considered as the property of shareholders/ stockholders. They can dispose of this property, as they like. They want to get maximum return from this property. The owners seek a return on their investment and that is why they invest in a corporation".

iii. **Stakeholder Theory**: "According to this theory, the company is seen as an input-output model and all the interest groups which include creditors, employees, customers, suppliers, local community, and the government are to be considered. From their point of view, a corporation exists for them and not the shareholders alone".

iv. **Stewardship Theory**: The word 'steward' means a person who manages another's property or estate. "Here, the word is used in the sense of guardian in relation to a corporation, this theory is value-based. The managers and employees are to safeguard the resources of the corporation and its property and interest when the owner is absent. They are like a caretaker".

v. **Resources Dependency Theory**: According to this theory, "the corporation sees the board as an authority that can provide access to the resources needed by the corporation. It states that directors play an important role in providing or securing essential resources

to an organization through their linkages to the external environment."

Following are some important **definitions of the phrase "Corporate Governance**"

Corporate Governance is "the system by which companies are directed and controlled." By – **Cadbury Committee (1992).**

Corporate Governance is *"*the conduct of business in accordance with shareholders' desires, which generally is to make as much money as possible while conforming to the basic rules of the society embodied in law and local customs*."* By – **Noble Laureate Milton Friedman**.

"Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders." By - **The Institute of Company Secretaries of India**.

"Corporate Governance is about promoting corporate fairness, transparency and accountability" By **– James D. Wolfensohn (9th President of World Bank).**

Above mentioned are some of the widely used definitions of corporate governance. However, it needs to be borne in mind that, these are not the only definition to define the scope of corporate governance. The scope of corporate governance is wide and expanding day by day, thus cannot be defined by any single definition.

Corporate governance describes "the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled within corporations. It encompasses the mechanisms by which companies, and those in control, are held to account".

The term corporate governance is broad and used to describe the processes, policies, customs, laws and institutions that direct the organisation.

So, with understanding can define as, corporate governance as a method or process, why which the decision can be monitored and directed to run the organisation effectively following the law and not prejudicial to the interest of shareholders and stakeholders.

Some Key Advantages of Corporate Governance

i. It ensures corporate growth and success (both economically and socially).

ii. It protects the interest of the stakeholders, shareholders and maintains the confidence of the investors.

iii. It can improve the market value of the corporation like share price and help in brand formation.

iv. It provides inducements to the managers, employees, and owners to work in the interest of the corporation.

v. It ensures that, a corporation is running in accordance with laws and regulations.

vi. It minimizes corruption in the organisation and reduces the possibility of mismanagement.

Above mentioned are some of the key advantages to the corporation of having good and proper CORPORATE GOVERNANCE mechanics in the corporation.

III. INSURANCE

(A) What is Insurance: Meaning

In simple terms, Insurance is a legal agreement between two parties i.e. the insurance company ("Insurer") and the individual ("insured or policyholder"). In this, the insurance company promises to make good on the losses suffered on happening of the insured contingency. The contingency is the event which causes a loss. It can be the death of the policyholder or damages, destruction, or any other loss of the property. There is uncertainty regarding the happening of the event. The insured pays the premium (a certain amount of money) in return for the promise made by the insurer.

(B) How does it work

"The insurer and the insured enter a legally binding contract for the insurance, which popularly is called "Insurance Policy". The insurance policy outlines the details of the circumstance and events of contingency, obligations of both parties, how the company will calculate the amount to be paid, either to the insured or the nominees and all the requisite details. Overall, through an insurance policy, a person protects his/her family from any uncertain financial loss. The individual or company can put in his application for the insurance and after evaluating his application, at the discretion of the insurance company, whether to provide insurance or not. If the insurance company think that, there is a high risk in providing insurance to the particular desired applicant, they refuse to provide the insurance".

(C) Contract of Insurance

"The insurance company work on the contract entered by and between the company (insurer) and the insured (policyholder). The contract work on the maxim "Uberrimae Fidai" which means, a contract of utmost good faith. As per this maxim, it is expected that the insured has disclosed all the material information to the insurer and that disclosed information is true. The non-disclosure and giving false information may amount to fraud, misrepresentation and the

company can refuse to compensate the insured for the insured contingency". It is generally expected from the part of the insured that, he shall disclose all and every possible information that may affect the insurance claim and policy making, even if the information is not categorically.

"In the case of V Srinivasa Pillai v. LIC of India[2], the Supreme Court of India held that the insurance contract is based on Uberrimae Fidei and thus the insured person shall disclose all the material fact and circumstance to the insurer on their own, even if not asked by the other party and you feel that disclose is important. The same principle has been followed in the case of Contract Container Lines v. D K Lall[3]."

"Further the Supreme Court of India in the case of Satwant Kaur Sandhu v. New India Assurance Co.[4] Ltd held that the company can refuse to give compensation if the material facts were not disclosed by the party. The contract can be repudiated".

"The principle is equally applicable to the insurance providing company (insurer) also. They also need to disclose all the material information and circumstance under which they may refuse to compensate and under what circumstances the company will compensate and how the amount shall be calculated, ad all other material information. This was held in the case of United India Assurance Co. v. MKJ Corporation[5]. Further, the insurer cannot change the terms of the insurance policy without informing the insured party and which are prejudicial to insured interest".

(D) Major Classification for Insurance Contract

Insurance can be classified into two broad categories:

i. **Life Insurance**: "In simple terms, life insurance is the insurance taken upon the human life. Where in any manner, the human life is involved and, on the contingency, or uncertainty of human life, insurance is provided i.e., are in simple term life insurance".

iv. "As per Section 2 (11) of the Insurance Act, 1938, life insurance business means, the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except death by accident only) or the happening of any contingency dependent on human life, and

[2] AIR 1977 SC 381.
[3] (2010) 4 SCC 256.
[4] (2009) 8 SCC 316.
[5] (1996) 6 SCC 428.

any contract which is subject to payment of premiums for a term dependent on human life" and shall be deemed to include—

- the granting of disability and double or triple indemnity accident benefits, if so provided in the contract of insurance;
- the granting of annuities upon human life; and
- the granting of superannuation allowances and annuities payable out of any fund applicable solely to the relief and maintenance of persons engaged or who have been engaged in any particular profession, trade or employment or of the dependents of such persons.

"Further, Health Insurance Business means the effecting of contracts which provide for sickness benefits or medical, surgical or hospital expense benefits whether in-patient or out-patient. It also includes personal accident cover [section 2(6C) of Insurance Act, 1938]."

ii. **General Insurance**: The terms general insurance is broad compared to life insurance, as life insurance covers the aspects related to human life only. The general insurance covers the other aspects.

As per Section 2(6B) of the Insurance Act, 1938, 'general insurance business' means fine, marine or miscellaneous insurance business, whether carried on singly or in combination with one or more of them. Other insurance like Car Insurance, Bike Insurance are covered under this category.

iii. Further, Marine Insurance Business means the business of effecting contracts of insurance of vessels, cargoes, freights, goods, wares, merchandise and property insured for transit by land or water [section 2(13A) of the Insurance Act, 1938].

(E) Insurance Corporation/Company

In general terms, insurance corporations are financial companies or entities which provide insurance to the insured person. The insurer can be referred to as Insurance Corporation, as the corporation provides the compensation on happening of contingency as per the terms of the insurance policy. The term Insurer is defined under Section 2(9) of the Insurance Act, of 1938. Section 2 (7A) of the Insurance Act, of 1938 defines Indian Insurance Companies as follows:

"Indian insurance company" means any insurer being a company—

a. which is formed and registered under the Companies Act, 1956 (1 of 1956);
b. in which the aggregate holdings of equity shares by a foreign company, either by itself

or through its subsidiary companies or its nominees, do not exceed twenty-six per cent. paid-up equity capital of such Indian insurance company;

c. whose sole purpose is to carry on a life insurance business or general insurance business or re-insurance business.

Insurance Companies in India are governed as per the rules and regulations set by the IRDAI authority established under Insurance Regulatory and Development Authority Act, 1999.

(F) Insurance Regulatory and Development Authority of India (IRDAI)

The Insurance Regulatory and Development Authority of India (IRDAI) is established as an autonomous authority under Insurance Regulatory and Development Authority Act, 1999 to regulate the Indian Insurance Sector. The need of establishing this authority arises after the increase in the number of private entered the insurance sector to offer insurance to the general public. The **main function** of the IRDAI is as follows:

1. **Registration and Regulation**: "The desired companies first need to register themselves with IRDAI. The IRDAI shall provide the license to the desired company to offer the insurance and run as an insurance company in India".
2. **Protection of policyholders' interests**: "The IRDAI was established as an autonomous authority to protect the interest of the policyholders. The IRDAI has time-to-time framed several rules and guidelines for the governance of insurance companies in the interest of policyholders. The IRDAI authority ensures that the companies are running in a transparent manner and they must comply with all the laws, rules, regulations, and guidelines issued time-to-time".
3. **Promotion of Competition**: "The IRDAI is responsible to enhance and promote the competition in the insurance sector. Further, it ensures that the competition takes place in a fair manner and in the interest of the market economy and general public". Furthermore, it prevents the anti-competitive activities in the insurance market.
4. **Insurance Benefit to All:** "The IRDAI aims to ensure that, insurance policy is reaching to corner of the country and encourages the people to take advantage of the insurance policy. In spread awareness through campaigns, programmes that every person should be aware and should take financial protection against any uncertain losses".
5. **Enforcement of Laws**: "The IRDAI authority is to implement the laws related to insurance. The authority has the power to impose the fine and penalties, on failure to implement the laws and rules framed for the insurance companies".

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Apart from the above key mentioned function, there are several other powers, functions and responsibilities given to IRDAI to regulate the insurance sector in India fairly and transparently.

IV. Overview of corporate governance guidelines

The IRDAI in the light of changes brought in by the Companies Act, 2013 has issued the comprehensive guideline for the CORPORATE GOVERNANCE in Insurance Companies. The IRDAI has issued several guidelines in past under various regulations. "Now, in 2106 decided to put them together and to issue the following (2016) comprehensive guidelines for adoption by an Insurer (Insurance Companies). **These revised Guidelines shall replace the existing guidelines on Corporate Governance issued by the Authority** and shall take effect from FY 2016-17. These guidelines shall also supersede the Guidelines on Reporting of Key Persons dated. 9th October 2013 and stipulations regarding the appointment of Statutory Auditors issued vide Circulars dt.25.07.2005 and 22.04.2009. Thus, the 2016 guidelines are now, standalone guidelines on the Corporate Governance for the Insurance Companies in India".

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

i. reinsurance companies may not be required to have the Policyholders' Protection Committee; and

ii. branches of foreign reinsurers in India may not be required to constitute the Board and its mandatory committees as indicated herein".

(A) The objective of the Guidelines

1. "The objective of the guidelines is to ensure that the structure, responsibilities and functions of the Board of Directors and the management of the company recognize the expectations of all stakeholders as well as those of the regulator".
2. "The structure shall take requisite steps to adopt the sound and prudent reasonable principle and practice for the governance of the company".
3. "The structure should have the mechanism to quickly address the issues of non-compliance or weak control and oversight".
4. These guidelines also cover and amplify certain issues covered under Insurance Act, of 1938.
5. "The guidelines accordingly address the various requirements broadly covering the following major structural elements of Corporate Governance in insurance companies:

i. Governance structure

ii. Board of Directors

iii. CEO/MD/WTD

iv. Role of Appointed Actuaries

v. External audit – Appointment of Statutory Auditors

vi. Disclosures

vii. Outsourcing Arrangements

viii. Interaction with the Regulators

ix. Whistleblower policy"

(B) Analysis of 2016 Guidelines for Corporate Governance in Insurance Companies

Following is a detailed discussion of the guideline issued by the IRDAI to ensure proper and good corporate governance in the companies. The guideline was issued with the aim that, following these guidelines, the companies can ensure good Corporate Governance in the company. The guideline issued related to the major elements of the company, that plays a role in good corporate governance for the company**. if companies will comply with guidelines, they can ensure good and proper corporate governance in the company**.

1. **Governance Structure**

"In India, the insurance company presently can opt for any structure of Board of Directors headed by an executive or non-executive chairman with distinct responsibilities of oversight. It is expected that, whatever form of a board of directors is opted for, the broader elements of good corporate governance. The governance structure of the board could be influenced by its association with insurance groups and another large financial/non-financial conglomerates. Insurers who are 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.

2. **Board of Directors**

"The Insurance Act, of 1938 stipulates that the insurance companies in India would be public companies and hence, would require a properly constituted Board. Insurance companies should ensure that the Board comprises of competent and qualified Directors to drive the strategies in

a manner that would sustain growth and protect the interests of the stakeholders in general and policyholders. It is expected that the 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". The roles and responsibilities of the Board of Directors in detail are given under Annexure 1 of the 2016 guideline (Guidelines for Corporate Governance for Insurers in India).

"It is essential that the Directors possess the knowledge of group structure, organizational structure, process and products of the insurer and the Board generally complies with the following requirements": -

i. "The Board of Directors and Key Management Persons should understand the operational structure of the insurer and have a general understanding of the lines of business and products of the insurer, more particularly as the insurer grows in size and complexity".

ii. "The Board of Directors of an insurer belonging to a larger group structure/ conglomerate should understand the material risks and issues that could affect the group entities, with attendant implication on the insurer".

"The Board of Directors is required to have a minimum of three "Independent Directors". However, this requirement is relaxed to 'two' independent directors, for the initial five years from the grant of Certificate of Registration to Insurance Company (insurer). An independent Director shall fulfil all the conditions specified under Section 149 of the Companies Act, 2013. Further, where the Chairman of the Board is non-executive, the Chief Executive Officer should be a whole-time director of the Board. Furthermore, as per the requirement of Section 149 of the Companies Act, 2013, there shall be one Women Director on the Board of the insurance company". Following these companies can ensure a step towards good corporate governance.

3. Delegation of function

"In light of the workload the board of the company has, the board can set up committees of directors by delegating the overall monitoring responsibilities after laying down the roles and responsibilities of these committees of the board. Following are some important committees of the board":

i. **Audit Committee**: "As per Section 177 of the Companies Act, 2014, it is mandatory on the part of the insurance companies to set up an Audit Committee. As required under Section 177 of the Companies Act, 2013, the Audit Committee shall comprise a minimum of three

directors, majority of whom shall be Independent Directors".

ii. **Investment Committee**: "The Committee shall be responsible to recommend investment policy and lay down the operational framework for the investment operations of the insurer. The policy should focus on prudential Asset Liability Management (ALM) supported by strong internal control systems. Investment Committee comprising of at least two Non-Executive Directors, the Chief Executive Officer, Chief of Finance, Chief of Investment, Chief Risk Officer and, the Appointed Actuary".

iii. **Policyholder Protection Committee:** "The Authority is mandated by statute to protect policyholders' interests and therefore adoption of sound and healthy market practices in terms of sales, marketing, advertisements, promotion, publicity, redressal of customer grievances, consumer awareness and education is essential". Committee shall be headed by a Non-Executive Director and shall include an expert/representative of customers as an invitee to enable insurers to formulate policies and assess compliance thereof".

Apart firm from the above mentioned, several other committees like, Nomination and Remuneration Committee (mandatory to establish), Corporate Social Responsibility Committee (establish, if fulfil Section 135 of the Companies Act, 2013 criteria), Risk Management Committee (mandatory for insurance companies), etc. Establishing these committee with proper monitoring and control and giving independent power to work, companies can ensure fair, transparency and good Corporate Governance.

4. Chief Executive Officer (CEO)/ Managing Directors/ Whole-Time Director

"The Chief Executive Officer/Whole Time Director/ Managing Director of the company and other key functionaries are responsible for the operations and day to day management of the company in line with the directions of the Board and the Committees set up by the Board. Section 34A of the Insurance Act, 1938 requires prior approval of the Authority for appointment, re-appointment or termination of the Chief Executive Officer and the Whole Time Directors. The Authority expects the CEO to be responsible for the conduct of the company's affairs in a manner which is not detrimental to the interests of the policyholders and which is consistent with the policies and directions of the Board".

5. Role of Appointed Actuaries

"In simple terms, actuaries is a person with expertise in the fields of economics, statistics and mathematics, who helps in risk assessment and estimation of premiums etc for an insurance business, is called an actuary. IRDAI has brought out detailed Regulations on Appointed Actuary vide IRDA (Appointed Actuary) Regulations, 2000, detailing the procedure for his

appointment, qualifications, powers along with his duties and obligations. The Regulations also stipulate that prior approval of the Authority shall be taken for the appointment of the Appointed Actuary".

"The Appointed Actuary shall provide professional advice or certification to the board with regard to":

i. "Estimation of technical provisions in accordance with the valuation framework set up by the insurer"
ii. "Identification and estimation of material risks and appropriate management of the risks"
iii. "Financial condition testing"
iv. "Solvency margin requirements"
v. "Appropriateness of premiums (and surrender value) "
vi. "Allocation of bonuses to with-profit insurance contracts"
vii. "Management of participating funds (including analysis of material effects caused by strategies and policies) "
viii. "Product design, risk mitigation (including reinsurance) and other related risk management roles".

"The board shall seek the professional advice of the appointed actuaries whenever necessary to ensure that every decision taken is in the interest of the company and not detrimental to the interest of policyholder". This step ensures better Corporate Governance and maintains brand building.

6. External Audit

"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. The Board shall 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 organisational structure of its administration or accounting and of any criminal violations or material irregularities that come to his notice. The external auditor requirement has been mandated considering the interest of the policyholder to maintain

transparency and avoid any conflict of interest". This will promote Corporate Governance in the company.

7. Disclosure Requirements

"Disclosure of any information, report, policy etc. is one of the most essential steps to maintain and promote good Corporate Governance in the company. The disclosure requirement has a direct relation to maintaining transparency in decision making, and promoting transparency is one of the essentials of Corporate Governance. The IRDAI (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002, have prescribed certain disclosures in the financial statements and the Authority is in the process of finalizing additional disclosures to be made by insurers at periodical intervals. The proper disclosure of information with transparency establishes the confidence of the stakeholder and policyholder of the company". Building confidence in the name of the company is another essential of good Corporate Governance.

8. Outsourcing Arrangements

"All outsourcing arrangements of an Insurer (Insurance Company) 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 periodically review the outsourcing arrangement entered into by the insurer and confirm that, whether the compliance as stipulated by the Authority and internal policy is fulfilled or not. Insurance Companies are not allowed to outsource any of the company's core functions other than those that have been specifically permitted by the Authority. 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". Outsourcing arrangements play a vital role in insurance companies, thus governing these roles properly becomes important to maintain good Corporate Governance.

9. Interaction with the Regulator

"Effective corporate governance practices in the office of the insurance company will enable IRDAI to have greater confidence in the work and judgment of its board, Key Management Persons and control functions". In assessing the same, the IRDAI would:

i. "Seek confirmation that the insurance company has adopted and effectively implemented sound corporate governance policies and practices",

ii. "Assess the fitness and propriety of board members"

iii. "Monitor the performance of boards"

iv. "Assess the quality of insurance company's internal reporting, risk management, audit and control functions"

v. "Evaluate the effects of the insurance company's group structure on the governance strategies"

vi. "Assess the adequacy of governance processes in the area of crisis management and business continuity".

By taking these steps, authority can check, whether the practice of good and transparent Corporate Governance is followed in the insurance company or not.

10. Whistle Blower Policy

"Insurance companies are advised to frame "whistleblower" policy. These mechanisms exist for employees to raise concerns internally about possible irregularities, governance weaknesses, financial reporting issues or other such matters". The policy should cover the following aspects:

i. "Awareness of the employees that such channels are available, how to use them and how their report will be handled".

ii. "Handling of the reports received confidentially, for independent assessment, investigation and where necessary for taking appropriate follow-up actions".

iii. "A robust anti-retaliation policy to protect employees who make reports in good faith".

iv. "Briefing of the board of directors".

"The appointed actuary and the statutory/internal auditors have the duty to 'whistle blow', i.e., to report in a timely manner to the IRDAI if they are aware that the insurance company has failed to take appropriate steps to rectify a matter which has a material adverse effect on its financial condition. This will enable the IRDAI to take appropriate action before the interest of policy holder is affected and maintain the good and status quo of Corporate Governance".

V. Loopholes and Suggestions

"As Corporate Governance plays an important role in the governance of any company and thus for insurance companies also. Corporate Governance in Insurance Sector companies is running smoothly and better compared to other companies like those involved in manufacturing, infrastructure, service etc. As the major scam like IL&FS i.e., Infrastructure Leasing and Financial Services (in Infrastructure sector company) and Satyam Scam (in IT Service

Company), no such major scam took place in insurance companies, so, we can say that the governance system of insurance company is comparatively better than the other companies".

"However, insurance companies need to focus on the decisions related to the investment they make in other companies. As like in Satyam Scam, the life insurance company (LIC) has lost around rupees 950 Crore, and another LIC is one of the largest stakeholders in IL&FS company. IL&FS is an infrastructure company, committed to one of the Indian largest scams in the infrastructure sector by R. Parthasarathy (around rupees 91,000 crores)".

"Thus, strict compliance with the guideline of good corporate governance as issued by IRDAI can prevent these insurance companies from taking wrong investment decisions and losses can be avoided. Further, the step of cross-checking the decision of the investment, by creating one board committee, just to review the investment decision, can prevent losses. Before taking any decision related to investment, analysing the reports of board committees like the risk management committee, complying with the advice given by actuaries and other steps can prevent the losses. Good corporate governance can ensure these all and more confidence and trust can be built in insurance sector companies".

VI. CONCLUSION

In the present cut-throat competitive market, good corporate governance become important factor in any sector, for any company for its growth. As the essential elements of good Corporate Governance like promoting brand value, building the confidence of investors, and avoiding scams within the organisation, good Corporate Governance is a must. As in firstly we have discussed the evolution theories of Corporate Governance and various definitions of Corporate Governance and its silent feature. Further, we have discussed the insurance companies, working of the insurance companies. Then we discussed the autonomous authority IRDAI established under the Insurance Regulatory and Development Authority Act, 1999 to govern the insurance sector in India. Furthermore, in detail we have discussed the primary objective of the paper i.e., analysing the 2016 comprehensive guidelines on Corporate Governance for insurance companies by the IRDAI. Compared to the other sector companies like infrastructure, and manufacturing, the insurance sector companies are implemented a good Corporate Governance mechanism. However, still there is scope to improve and for more effective Corporate Governance in insurance companies. The paper has analysed every possible aspect to justify the title of the paper i.e., "**Corporate Governance in Indian Insurance Companies**".

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