CHAPTER-VII

LIFE INSURANCE SECTOR: MANAGEMENT, SUPERVISION AND GOVERNANCE

Many people buy life insurance and forget about it. What you buy and how much you buy depends upon two things: who you love and who you owe.

Herb Gerome
A. GENERAL

The most crucial but less discussed issue in the Indian Life Insurance Industry is governance. Good governance instills the confidence of all stakeholders and builds a good reputation, both internally and externally. Moreover, adoption of good governance practices provides stability and growth to the enterprise and adds considerable value to the operational performance of the company.¹

The concept of good governance has been attracting the public attention for quite some time and has been finding acceptance for its relevance and importance to the industry and economy. It contributes not only to the efficiency of a business enterprise, but also, to the growth and progress of a country’s economy. Progressively, firms all over the world have voluntarily put in place systems for good governance.²

In India, the market structure was controlled for a long time by public sector institutions regulated through government guidelines and parliamentary accountability. But with liberalization of insurance industry and entry of private corporate, the controlling responsibilities shifted to the IRDA to a great extent, who is the paramount regulator of insurance in India.

However, in this a new market with tremendous freedom of operation in a competing environment, only regulatory control is not enough to provide required transparency and efficiency. Therefore, the regulatory control needs to be supplemented by self control mechanism that guides management transparency and accountability and ensures ethical business practices.³

Consequently, the concepts of ethical practices, corporate governance, corporate social responsibility, self regulatory organizations have emerged as a major concern in insurance industry, particularly in life insurance industry.

¹ www.business.gov.in/corporate_governance/benefits_limitations.php. Accessed on 1/1/14 at 2:00 P.M.
² Ibid.
B. GOVERNANCE THROUGH REGULATION, SUPERVISION AND RISK CAPITAL

1. Introduction

Financial institutions like a life insurance company play an immensely important role in national economy and society. A sound governance system enables them to discharge this role efficiently. Although the insurance firms are managed by complying with the legislative and regulatory requirements, but in the changed scenario it is the efficiency of internal management which really matters.\(^4\)

Efficiency of a management does not depend on complying with regulatory requirements only – it is way beyond that. An efficient management is always proactive, futuristic, strategic, innovative and understands the importance of creativity and differentiation. Management efficiency is strongly supported by a number of factors but few very important factors are risk management, corporate governance, well-developed systems and controls, etc. Therefore, the efficiency and soundness of a management virtually depends on the internal governance system which essentially comprises risk-based regulation and solvency regulation.

2. Risk-Based Regulation

The insurance industry has undergone a process of de-regulation which enabled it to take more risks and explore the competitive edges of the market. In this de-regulated regime, regulators, worldwide are becoming more focused on insurer’s risk management practices. It is advocated that insurers should develop internal risk management and risk measurement capabilities.\(^5\)

Risk Management is an integrated process that identifies, classifies analyses and quantifies the financial impact of various risks involved in running a business. It is a tool that recognizes the potential threats to the business objectives and allows

\(^{4}\) *Id.* at p. 297.

management to make informed decisions on the appropriate course of action, be it to mitigate, transfer or allocate capital to the risk.  

The operation of a life insurance company basically deals with management of risks of different categories; underwriting risks, actuarial risks, systematic risks, operational risks, catastrophe risks etc. This list can be extended further because the changing nature of market environment and competition in marketplace. Therefore, managing these risks becomes the major concern of an insurance industry and a major benchmark of its management success.

However, risk management is not a new concept in life insurance industry. It is a fundamental and basic business practice. For the success of an insurance company it is necessary that risk management is embedded in its culture. An insurance company must put in place proper policies and procedures that enable it to identify, assess, quantify and mitigate or manage all risks that could have a material impact on their business.

Therefore, ‘risks’ are the direct and indirect basis of governance of an insurance company. So, the governance system of a company must aim at risk management and risk mitigation. And the system of corporate governance and other control mechanism should also support the function of risk management.

3. Solvency Regulation

Every company has assets and liabilities. In any crisis company uses their assets to pay off their liabilities. The concept of solvency regulation came into being to take care of the problems which are usually not anticipated.

Solvency margin is a safety margin which indicates how prepared a firm is to meet unforeseen requirements and it is the amount by which the assets of an insurer exceed its liabilities, and forms part of the insurer's shareholders funds.

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7 Supra n.3, p.297.

8 Supra n.6.

9 Supra n.5.


11 At present the Life Insurance Companies in India have to maintain a 150 per cent Solvency Margin which includes 50 per cent additional cushions over and above the norms specified in the regulations.
In life insurance supervision, the solvency management of a company is the focal point whereas valuation of assets and liabilities are other critical factors.\textsuperscript{12} Solvency of an insurance company corresponds to its ability to pay claims. Someday, all insurance companies have to pay claims to policy holders, death claims, maturity claims or survival claims.\textsuperscript{13} So, insurers are expected to put aside certain sum in store to cover these liabilities. And in order to satisfy this solvency margin requirement the companies systematically build reserves, by holding back a part of the surplus and transferring it to a special reserve called Solvency Margin Reserve.\textsuperscript{14}

The importance of solvency margin lies in the fact that insurance is a risky business and unforeseen events might occur sometimes, resulting in higher claims not anticipated earlier. For instance, calamities like Mumbai floods, J&K earthquake, fire, accidents of large magnitudes, etc., may impose an unbearable burden on the insurer. And if the liability is large, there is a possibility of the insurance company becoming insolvent. This will create an awkward situation for the insurance sector, regulator and also the government. The solvency margin thus aims at averting crisis.\textsuperscript{15}

Supervising through solvency is an important regulatory measure followed by almost all regulators. However, the models may not be the same. Two distinct types of models are retrospective model and prospective model. In retrospective model historical data is used to calculate and assess the solvency requirements of insurers, while in prospective model historical data is factored into future trends.\textsuperscript{16}

In view of the critical role of life insurance in national economy, capital markets, personal financial risk management and emerging risk profile of life

\textsuperscript{12} The IRDA Guidelines \textquoteright The Regulatory and Development Authority (Assets, Liabilities and Solvency Margin of Insurers) Regulations 2000, issued on 14 July, 2000 provided the outline of valuation of assets and liabilities and determination of solvency margin. 
\textsuperscript{13} Supra n.10.
\textsuperscript{14} www.hindu.com.biz/2004/10/04/stories/200400400201400.htm. Accessed on 15/1/14 at 2:00 P.M.
\textsuperscript{15} Supra n.10.
\textsuperscript{16} India has adopted the Solvency Model, which may be characterized by Fixed Ratio Models.
insurance management, it is necessary that all aspects of risk associated with life insurance business be considered while determining the solvency and governance.¹⁷

C. ETHICAL BUSINESS PRACTICES IN LIFE INSURANCE

1. Introduction

Ethics concern an individuals’ moral judgment about right and wrong. It implicitly regulates areas and details of behavior that lie beyond government control.¹⁸

In a business organization, decisions, whether taken by individual or group need to be ethical. Ethical decisions will bring significant benefits to a business on the other hand; unethical behavior will damage a firm’s reputation. We all know that business is a boon to the society but it can also turn destructive either due to group actions or individual actions, unless some ethical standard is maintained to control its destructive tendency.¹⁹

Industrial revolution, competition and profit motive of business have crippled the barriers of right and wrong. Emergence of powerful business corporations in the global market has reduced the power of individual customers pushing them to accept whatever is being offered by the corporations. This has led to many scandals, unfair trade practices and moral failures. Today, ethics in business have become a major issue in academic, business and corporate world.²⁰

Interest in business ethics evolved dramatically during the 1980’s and 1990’s, both within major corporations and academia. In the last decade, emergence of large corporations with limited relationships and sensitivity towards the community in which they operate accelerated the development of formal ethical regime.²¹

¹⁷ Experience shows that no method other than risk-based capital model capture the whole gamut of risks associated with life insurance business.
¹⁸ www.en.m.wikipedia.org/wiki/Business_ethics. Accessed on 12/1/14 at 11:00 P.M.
¹⁹ Supra n. 3, p.301.
²⁰ www.businesscasestudies.co.uk/Cadbury-schweppes/ethical_business_practices/the importance _ethics_in_business.html. Accessed on 30/12/134 at 6:00 P.M.
²¹ Supra n.18.
2. **Ethics in Business**

Modern state and society is significantly supported by the corporate and as such good governance is impossible without good corporate governance. Ethics in business have serious implications to the question of corporate and state governance because no sound and good governance is possible without ethical business practices.

The concept of business ethics is not new – many believe that it is a progression from ethics of economics to ethics of business.\(^2^2\) Down through the centuries there have been many who believe that business is per se unethical.....but equally there has been a countervailing argument that commerce, business, trade and industry by bettering the lot of humanity through increased prosperity, better health and education and so on are in and of themselves morally valid occupations. It follows from this that those occasional (or not so occasional) lapses are the result of moral failings by individuals, not of the system of commerce as a whole.

Failures of individuals in business therefore need to be controlled in the best interest of society.\(^2^3\) The necessary control can be exercised by state regulation as well as self-regulation through adherence to moral and ethical codes of business. Since state regulations have limitations in monitoring, the concept of self-regulation has emerged as an important instrument of control.\(^2^4\)

It is true that with the expansion of market economy and involvement of private enterprises in economic activities market complexities have increased manifold. Though the regulatory mechanism has been developed to address these issues, various industry associations and non-governmental agencies have also designed external standards to address these issues. Many organizations have come up

\(^2^2\) In the word of Morgen Witzel (2002) 'Business Ethics' is one of the world's greatest oxymoron like military intelligence or ethical foreign policy.

\(^2^3\) *Supra n.3, p.301.*

\(^2^4\) Self-regulation is more effective within the given framework of state regulation because self-regulation allows an individual to apply moral judgment to maintain ethical conducts more scrupulously in the interest of an individual or society.
with sets of ethical codes to protect the interest of the consumer from unethical practices of companies producing and distributing consumer goods and services.

3. **Ethical Issues in Life Insurance Selling**

   Life insurance industry, throughout the world, has been expanding at a rapid speed and playing a very critical role in the national economy by providing financial solutions to the policyholders, boosting up capital market and committing to economic development. To keep up this momentum the life insurance industry need to follow certain ethical practices which are as under:

   (a) **Offering Need Based Products**

      Life insurance offers various types of products – insurance, annuity, pension and health care to millions of people. Providing a right product to a customer requires assessment of his needs and future implications. Ideally an insurance company, its agents and other distributors should offer 'need-based' products to a customer on the basis of his financial objectives and insurance needs.  

   (b) **Fair Selling of Life Insurance Policy**

      Agents and distributors should also follow fair business practices and should not offer any incentives to induce customers to complete any sales transaction. No agent should advice to replace an existing policy or to sell a new one for his own monetary benefits.

   (c) **Fair Pricing of Life Insurance Policy**

      Insurance companies must also follow ethical standards in pricing their products to match embedded value to the cost of the products.

   (d) **Fair Advertisement**

      Fair advertising and sales materials must contain correct and necessary information to enable the potential investors to take informed decisions.

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25 Agents and other entities involved in selling life insurance products not only need to be knowledgeable and technically qualified but also need to follow ethical standard to protect the interests of the policyholders.
(e) **Handling Customer Complaint**

Insurance Companies should also handle customers' complaints fairly and provide necessary guidance to them.

(f) **Enhancing Financial and Economic Literacy**

Insurance companies and their distributors should also assist the customers to enhance their economic and financial literacy which would enable them to buy the right products according to their insurance needs and financial objectives.

(g) **After Sales Services**

Insurance companies and their distributors should ignore the customers, once the policy is sold and they should provide after sales services to the customers to their satisfaction. It is the key to customer retention.

However, the conditions stated above for fair selling very often do not exist in the life insurance market and there are numerous examples of unfair selling and unethical business practices. The intensity of unethical business practices in Indian life insurance industry increased significantly due to intense competition – not only competition among insurance companies but also the competition coming from other financial and saving institutions in the financial market aiming at HDS.

A study of Million Dollar Round Table™ (MDRT) in 1995 also observed violations of ethical issues relating to sales of life insurance products. Listed in the descending order for the top ten issues were:

(i) False or misleading representation of products or services in marketing advertising or sales efforts.

(ii) Failure to identify the customer's needs and recommend products and services that does not meet his needs.

(iii) Conflicts between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities.

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26 Million Dollar Round Table (MDRT) is a traded association formed in 1927 to help insurance salespeople to establish best business practices and develop ethical ways to increase clientele.

27 Supra n.3, p.305.
(iv) Making disparaging remarks about competitors, their products, or their employees or agents.
(v) Lack of knowledge or skills to competently perform one's duties.
(vi) Misrepresenting or concealing limitations in one's abilities to provide services.
(vii) Failure to be objective with other in one's business dealings.
(viii) Failure to provide prompt, honest responses to customer inquiries and requests.
(ix) Failure to provide products and services of the highest quality in the eyes of the customer.
(x) Conflicts of interest involving business or financial relationships with customers, suppliers or competitors that influence or appear to influence one's ability to carry out his or her responsibilities.²⁸


The past decade in the life insurance industry was characterized by increasingly serious market conduct problems, a deteriorating public image and an industry wide effort to bring about improvement in the industry’s ethical environment.²⁹

At present, there are as many as 25 private and public sector insurance companies who are trying to entice the consumers with well designed products and benefits. The competition to lure the insurance buyers have reached such a feverish pitch where a lot of manipulations and unethical practices are taking place, in spite of stringent regulations of IRDA.

These issues begin with unscientific appointment of insurance advisors, selling insurance policy without a proper need analysis of the investors, resorting to

²⁸ It appears that despite the passage of time and efforts by a number of individual companies and professional associations, the key ethical dilemmas facing marketing professionals working in the life insurance business changed little from 1990 to 1995.
superficial health checkups as a part of procedures, absence of follow up of existing policies as promised at the time of sale, ultimately leading to an increase in premature lapse of insurance policies especially in private life insurance companies.\(^{30}\)

Indian life insurance industry has entered into a new phase of growth after liberalization of the insurance industry and the setting up of the IRDA on 25 October 2000. While liberalization allowed domestic and foreign companies (as joint ventures) to operate in the Indian market, IRDA has been framing various rules and regulations:\(^{31}\)

1. to protect the interest and to secure fair treatment to the policyholder;
2. to set, promote, monitor and enforce high standards of integrity and financial soundness;
3. fair dealings and competence of those it regulates;
4. to ensure that insurance customers receive precise, clear and correct information about products and services;
5. to ensure speedy settlement of genuine claims;
6. to prevent insurance frauds and other malpractices;
7. to promote fairness, transparency and orderly conduct in financial markets.
8. to bring about optimum self-regulations.

Keeping the above mission in view, IRDA has periodically come out with various guidelines and regulations to protect the interest of investors, introduce sound practices of management of insurance companies and transparency in the marketplace.\(^{32}\) Some of the important Regulations aiming to introduce good practices in the marketplace are:\(^{33}\)


\(^{30}\) Ibid.
\(^{31}\) www.eindiainsurance.com/insurance/irda.asp. Accessed on 12/1/14 at 5:00 P.M.
\(^{32}\) Supra n.3, p.310.
\(^{33}\) www.nios.ac.in/media/documents/VocllnsServices/m5-r2.pdf. Accessed on 22/2/14 at 4:00 P.M.


However, it is feared that introduction of market conduct practices will not serve the purpose. And to derive desired results, ethical practices have to be institutionalized through rigorous monitoring. This requires regular examination of market conduct by intermediaries.

**D. CORPORATE GOVERNANCE AND LIFE INSURANCE**

1. Introduction

The safety and financial strength of the institution are critical for the overall strength of the financial sector on which the economic growth is built upon. So, it has been appreciated that the financial sector needs to have a more intensive governance structure in view of its important role in the economic development.

The importance of corporate governance has received huge emphasis in recent times as poor governance and weak internal controls have been associated with major corporate failures.\(^{34}\)

In insurance sector, the regulatory responsibility to protect the interests of the policyholders demands that the insurers have in place, good governance practices for maintenance of solvency, sound long term investment policy and assumptions of underwriting risk on a prudential basis.\(^{35}\) Therefore, corporate governance is more crucial for such institutions not only in the interest of the shareholders,

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\(^{35}\) Ibid.
investors/depositors and other stakeholders but also in the greater interest of the national economy.\textsuperscript{36}

2. Definition

In simple words, corporate governance is a system by which business are directed, controlled and managed as per the desire of the stakeholders.\textsuperscript{37}

To elaborate further, it refers to the way in which a corporation is directed, administered and controlled and to that end it is concerned with various internal and external stakeholders involved as well as the governance process designed to help a corporation achieve its goal.\textsuperscript{38}

Apart from this, corporate governance can also been defined as a mechanism to maximize the wealth of owners which can be achieved by optimum utilization of resources and maximization of return in a given economic environment by managing the organization in more transparent and participating ways.\textsuperscript{39}

We may sum up that the corporate governance mechanism is basically focused on protection of the rights of shareholders and ensures equitable treatment of all shareholders. It encourages and ensures active cooperation between the corporation and stakeholders to enhance the wealth, jobs and to sustain the financial health of the organization.

Corporate governance mechanism must promote a system of transparency and timely disclosure of information regarding performance, financial health, ownership statistics and governance system of the organization. The corporate governance mechanism must ensure independence of the Board and its framework should clearly

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\textsuperscript{36} \textit{Supra n.3, p.311.} \\
\textsuperscript{37} \textit{www.managementstudyguide.com/corporate_governance.htm. Accessed on 4/1/14 at 6:00 P.M.} \\
\textsuperscript{38} \textit{www.corpgov.net/library/corporate-governance-defined. Accessed on 7/1/14 at 3:30 P.M.} \\
\textsuperscript{39} \textit{Ibid.}
\end{flushright}
define the roles and responsibilities and accountability within an organization with built in checks and balances.\textsuperscript{40}

3. Scope of Corporate Governance

Corporate governance deals with a host of legal and non legal principles and practices affecting control of publically held business corporations.\textsuperscript{41} It refers to the set of systems, principles and processes by which a company is governed and provide the guidelines as to how the company can be directed or controlled such that it can fulfill its goals and objectives in a manner that adds to the value of the company and is also beneficial for all stake holders in the long term.\textsuperscript{42}

Corporate governance deals with the manner in which the board of directors and senior management oversee the insurers business. It encompasses the means by which members of the board and senior management are held accountable and responsible for their actions.

It also deals with the manner the providers of finance guarantee themselves of getting fair return on their investment. It shows the path to take effective strategic decisions.\textsuperscript{43}

Corporate governance includes corporate discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. Timely and accurate disclosure on all the material matters regarding the insurer, including the financial situation, performance, ownership and governance arrangements, is part of a corporate governance framework. Corporate Governance also includes compliance with regulatory and legal requirements.\textsuperscript{44}

The goals and objectives of corporate governance have been gathered hereunder:

\begin{itemize}
  \item \textsuperscript{40} \url{www.en.m.wikipedia.org/wiki/Corporate_governance}. Accessed on 13/3/14 at 2:30 P.M.
  \item \textsuperscript{41} \textit{Supra n.38.}
  \item \textsuperscript{42} \url{www.articles.economictimes.indiatimes.com/2009-01-18/news/28462497_1Corporate_governance_Satyam_books_fraud_by_satyam_founder}. Accessed on 11/12/13 at 2:30 P.M.
  \item \textsuperscript{43} \textit{Supra n.37.}
  \item \textsuperscript{44} \url{www.iaisweb.org/view/element_href.cfm?src=1/3520.pdf}. Accessed on 15/1/14 at 2:00 P.M.
\end{itemize}
- The board must create balance of interest of capital providers with other stakeholders.

- Role of financial, non-financial, human and social capital must be recognized and create an environment for optimum utilization.

- Promote culture innovation, creativity and entrepreneurship in the organization.

- Put in place a more dynamic non-partisan Board with executive and non-executive directors of repute and accountability.

- Strengthen the Board of Directors – maintain independence of nominee Directors.

- Promote ethical practices of the Board – since they are engines of growth.

- Concern about people – their role, innovation and efficiency, improvement and to create an environment of self-actualization.

- Foster creativity – transparency and build trust in the organization.

Regulatory mechanism sets the basic framework of corporate governance but it is the commitment and involvement of management which can translate the objective into practice. The practice of corporate governance can be strengthened through guidance of the Board and other committees such as audit committee, investment committee.

4. Corporate Governance Initiatives in Life Insurance Industry

Globalization and its associated developments have made effective corporate governance very crucial. In India, the question of corporate governance has come up mainly in the wake of economic liberalization and de-regularization of the industry
and business. In this competitive scenario, an Indian corporation as also a corporation elsewhere should be fair and transparent to its stakeholders in all its transactions this has become imperative in today’s globalised world.45

The decisive impact of competition in the marketplace has also been reflected in the growth of life insurance business. Though competition has been beneficial to the insurance industry with release of market forces but market forces cannot operate in regulatory vaccine and need sound corporate governance system.

The emergence of insurance companies as a part of financial conglomerates has added a further dimension to sound corporate governance in the insurance sector with emphasis on overall risk management across the structure and to prevent any contagion.46

The primary objective of corporate governance in an insurance company is to protect the policyholders against insolvency by efficient management of financial, accounting and technical functions. Apart from this, operational efficiency of the individual insurer also depends on the degree of ethical business conduct, transparency and governance system, and that is where sound corporate governance comes to play. Corporate governance also ensures compliance with regulatory and legal requirements.47

E. CORPORATE SOCIAL RESPONSIBILITY

1. Introduction

The 21st century is characterized by unprecedented challenges and opportunities, arising from globalization, the desire for inclusive development and the imperatives of climate change.

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45 www.psr.centre.org/images/extraimages/312018.pdf. Accessed on 30/12/13 at 4:00 P.M.
46 Supra n.34.
47 Supra n.44.
It is recognized the world over that integrating social, environmental and ethical responsibilities into businesses ensures their long term success, competitiveness and sustainability. This approach also reaffirms the view that businesses are integral part of society, and have critical and active role to play in the sustenance and improvement of healthy ecosystem, in fostering social inclusiveness and equity, and in upholding the essentials of ethical practices and good governance.\footnote{See also, Ministry of Corporate Affairs, “Corporate Social Responsibility Voluntary Guidelines, 2009”.} This also makes business sense as the companies with effective CSR, have image of socially responsible companies, achieve sustainable growth in their operations in the long run and their products and services are preferred by the customers.

The role of corporate in a globalized market economy needs to be redefined, because corporate are gradually occupying a greater space in socio-economic life like never before. The role of state as a prime supplier of goods and protector of economic interest of its citizens has diminished significantly with the increased corporate governance in economy. Therefore, in the new economy the corporate are placed with added responsibility to provide social goods and to serve the social purpose of existence of an economic entity.\footnote{Supra n.3, p.326.}

2. Definition

Corporate Social Responsibility (CSR), also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business is a form of corporate self-regulation integrated into business model.\footnote{www.en.m.wikipedia.org/wiki/Corporate_social_responsibility. Accessed on12/1/14 at 12:30 P.M.} It refers to the obligations and duties of business to the society. Now a day, there has been a growing acceptance of the view that business should be socially responsible to all the
stakeholders says shareholders, employees, consumers, government, suppliers and society.51

The idea of CSR first came up in 1953 when it became an academic topic in HR Bowen’s ‘Social Responsibilities of the Business’. Since then, there has been continuous debate on the concept and its implementation. Although the idea has been around for more than half a century, there is still no clear consensus over its definition.52

It was HR Bowen who first defined CSR as “the obligations of business to pursue those policies, to make those decisions and to follow those lines of actions which are desirable in terms of the objectives and values of our society”.53

Over the subsequent decades, CSR definitions, practices and adoption of CSR expanded immensely and it came to be understood as “a business system that enables production and distribution of wealth for the betterment of stakeholders through the implementation and integration of ethical systems and sustainable management practices”.54

Recently, World Bank group has given a more contemporary definition of Corporate Social Responsibility by stating that “it is the commitment of businesses to contribute to sustainable development by working with employees, their families, the local community and society at large, to improve their lives in ways that are good for business and developments”.55

52 www.164.100.47.134/intranet/corporateSocialResponsibility.pdf. Accessed on 13/1/14 at 3:00 P.M.
54 www.repository.upenn.edu/cgi/viewcontent.cgi?article=1009&context=od_theses_mp&sei-redir=1&referrer=http%3A%2F%2F. Accessed on 14/1/14 at 2:30 P.M.
The continuous development of the definition and terminology suggests that the meaning ascribed to concepts such as CSR will continue to evolve in tune with business, political and social developments.\(^5^6\)

3. Dimensions of CSR

Corporate Social Responsibility is a multi-dimensional concept which exerts direct and indirect effect on corporate performance. CSR directly influences the performance by promoting better working environment; more committed and involved employees who leads to improved efficiency and productivity. Indirect effect stems from better consumer’s perception leading to expansion of product market. CSR has been further distinguished as external CSR and Internal CSR on the basis of desired CSR approach and initiatives.

(a) CSR: External Dimensions

Corporate Social Responsibility is a concept which goes beyond the operational boundary of a company. External dimensions of CSR cover:

(i) Stakeholders

Corporate social responsibility ensures that the stakeholders of the firm are dealt with in a ethical and socially responsible way. The stakeholders are all the people affected by a company’s actions. These include shareholders, directors, staff, staff representatives, regulators, government, lobby groups, suppliers and members of the public.\(^5^7\)

(ii) Social

The social dimension of corporate responsibility involves the relationship between your business and society as a whole. Being socially responsible means


maximizing the positive effects and minimizing the negative effects of business on society and thereby improving the quality of life in the society in which they operate. It includes integrating social concerns in their business operations and contributing to a better society.

(iii) Environment

The environment dimension of corporate social responsibility refers to your business’s impact on the environment. Since environment provides the necessary resources, it is essential duty of a company to save it from degradation. Servicing companies like life insurance are also benefitted by the contribution of natural resources and environment and they also need to invest in protection of environment and natural resources.58

(iv) Human Rights

External CSR also includes human rights. It is an increasingly important aspect of CSR. Multinational companies face human rights challenges including matters such as child labor, working conditions, health and safety of workers etc. Human rights are a very complex issue presenting political, legal and moral dilemmas, so a human right policy is indispensable for insurance companies.59

(b) CSR: Internal Dimensions

(i) Human Resource

Internal CSR focuses on human resources and its appropriate utilization, safety, health, and welfare measures for the employees. Human resource related CSR are quite critical and comprehensive because human resources are the most important asset of a company. And more so in a life insurance company which manufactures and sells intangible products and depends heavily on the post sales services to the customers.

58 Supra n.3, p.328.
59 www.books.google.co.in/books?isbn=904113252X. Accessed on 12/1/14 at 5:00 P.M.
(ii) Change Management

Recent world economy and global markets are undergoing unprecedented changes in terms of global movement of goods and services, innovation and transfer of knowledge and skills. Internal CSR needs to capture these changes and internalize them; otherwise the mismatch between external changes and internal situation will act as a stumbling block to growth and survival of the company. As such change management is also a critical consideration for internal CSR.60

4. CSR in Life Insurance Companies

Companies have a lot of power in the community and the national economy. They control a lot of assets, and may have billions in cash at their disposal for socially conscious investment. Some companies may engage in “green washing”, or feigning interest in corporate responsibility, but many large corporations are devoting real time and money to environmental sustainability programs, alternative energy clean-tech, and various social welfare initiatives to benefit employees, customers and community at large.61

The corporate social responsibility practices in India sets a realistic agenda of grassroots development through alliances and partnerships with sustainable development approach.62 Application of CSR has been widely accepted across the industry and across the country. The Companies ‘Bill, 2012 is a significant development in the country’s efforts to move forward on the CSR Agenda. Under the bill, all profit making companies will be required to spend 2% of their average net profit of the previous three years on CSR activities.63

60 Supra n.3, p.329.
61 www.investopedia.com/terms/c/corp-social-responsibility.asp. Accessed on 1/1/14 at 9:00 A.M.
63 Supra n.55.
The insurance industry brings numerous positive contributions to society, and that a number of pioneering companies in the sector are striving hard to operate in a socially responsible way.\textsuperscript{64}

The CSR policy of insurance companies in India mainly focuses on environment, education, community, workforce, human rights, health, senior citizens, marginalized groups, safety and standard of business conduct. Insurance companies favor the wellbeing of society as a whole through a variety of initiatives. They contribute to improve and enhance the quality of life of society in which they operate by helping to create an equitable society.

In addition to it, they are strongly involved in promoting public health and their interventions have led to the adoption of higher security standards in several important areas such as car safety. Insurance companies also strive to integrate the environmental concern, both internally and externally. In recent decades economic losses due to natural disasters have risen sharply and are doubling every ten years, this directly affects the industry as the claims related to natural disasters are massive. Therefore insurance industry is confronted with the responsibility to devise innovative responses to the environmental challenges.\textsuperscript{65}

Apart from this insurance companies are also showing great interest in socially responsible investment. A group of leading insurance companies have adopted clear policies of socially responsible investment and have undertaken to implement them in their asset management practices.

From the above discussion it is clear that CSR is now an effective part of organizational objectives of insurance companies and has become an effective tool by which a company can differentiate itself from their competitors and can hold strong position in market.\textsuperscript{66}

\textsuperscript{64} \url{www.insead.edu/facultyresearch/research/doc.cfm?did=2016}. Accessed on 7/1/14 at 5:30 P.M.
\textsuperscript{65} \textit{Ibid.}
\textsuperscript{66} \textit{Supra n.51.}
But at the same time we cannot deny that in Indian Insurance Industry, CSR is still in nascent stage and there is a need to understand that future social and commercial gains can be achieved only out of a robust CSR system in life insurance industry. A well-defined CSR format for Indian life insurance companies will bring the much needed clarity. Insurance Council of India can play an important role by developing and ensuring its implementation.\(^67\)

5. CSR Activities of LIC

Life Insurance Corporation of India is committed to behave ethically and contribute to the economic development while improving the quality of life of local community and society at large. Most of the LIC’s funds are invested for the community as a whole keeping in view the national priorities. It promotes social welfare through investment in infrastructure and social sector which includes projects/schemes for generation and transmission of power, housing sector, water supply, and sewage projects, development of roads, bridges and road transport.\(^68\)

As a part of its CSR, LIC formed a Trust- “LIC Golden Jubilee Foundation” in the year 2006, with the objective of promoting education, health, relief of poverty or distress and advancement of other objects of general public utility. Till date, a corpus of Rs. 90 crores has been put by LIC towards the Golden Jubilee Foundation.\(^69\) The foundation has supported projects ranging from construction of hospitals, school buildings and classrooms, library and computer centre, old age homes, Hostel buildings for children in tribal areas, vocational training centers for differently-abled persons to providing infrastructural facilities to needy persons in different parts of the country.\(^70\)

\(^{67}\) Supra n.3, p.331.
\(^{68}\) www.dnb.co.in/topPSU2013/Adv%20Life%20Insurance%20Corporation%20of%20India.pdf. Accessed on 13/1/14 at 6:00 P.M.
\(^{69}\) www.licguru.in/our-social-responsibility.htm. Accessed on 17/1/14 at 5:00 P.M.
\(^{70}\) www.licindia.in/GJF_aboutus.htm. Accessed on 12/1/14 at 12:00 P.M.
Apart from it, LIC also runs, the LIC Golden Jubilee Scholarship Scheme which provides scholarship to economically weaker sections of society to pursue higher education/professional course. Approximately, 2650 students have benefited from the scheme so far.\textsuperscript{71}

So, as a responsible corporate citizen LIC has been fulfilling its social responsibility from time to time.\textsuperscript{72} It is holding public money with obligation and using it in the best possible manner for the interest of policyholder and community at large. Having earned the trust of customers it is now spreading the spirit of corporate social responsibility.\textsuperscript{73}

\textbf{F. SELF REGULATORY ORGANISATION (SRO)}

\textbf{1. Introduction}

In recent times self-regulation has become an important part of the regulatory structure of markets of many developed and developing economies. Use of self-regulation and self-regulatory organization is often recommended in emerging markets as a broader strategy aimed at improving the effectiveness of market regulation.\textsuperscript{74}

A self-regulatory organization exercises some degree of regulatory authority over an industry or profession. This regulatory authority could be applied in addition to some form of government regulation, or it could fill the vacuum of an absence of government oversight and regulation. The ability of SRO to exercise regulatory authority does not necessarily deprive the government from its authority.\textsuperscript{75}

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\textsuperscript{71} Supra n.69.

\textsuperscript{72} Supra n.70.

\textsuperscript{73} www.naukrihub.com/india/banking-insurance/top-companies/lic.html. Accessed on 8/1/14 at 6:00 P.M.

\textsuperscript{74} www.jsda.or.jp/en/newsroom/researches-studies/files/wbreporten.pdf. Accessed on 4/1/14 at 10:30 A.M.

\textsuperscript{75} www.en.m.wikipedia.org/wiki/Self-regulatory-organization. Accessed on 7/1/14 at 9:00 P.M.
SRO is a non-governmental organization that has the power to create and enforce industry regulations and standards. The priority is to protect the investors through the establishment of rules that promotes ethics and equality.76

A healthy SRO system not only minimizes the cost of regulation but also creates an opportunity for less regulation with greater operational freedom and choice. This also reduces the state intervention through legislative measures in corporate functions. Recent trends in financial service industry shows that there is growing focus on regulation through industry level SROs.

If the self regulatory framework has to work effectively, there must be a very sound and transparent relationship with the regulator and mutual understanding of the role and functions of both regulation and self regulation. The regulator alone cannot solve all the problems of the industry and there should be a self regulatory framework to monitor the growth of industry as well as address the problems of industry and customers.77

2. Importance of SRO in Life Insurance Industry

In life insurance there is a growing emphasis to support the regulator by SROs in efficient management of the industry. Financial service industry, like life insurance, which plays a very critical role in the national economy and influences millions of savers of all kinds, needs to be regulated to the desired extent to protect the interest of policyholders as well to promote a healthy environment for the industry to grow with ethical business practices, sound governance and CSR.

The Self Regulatory Organization (SRO) framework is a must for the life insurance industry in India, not only to grow the industry but also to meet the high performance criteria and to satisfy customers. The self regulatory works will not only bring in the best practices and global standards but will also help the industry to

76 www.investopedia.com/terms/s/sro.asp. Accessed on 13/1/14 at 4:00 P.M.
77 www.m.financialexpress.com/news/-sro-framework-is-a-must-for-life-insurance-industry-/98917. Accessed on 10/1/14 at 6:30 P.M.
clearly understand the basic needs of customers and enable them to address with suitable products and services. It will also help the industry to meet their targets without affecting customers or the company. Not only that it will also ensure ethical practices while moulding the ‘agents’ with suitable training to make the common public understand the products and their benefits.\textsuperscript{78}

It is expected that, in time; much of the development role currently played by the IRDA will be taken over by the SROs. In an environment of growth and expansion, it is the SRO who can best facilitate innovation and adaptation to seize the competitive opportunities and meet challenges.\textsuperscript{79}

India is a big market for life insurance so the concerned should take serious note on forming a self regulatory organization to draw blueprint for higher and speedy growth of the industry.

3. Life Insurance Council as SRO

Indian Regulator, IRDA has taken timely initiatives to promote SRO culture through its notification in February 2001, by establishing the Insurance Association of India, under Section 64A of the Insurance Act, 1938. In addition to the Insurance Association, an independent Life Insurance Council has also been set up under Section 64C of Insurance Act 1938, to perform the role of an SRO.

At present the life insurance council is performing the role of SRO in a limited manner by setting up market conduct standards for insurers.\textsuperscript{80} It aid, advice, and assist insurers for setting up standard of conduct and sound practices to render efficient service to the policyholders. Apart from this, IRDA has also entrusted the council with significant functions like taxation, monitoring of management expenses and strict rules of market conduct.\textsuperscript{81}

\textsuperscript{78} Ibid.
\textsuperscript{79} www.books.google.co.in/books?isbn=8177647628. Accessed on 9/1/14 at 11:00 P.M.
\textsuperscript{80} Ibid.
\textsuperscript{81} www.articles.economictimes.indiatimes.com/2005-05-08/news/27504169. Accessed on 15/1/14 at 6:00 P.M.
During its term, Life Insurance Council has taken up many important initiatives in the interest of policyholder such as Policyholders Protection Fund issues in the market conduct of the insurers and intermediaries. The Life Insurance Council has also issued a circular indicating standard and practices for sales illustrations in the brochures. Initiatives have also been taken to establish mortality and morbidity bureau. Apart from this, it is also committed to the cause of maintenance of high standards of governance and ethics in insurance industry and is playing a leading role in insurance education, research, training and conferences. These efforts are a welcome step in the interest of investors.82

Now, the Life Insurance Council, which has all the life insurance players in India as its members, is recommending the creation of a self regulatory organization to ring in discipline into the life insurance industry.83 The council is already working on modalities of the Self Regulatory Framework and is expected to bring about a concept soon. In addition to it, IRDA has also agreed to dilute some of its regulatory powers to the council to ensure that the self regulatory framework in India takes its shape.84 The Life Insurance Council should take the lead along with IRDA to promote a governance system as an engine of growth.

G. REVIEW

A new market structure of life insurance industry with a large number of customers, a few life insurance companies and an evolving regulatory environment has been emerging in India. This is an unknown phenomenon in the Indian life insurance market, since the pre-nationalized insurance market was virtually non-competitive and scantily regulated while the post-nationalized market was characterized by state controlled monopoly. But, it is only in this post-liberalized

82 www.lifeincouncil.org/about-us/functions. Accessed on 12/1/14 at 11:00 P.M.
84 Supra n.82.
period that the Indian market is truly competitive and regulated by well-designed regulatory mechanism of IRDA.

In this highly competitive and volatile era, though IRDA has come out with a large number of regulations to promote healthy growth of life insurance market, a lot more is required to be done particularly in the area of governance. Today, good governance has evolved as a key parameter of success of every corporate entity. The primary objective of any governance system is to protect and enhance the interest of stakeholders. In case of a life insurance company the major stakeholders are policyholders and shareholders.

In India, the governance system has been institutionalized and strengthened through regulatory measures introduced by the regulator of the country as well as the other mandatory/voluntary measures such as corporate governance, solvency regulations, risk based supervision and ethical practices. While the regulation and legislative measures are mandatory, corporate governance and ethical practices may or may not be mandatory for a life insurance company. But they are very essential instruments of efficiency and performance.

It is now widely accepted that in a market economy it is difficult to introduce an optimum regulation as the scale of operation as well as the nature of market environment is continuously changing. There always remains a gap between the measures of statutory regulation and required optimum regulation for efficient market. This gap can be minimized skillfully by adopting self governance mechanisms like SRO, CSR, corporate governance, ethical business practices and risk-based supervision and solvency regulations. These voluntary measures beautifully supplement the regulatory measures and provide transparency, accountability and efficiency to a growing firm.

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85 While scanty regulation can prove disastrous, over regulation may impede the speed of growth. So, there is always a continuous pressure on the regulator to take a mid way, giving greater operational freedom and imposing minimum regulation.
Since, a corporate entity is an important instrument of economic change and social progress each business entity should formulate its own governance policy to guide its strategic planning and provide a roadmap for its governance initiatives. There is no doubt that if the concept of good governance is implanted in the corporate culture of a life insurance company and is aligned with its business and social goals, it will enable the company to sail smoothly through the rough patches and hoist the flag of its success. At this juncture, we can confidently say that the concept of good governance has come to stay in this vibrant market.