

(Corporate Governance for Insurers) Regulations, 2024.

Dr. S K Gupta

M.Com, FCMA, FCS, Ph.D (Corporate Governance)

MD – ICMAI Registered Valuers Organization

CEO – ICMAI Social Auditors Organization

COO – ICMAI International ADR Chamber

The world is changing...

The world is changing

It's a VUCAFU world

Disruptive Business models

Profit less turnover

Cash less profit

Value creation is the key

Corporate Governance is the success
mantra

Emerging Vulnerable, Uncertain, Complex and Ambiguous (VUCA) business scenario requires the companies to follow **Good Corporate Governance practices to ensure survival and sustainable growth**

Emerging trends

- Disruptive business models
- Globalization
- Technological revolution
- Environmental shifts and pressures
- Changing values
- Changing customer expectations

Good Governance is the key for

- Meeting stakeholders expectations
- Creating, preserving and enhancing VALUE
- Sustainability of the organization
- Building a competitive edge
- Earning trust of the Stakeholders
- Becoming a good corporate citizen

What is Corporate Governance?

CG is the way an organization is managed by policies and practices that directly or indirectly affect its various performance parameters, in the context of the normally accepted, social , ethical and moral standards of the society and the laws of the land.

Corporate Governance

- Corporate governance is the **mechanisms and processes** by which corporations are controlled and directed.
- It comprises of the **rules & procedures** for making decisions in corporate affairs and the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment.
- Corporate governance is fully based on the four fundamental keystones of **fairness, transparency, accountability and responsibility**.
- Corporate Governance is an overview of rules and regulations for the people in-charge of an incorporated firm. They are the ones who agree to take responsibility towards the shareholders. Without corporate governance no corporate entity can survive for a long time in the corporate world.

WHY CORPORATE GOVERNANCE ?

- Greater accountability to all shareholders.
- Lower cost of capital
- Leads to higher firm valuation
- Promotes objectivity and transparency in decision making.
- Maximizes transparency in disclosure to enable the investors to take well informed investment decisions.
- Ensures effective compliances with regulatory requirements and ethical conduct of business.

PARTIES TO CORPORATE GOVERNANCE



The concept of corporate governance is an old concept in India.

From the ancient times, 3rd century B.C., Chankaya elaborated fourfolds duties of a king i.e. Raksha, Vriddhi, Palana and Yogakshema.

For recent times, king now is the Company CEO or Board of Directors the principles of Corporate Governance refers to

- Protecting the shareholders wealth (RAKSHA)
- Increasing the income by proper utilizations of the assets (VRIDDHI)
- Maintaining a proper profitability of the income (PALANA)
- Protecting the interests of the shareholders (YOGAKSHEMA/ SAFEGUARD)

KEY ASPECTS OF CG

One size doesn't fit all... but some things are common

- Ethical conduct – Living the code of conduct
- Disclosures – All material information
- Fairness - Fair actions / Fair decisions
- Accountability – To the stakeholders
- Equal treatment of all stakeholders - Equity

Most of the countries have regulations and laws which mandate appropriate conduct

Introduction:

The Insurance Regulatory and Development Authority of India (IRDAI) has issued new regulations, titled “Corporate Governance for Insurers,” effective from March 20, 2024. These regulations aim to enhance governance structures within insurance companies to safeguard the interests of stakeholders, including policyholders.

(1) These Regulations may be called the **Insurance Regulatory and Development Authority of India (Corporate Governance for Insurers) Regulations, 2024**.

(2) These Regulations shall come into force from the date of their publication in the official gazette.

(3) These Regulations shall be **reviewed once in every three years** from the date of notification, unless the review or repeal or amendment is warranted earlier.

(4) These Regulations shall be applicable to all insurers **except foreign company** engaged in re-insurance

Objectives

- (1) To provide the framework for insurers to adopt **sound and prudent principles and practices** of their governance structure; and
- (2) To provide a framework of roles and responsibilities of the Board and the management of insurers, to **protect the interests of all stakeholders** including policyholders; and to establish the framework for stewardship principles to be adopted by insurers.

Board

- (1) Every insurer shall have a Board comprising of competent and qualified individuals as directors, with qualifications and experience that are commensurate with scale, nature, complexity of business and size of the insurer, from various areas of financial and management expertise such as the lines of insurance business underwritten, actuarial and underwriting risks, finance, accounting, control functions, investment analysis and portfolio management, customer grievance management, law, banking, securities, economics, etc.,
- (2) All insurers shall ensure an optimum composition of Independent Directors and non-executive directors, subject to a **minimum of three Independent Directors**:

Provided that insurers having foreign investment shall also comply with the Indian Insurance Companies (Foreign Investment) Rules, 2015:

Provided further that, the **Chief Executive Officer shall be a Whole-time Director** of the Board:
Provided further that the **Chairperson of the Board shall be appointed with the prior approval of the Competent Authority** except for public sector insurers.

- The Board shall ensure that in case the number of Independent Directors falls below the minimum specified number, the insurer shall promptly intimate the Authority.
- Such vacancy 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, under intimation to the Authority.
- Further, upon removal/ resignation of an Independent Director of the insurer, the insurer shall forthwith intimate the same, along with reasons, within **thirty days** to the Authority.

(3) An Independent Director shall comply with the provisions of the Act, Companies Act, SEBI Act and rules, regulations, circulars etc. issued thereunder (as applicable) and such other requirements as may be specified by the Competent Authority.

The directors shall fulfil the “fit and proper” criteria, at all times, on a continuous basis, as may be specified by the Competent Authority.

(5) The term, tenure and appointment of the directors shall be in compliance with the Companies Act and the Act.

(6) The conditions for appointment of common directors between insurers and insurance agents or intermediaries or insurance intermediaries as provided under section 48A of the Act, shall be as specified by the Authority.

The insurers shall, inter-alia, ensure the following:

independence of the Board from the management as well as the promoters; and independence of control functions including compliance, risk, audit, actuarial and secretarial function.

Powers, Roles and Responsibilities of the Board

- (1) The Board shall be responsible for formulating the **overall strategy and direction** to the insurer, as well as overseeing its overall management.
- (2) The Board shall ensure appropriate **systems and procedures for risk management and internal controls** are in place. The Board shall also oversee that these systems and procedures are operating effectively as intended.
- (3) Framing of **policies and delegation** of responsibilities –
 - (a) The Board shall set a **clear and transparent policy framework** for translation of the corporate objectives.

The Board shall also ensure the formulation and adoption of various policies and strategies by the management and put in place a **robust compliance system for all applicable laws and regulations**.

b) The Board, while laying down the policy framework shall **consider various risks** involved in carrying out its operations **and their potential impact** and shall follow the directions and guidance, as specified by the Competent Authority.

(4) In discharge of its responsibilities, the Board may delegate its responsibilities and authority to various Committees of the Board, but such delegation does not absolve the Board from its primary responsibilities.

The Board shall also be responsible for the acts and omissions of the Committees.

(5) The Board shall constitute the following committees, who shall perform such roles and responsibilities as may be specified by the Competent Authority:

- (a) The Board shall constitute all committees, as mandated by the provisions of the Companies Act including but not limited to Audit Committee, Nomination and Remuneration Committee and Corporate Social Responsibility Committee:
- (b) Provided that in addition to the requirements set out under the Companies Act, the **Chairperson of the Audit Committee and Nomination and Remuneration Committee shall be an Independent Director.**
- (c) Risk Management Committee

The Board of the insurer shall constitute a Risk Management Committee to implement the Risk Management System in order to have strong risk management strategies including Asset-Liability Management.

(c) Policyholder Protection, Grievance Redressal and Claims Monitoring Committee (PPGR&CM Committee)

The Board shall constitute a PPGR&CM Committee which shall establish suitable systems and processes towards **protection of the interests of policyholders**, ensure measures towards creation of insurance awareness and empowering policyholders, and efficient and effective grievance redressal mechanism and monitoring of claims settlement processes:

Provided that the **chairperson of PPGR&CM Committee shall be an Independent Director:**

Provided further that the constitution of PPGR&CM Committee shall not be mandatory in case of companies whose sole purpose is to carry on re-insurance business.

(d) Investment Committee

The Board shall constitute an Investment Committee, which shall formulate and recommend investment policy and the operational framework for the investment operations of the insurer.

(e) With Profits Committee

Every insurer transacting participating life insurance business shall constitute a 'With Profits Committee' with the objective of ensuring appropriate management of 'with profit business'.

Provided that the Board may also constitute such other Committees (in addition to the committees mentioned in (a) to (e) above) to discharge its functions and responsibilities to comply with applicable regulatory framework, or as it deems fit.

(6) The insurers shall ensure that constitution of the above committees, appointment and removal of its members, quorum and frequency of meetings, and its functioning shall be in compliance with the provisions of the Act, Companies Act, SEBI Act and rules, regulations, circulars, etc. issued thereunder (as applicable) and such other requirements as may be specified by the Competent Authority.

(7) Conflict of Interest

- (a) The Board shall put in place adequate **systems, policies and procedures to address potential conflicts of interest** and inter alia ensure compliance with the provisions of the Companies Act.
- (a) In an event where it is proposed to enter into a contract or arrangement with related parties, the **disclosures by Directors** and necessary approvals, as required under the provisions of the Companies Act, read with the relevant rules thereunder, shall be obtained.
- (a) The Board shall ensure that **Key Management Persons shall not simultaneously hold more than one position in the insurer** that could lead to conflict or potential conflicts of interest such as 'business and control function' or 'two control functions'.

(b)

(8) Related Party Transactions

- (a) The insurers shall ensure that the related party transactions and disclosures are in accordance with the relevant provisions of Companies Act, SEBI Act and rules, regulations, circulars, etc. issued thereunder (as applicable) and such other requirements as may be specified by the Competent Authority.
- (b) The Board shall formulate a **policy on Related Party Transactions** laying down, at a minimum, including the definition of transactions in the ordinary course of insurance business, method of determination of arm's length pricing, list of items requiring approvals under applicable laws and/or from Audit Committee, Board, Shareholders and any other matter relevant to the Related Party Transactions.
- (c) The policy on Related Party Transactions shall be **reviewed annually** by the Board.

(9) Capital Structure

The Board shall ensure continuous compliance with the statutory requirements on capital structure while planning or examining options for capital augmentation of the insurer.

(10) Evaluation of the Board including Independent Directors

The evaluation of directors including the Independent Directors shall be conducted in accordance with the provisions of the Companies Act.

(11) Succession Planning As part of the Board's internal governance practices, the Board shall consider and adopt appropriate steps and measures towards succession planning through a process of proper **identification and nurturing of individuals** for taking up directorship and KMP positions of the insurer.

The insurer shall adopt a plan in this regard and the Board shall review such succession plan on an **annual basis**.

(12) Groups and Conglomerates

(a) Insurers that are a part of a corporate group may be subject to the regulatory requirements regarding governance policies and practices established for the group-level and implemented uniformly across the group.

(b) In addition to the above, these practices may be reoriented at the level of the insurer taking into account its specific business and risk profile and sectoral regulatory requirements.

(c) For the purposes of these Regulation, the term “group” shall have the same meaning as ascribed to such term in Section 6A of the Act.

Appointment of Key Management Persons

(1) Every insurer shall appoint Managing Director/ Chief Executive Officer or Whole-time Director(s), by whatever name called in accordance with the provisions of Section 34A of the Act.

The Board shall carry out effective **due diligence to ensure that the incumbent is 'fit and proper'** before recommending his/ her name for necessary approvals.

(2) The KMPs shall be appointed by the Board on recommendation of the Nomination and Remuneration Committee.

Further, the appointment of Appointed Actuary shall be in accordance with the Insurance Regulatory and Development Authority of India (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024.

(3) Chief Compliance Officer

(CCO) shall be appointed for a **minimum fixed tenure of not less than 3 years**. The duties and responsibilities of the compliance function shall include at least the following:

- (a) Apprising the Board** and senior management on applicable Acts, Rules, Regulations, Guidelines and Circulars.
- (b) Ensuring compliance** with the provisions of applicable Acts, Rules and Regulations made thereunder, and other Regulatory stipulations/directions.
- (c) Designing compliance framework.**

(4) In the event of vacancy due to retirement, resignation or otherwise, the Authority shall be kept informed of such event and the reasons therefor.

Further, insurers shall initiate action for filling up of such vacant KMP positions on a priority basis, to ensure that it shall not remain vacant for a continuous period of more than **one hundred and eighty days**.

(5) The insurers shall collect and maintain details of their KMPs in such manner and format as may be specified by the Competent Authority.

The insurers shall promptly inform the Authority of any appointment or change in the individual person holding the KMP position.

Remuneration to Directors and Key Management Persons (KMPs)

- (1) The insurers shall ensure sound remuneration policy and practices, as part of their Corporate Governance framework. Insurers shall also formulate and adopt a **comprehensive Board approved remuneration policy** in accordance with the framework specified by the Competent Authority for Chairperson of the Board, Non-Executive Directors and Key Management Persons.
- (2) The **Board shall oversee the effective implementation of remuneration policy** which does not induce excessive or inappropriate risk taking, is in line with corporate culture, objectives, strategies, identified risk appetite and long term interest of the insurer and which gives due regard to the interests of its policyholders and other stakeholders.
- (3) The Board shall ensure and document that in structuring, implementing and reviewing the remuneration policy, the decision making process identifies and manages conflicts of interests. Members of the Board shall not be placed in a position of actual or perceived conflict of interests with respect of remuneration decisions.

8. Statutory Auditors

- (1) The insurers shall appoint a **minimum of two auditors as joint statutory auditors** and shall ensure that there is no conflict of interest in their appointment.
- (1) The Board shall appoint such statutory auditors **on the recommendation of the Audit Committee**, subject to the shareholders' approval at the general meeting of insurer.
- (2) The Competent Authority may specify the eligibility norms, minimum qualifications, experience and other requirements for appointment of statutory auditors by the insurers.

9. Stewardship

- (1) The insurer shall formulate a board approved Stewardship Policy which shall identify and define the stewardship responsibilities that the insurer wishes to undertake and how the policy intends to fulfill the responsibilities to enhance the benefits to its policyholders.
- (2) Subject to further stipulations as may be specified by the Competent Authority, the policy shall, at a minimum, provide that the insurers would play an active role in the general meetings of investee companies and engage with the managements at a greater level to improve their governance.

OTHER GOVERNANCE REQUIRMENTS

10. Disclosure & Reporting Requirements

- (1) The CCO shall be responsible for ensuring and monitoring continuing compliance with these Regulations. Unless specified otherwise by the Authority in the respective Regulations, **CCO shall be the designated Compliance Officer** for submitting returns, reports and applications for approvals to the Authority.
- (2) A **report on the status of compliance** with these Regulations shall be filed on an **annual basis** within such time and in such format as may be specified by the Competent Authority. Further, there shall be a separate certification from the CCO, in such format as specified by the Competent Authority.
- (3) All insurers shall make necessary disclosures about the composition of its Board, meetings of Board & its Committees, details of attendance of meetings by directors and members of Committees, details of remuneration paid, if any, to all directors including Independent Directors, etc. in such manner and format as may be specified by the Competent Authority.

11. Environment, Social and Governance (ESG)

(1) Every insurer shall have in place a board approved Environmental, Social and Governance (ESG) framework. The activities of insurer under ESG are to be monitored by the Board. The ESG framework shall be reviewed by the Board on annual basis.

(2) The Board shall establish a comprehensive **Climate Risk Management framework** to facilitate the climate risk management, keeping in view their size, nature and complexity of operations.

MISCELLANEOUS

12. Powers to issue Circular, Guidelines and directions from time to time:

The Competent Authority may issue circulars, guidelines and directions, if necessary, from time to time, relating to these regulations, including but not limited to, transitory provisions regarding implementation process of these regulations.

13. Power to issue clarifications and to remove difficulties, if any:

In order to remove any doubts or the difficulties that may arise in the application or interpretation of any of the provisions of these regulations, the Competent Authority may issue appropriate clarifications as and when deemed necessary.

CORPORATE GOVERNANCE : SOME VIEWS

- CG is not a rule-book. You can not have rules 1,2,3 and 4 and then tick them off. They must come naturally and instinctively. Important , it must be a part of your wisdom. Otherwise you cannot follow it.
- CG can not be purely regulatory. It has to be a way of life. It must be taken out of the confines of the Board room and instilled in people all over your organization.

CG – Best Practices

- Ethics Committee
- ESG Committee
- Code of Ethics
- Separate meeting for discussions on ESG issues
- Separate meeting for discussions on Strategy
- Improved board processes – Agenda, Deliberations, Minutes, Directors on boarding, Directors training
- Every proposal put up to the Board must be accompanied by an ESG impact note
- Board Manual & Board Charter
- Board Diversity
- Separate meetings of independent directors before the full board meeting
- Lead Independent Director
- Active rather proactive connect with the stakeholders

Corporate Governance

Not only means to **SURVIVE** ; but a strategy to **PROSPER** in today's world...

Corporate Governance

Corporate Governance is a dynamic process and is continually evolving

AND

It has no boundaries or limits!

The message is loud and clear

Shape up

or Ship Out

Thank You