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A Study of Governance Norms and Important Corporate Governance Practices in India's Life Insurance Sector

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Abstract – The Indian life insurance sector has a pressing need for corporate governance. The development of life insurance businesses is impacted by corporate governance standards. And life insurance, in terms of corporate governance Insurance in India has a long history. Governance-models for corporations Regulatory instruments for corporate governance development corporate governance issues, Indian corporate governance Of the Study Which Discuses about Insurance , Life Insurance , Features of Life Insurance, Types of life insurance policies, History of Insurance in India, Corporate Governance, Need of Corporate Governance in Indian Life Insurance Industry, Corporate Governance in India, Current Indian Model of Corporate Governance

Keyword – Corporate Governance, Life Insurance, Governance Norms, Life Insurance Policies, Current Indian Model.

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INTRODUCTION

Insurance is mainly employed as a risk management strategy to guard against a potential financial loss in the future. A modest but potentially catastrophic loss may be insured against via insurance, which is defined as the transfer of risk from one organization to another in return for payment. Another way to explain it is that it's a social tool for saving up money in case an insured person suffers an unforeseen loss due to a certain risk. Crisis and danger impact everyone's life at some point in time, regardless of money or status. Losses resulting from a risk may be distributed to the agreed-upon people, but the risk itself cannot be avoided. Risks originating from or better described as caused by Acts of God require the insurance sector to cover risks such as the risk of natural disability, floods, cyclonic storms, tornado-induced drought events and earthquake-induced loss of crops/living stock.

Basic terms: Corporate administration is outstanding. It has been a problem since the creation of the joint-stock corporation. The question of ownership and control being separate arose often. In 1776, Adam Smith voiced his dissatisfaction with the division that existed between ownership and control (1973). Nevertheless, financial crises and significant business scandals are to blame for the present flurry of discussion and attention focused on corporate governance. There are also challenges to the corporate governance structure as a result of increased globalization and technical advancement. Having effective corporate governance is essential in today's globally interconnected and dynamically evolving economy. Because of less government control and supervision, good corporate governance has become necessary as well. In addition to facilitating greater access to finance, good corporate management practices benefit a company by lowering capital costs, improving performance, and treating stakeholders fairly. They also encourage better disclosure of corporate reporting, resulting in more market liquidity, capital formation, and increased corporate valuation and profitability. India's commercial enterprises were destined to failure, despite its excellent business practices. As a consequence of bad management practices, many Indian insurance firms have gone out of business, been bought, or merged. Good corporate governance is essential in a growing nation like India. Since recently, India has started a series of corporate-government pillars to enhance the economy's openness, accountability, and rule of law via the backing of legal, economic, and financial reform. Since corporate governance promotes accountability, transparency, and profitability for insurance firms while also promoting the growth of the insurance sector to safeguard stakeholders' interests, it is critical for insurers.

In India, the first life insurance policies were issued more than a century ago. As a result, it is now widely accepted as one of a person's most enticing financial instruments for combining security with high returns

INSURANCE

In the face of uncertainty and ambiguity, we are all constantly exposed to risk, which may result in damage to our property, loss of life, limbs, and other bodily functions. The existence of risk necessitates the use of high-quality equipment that can at least partly absorb the shock of such risks. Many ideas have developed throughout time to help minimize losses, but insurance has emerged as one of the most powerful and effective tools for reducing the effects of bad events, if not eliminating them completely. People's lives are covered by insurance because "the fundamental principles of insurance are to shield the few from severe financial effect by distributing the loss among many who are exposed to comparable risk. By paying a premium or premiums to secure payment of an amount in case of loss or damage to property, life, etc. the Oxford Dictionary defined insurance. In the words of researcher, in this sense, insurance may be seen as a social tool for accumulating money to cover losses caused by specific risks and for providing financial protection in the case of such occurrences in exchange for the payment of a premium. The risks of life, assets, and property are all protected by insurance, which is divided into two categories: general insurance and life insurance. Both offer protection against loss of property (such as cars and crops) and life (such as people and their loved ones). Consequently, life insurance is the study's focus.

LIFE INSURANCE

Because human life is the most precious asset, life insurance is the most popular and important product in the insurance industry. The concept of life insurance has had a long and arduous road to get to where it is today and how important it is in the present scenario, the most common and oldest kind of insurance, despite this. For the sake of comparison, let's say that the insurer has agreed to pay a particular quantity of money if the insured person dies or after a certain length of time has passed in exchange for the payment of a premium. Protecting your family financially in the event that you die before you should is an important benefit of life insurance. It may also guarantee payment of a specific amount of money when the insured reaches a certain age. By purchasing a life insurance policy, each individual commits to make a financial contribution to the society's common fund in order to compensate the family of the deceased member. Consequently, insurance is an agreement between an individual (insured) and another individual (insurer) for the purpose of transferring risk for a fee known as a premium, and an insurance agreement in which specific terms and conditions of coverage are spelled out is termed an insurance policy

FEATURES OF LIFE INSURANCE

When it comes to life insurance, you're protecting yourself while also making money. It's a win-win situation for the insured if he or she lives long enough to see the policy through to maturity; alternatively, if anything unfortunate happens, such as an accident or death, the whole policy value will be given to the nominee. Life insurance has the following qualities or characteristics.

1. **Insured to pay premium periodically:** the insured is under a duty to pay periodically the amount of payment until the death of insured or expiration of the term of insurance, whichever is sooner.

2. **It is not a contract of indemnity:** Because the damage caused by death cannot be quantified in monetary terms, a contract for life insurance is not an indemnity contract.

3. **Presence of insurable interest:** There must be a life insurance policy holder who has an insurable interest, which may or may not exist at the time of the policyholder's death.

4. **Family protection:** life insurance policy protects the families from the economic difficulty following the death of the breadwinner member of the family. Life insurance is required since when one stops to generate money, the insurer pays certain money to the insured as per different conditions of contracts. Thus, the basic concept of life insurance is to safeguard a person from unknown future occurrences such as premature death, old age etc.

5. **Investment of savings:** the main feature of life insurance is that it combines the components of protection and of investment. There is no other kind of economic gadget, which incorporates both the components of protection and investment so effectively. The life insurance policy holders is generally interested in guarding against danger or early death as well as in saving and investing his income. Though the protection components exist in other kinds of insurance as well, the investment part is completely missing in non-life plans such as fire, marine, accident, theft, burglary and credit insurance. In the case of life insurance, the insurance company agrees to pay a specific amount either on the occurrence of the insured or his reaching a certain age whichever is sooner. In both the situations, the amount guaranteed is bound to be recovered thus; life insurance has the components of protection as well as of

investment. It's also the greatest way to save money, according to this theory.

6. **It covers other risks associated with human life:** life insurance covers certain additional hazards, which are connected with human life in addition to the risk of death. For instance, in event of complete and permanent incapacity, and medical costs afterwards, have suddenly fallen within the scope of life insurance.

7. **It is a co-operative device:** life insurance is a co-operative method of spreading losses falling on an individual or his family across a large number of people, each incurring a minimal cost and feeling safe against huge losses.

8. **Big numbers must be insured:** in order for the life insurance system to operate effectively, it is necessary that it be joined by a large number of people exposed to the same risk. Although a small group's cooperation may be referred to as insurance, it will only serve a limited purpose and the strategy may turn out to be impractical. As a result, from a practical standpoint, the insured population should be substantial.

TYPES OF LIFE INSURANCE POLICIES

It's important to note that the terms and conditions of an insurance policy may vary from one company to another, so it's important to weigh the options carefully. Following are some examples of common kinds of life insurance coverage:

1) **Whole life policies:** Upon the insured's death, the amount is paid to the insured's legal heirs or nominees, as the name implies. It's unlikely that the insured will ever get any money from the insurance. With the caveat that if the insured lives to be 100 years old, he will be compensated with the amount of the insurance policy. Otherwise, the guaranteed amount is distributed to the insured's heirs and beneficiaries. There are many types of whole life insurance policies, such as standard whole life, whole life with profits, limited payment whole life, single premium whole life, and convertible whole life plans, which offer the accrual bonus.

2) **Endowment policies:** These plans pay out the guaranteed amount at the time of the insured's death or after a certain number of years, whichever occurs first.. Term life insurance is the most popular since it allows you to save money, provides for your retirement, and forces you to start saving right now. Policyholders may choose from different types of endowment policies, such as standard endowments like joint life and single benefit plans as well as triple benefit plans like educational and marriage endowments.

3) **Term insurance policies:** These plans only pay out the guaranteed amount if the life insured dies, but if he lives, nothing is paid out and the insurance contract is cancelled. Individuals who need short-term insurance coverage may benefit from these plans. Terms may be classified as temporary, convertible or renewable for a period of two years. Decreasing the amount of term insurance available.

With the advent of non-traditional coverage options like group insurance, a huge number of individuals may be covered by one policy. This is a system of guaranteed insurer payments in exchange for a lump sum payment made by the insured, and it's ideal for the elderly. Annuities ULIPs are a kind of life insurance policy that includes both insurance and investment components. Policies like all of these are becoming more popular in recent years.

HISTORY OF INSURANCE IN INDIA

The insurance business has a long history, both in India and across the world. Manu's Manusmriti and Arthasastra's Kautilya offer insurance evidence.

Life insurance has changed through time and is now more closely linked to it than it was in the past. The first business to provide life insurance to ship captains, crew members, and merchants was the marine insurance company.

Wilhelm Gibbons' life insurance was only approved for a 12-month period on June 18, 1583. Between 1793 and 1818, the Bombay Life Insurance Firm Limited was established in India as the business providing life insurance contracts.

A significant number of Indian insurance firms were formed between 1870 and 1900 under the Indian Companies Act of 1866. Between 1900 and 1912, the insurance industry became more popular among the middle and upper classes in the United States. Therefore, the Indian government enacted the Insurance Act, which was based on the Insurance Act of Great Britain.

The insurance industry's fortunes went the opposite way between 1912 and 1930. Insurance Act of 1938 was enacted by the Indian government after many modifications were made between 1930 and 1938. The Act is still in effect in insurance companies of all types as long as the required changes are made.

After World War II, government played a significant role in establishing the insurance industry by putting together an administrator's board. It was also said that international firms may work with Indian ones. Furthermore, there have been a number of changes since 2010, including those in 2011, 2012, 2013, 2014, 2019, 2020, and 2017. Coverage for both public and private sector organisations may be found in India's insurance industry. A Union List topic, it can only be enacted by the Central Government, as stated in the Constitution of India's Seventh Schedule. By enabling private enterprises to solicit insurance and also permitting foreign direct investment, the insurance market has gone through many stages. An FDI restriction of 26% was imposed for private insurance businesses in India in 2000, which was enhanced to 49% in 2014, then to 74.3% in May 2021. A monopoly on life insurance in India has been maintained by the Life Insurance Corporation of India since it was privatized in 2001, although the private giants HDFC Life, ICICI Prudential, General Insurance Corporation of India and Exide have been steadily gaining market share.

CORPORATE GOVERNANCE

Corporate governance is a procedure aimed at satisfying the desires of partners as well as the general public. As opposed to just following orders, it's more of a way of life for the company's leadership and management to work together for the benefit of all of the partners.Business Governance and its processes evolve in lockstep with a country's economy, corporate structure, ownership groups, political changes, and legislative reforms, as well as other factors. A variety of theories and models explaining various aspects of governance and its practices in many nations across the globe have been developed by academics, practitioners, and researchers. Metrics for measuring Corporate Governance and related procedures are also being created as part of this process. Prior to the 1992 economic reforms, Corporate Governance in India developed slowly, but after liberalization, significant advances were made to bring it into line with worldwide standards to date

NEED OF CORPORATE GOVERNANCE IN INDIAN LIFE INSURANCE INDUSTRY

The primary goal of corporate governance is to make money in a legal and ethical manner. Thus, customers, representatives, financial experts, and members of the general public are all pleased. Productivity, consistency, and customer service are the three main objectives of any business. The Good Corporate Governance principle may coexist with a sound business strategy. An appropriate economy must priorities profound knowledge, conditions, and good ethics in order to maintain equality and be ready for change.. All these criteria correspond to the fundamental Good Corporate Governance Guidelines. For all disaster protection companies, big corporate administration is very important. Three essential components are the best corporation management rehearses

- Stability and efficacy
- Adequate fundamental condition
- Framework for consistency control and control

The three components mentioned above are highly active in managing insurance undertakings, which eventually lead to controllable uniformity and improve corporate governance at world-wide level. In the present situation, corporate governance has become a significant issue, and government, legislators and scientists have taken a great deal in mind for over three decades. In addition, the accessible writing offers some connotations of the corporate management that contain words such as: supervise, manage, manage, direct and control. Anyone may bring forward their own growth and business management ideas In India, corporate governance was started by a series of authoritative, monetary and financial changes intended to enhance the clear-cut, responsible and legal standard of the nation's economy Corporate management is particularly essential for the insurance industry, since it encourages responsibility, empowers business simplicity, improves the business benefit and protects the advantages of the partners and supports insurance sector development

CORPORATE GOVERNANCE IN INDIA

In developed countries, corporate governance is seen from a macroeconomic perspective, while in developing countries, such as India, it is viewed from a microeconomic one. Indian corporate governance history may be split into two distinct historical eras before and after economic reforms started in 1992: the pre-1992 era and the post-1992 era.

1. Pre 1992 era

In India, where investor protection was practically nonexistent during the colonial era, the managing agency model predominated. Later legislation, such the Companies Act of 1956, aimed to improve investor rights, but it was only good on paper and poorly implemented in practice.

Twenty family groups (business houses) dominated the private corporate sector starting with independence and lasting till the late 1960s. Many of these family groups began as merchants in the pre-independence period and played a leading role in helping India industrialize after that. These clans forged deep political ties and made the most of the licensing system. The same family group controlled all of the company's top management roles, despite the fact that ownership patterns varied.

India's corporate culture was marked by a combination of pyramiding and money laundering. As a general rule, family-owned enterprises would manage their own finances. Asymmetric information and weak forms of market efficiency make it possible for companies with inadequate governance to raise sufficient equity. Companies with a strong market position were less concerned about being acquired. As a result, Indian corporate governance was in a bad state before to 1992.

2. Post 1992 era

Restructuring of the economy and financial sector was a hallmark of this time period. On June 24, 1991, the new Industrial Policy was issued, and the economy began to really open up. The new strategy focused primarily on easing industrial licensing requirements and encouraging foreign investment. A surge in private sector investment and business reorganization occurred as a consequence of industrial deregulation. Greater capital market openness and speed have made the price discovery process more effective, paving the way for more efficient markets. As a result, the Indian investment base has been able to grow. FIIs have been drawn in by current account convertibility and a corresponding easing of repatriation restrictions. To transform its current account into a capital account, the Indian economy.

3. Spurt in cross-border capital flows and the economic growth of India

Indians have distinguished themselves as active recipients and sources of global money since the early 1990s thanks to liberalization measures. Even in the years to come, India's prospects seem better than ever for attracting cross-border capital investments to the country. Corporate Governance changes aimed at global convergence have been implemented due to the beneficial effect on FDI that openness has on Corporate Governance.

CURRENT INDIAN MODEL OF CORPORATE GOVERNANCE

Anglo-American and German models combine to create this hybrid vehicle. In contrast to the US's system of two classes, India's system is based on a single class. For the purpose of clarity, the following structure will be used to classify Indian corporations.

- Shareholders with a diverse range of interests and a competent management team (L&T, ICICI Bank, Infosys).
- The founder, his family, and close colleagues own a large portion of the business and have complete authority over its operations (Tata group-Birla group, Reliance group, Wipro etc.)
- Government-owned and professionally managed public sector (SBI, ONGC, BHEL, etc.)
- Corporations with a global reach (ABB, HUL, Siemens, etc.)

CONCLUSION

Economic development must be accompanied by financial stability, which is only possible with strong corporate governance in place. However, research on the suitability of corporate governance systems in developing economies is currently scant when compared to that done for developed nations. Despite the fact that the Indian life insurance sector is growing, little research has been done on the industry's corporate governance standards. Consequently, an attempt has been made in current study to look into the corporate governance norms employed in India's insurance industry and their impact on the growth, performance and financial health of Indian insurance firms, The study's initial goal was to determine if corporate governance standards and procedures were being followed in India's life insurance industry, For purposes of corporate governance in areas other than life insurance, previous research (Salmon 2000) suggests that an optimum board of directors size ranges from eight to twelve, with eight being somewhat lower, and twelve being slightly higher. It was also anticipated to discover a connection between the growth of the life insurance sector and corporate governance norms. The following are the main outcomes of the project's research: First-year premiums for ICICI Prudential, SBI Life, and LIC of India were all above the mean score of 4, 15,603.67 million, according to this study

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