

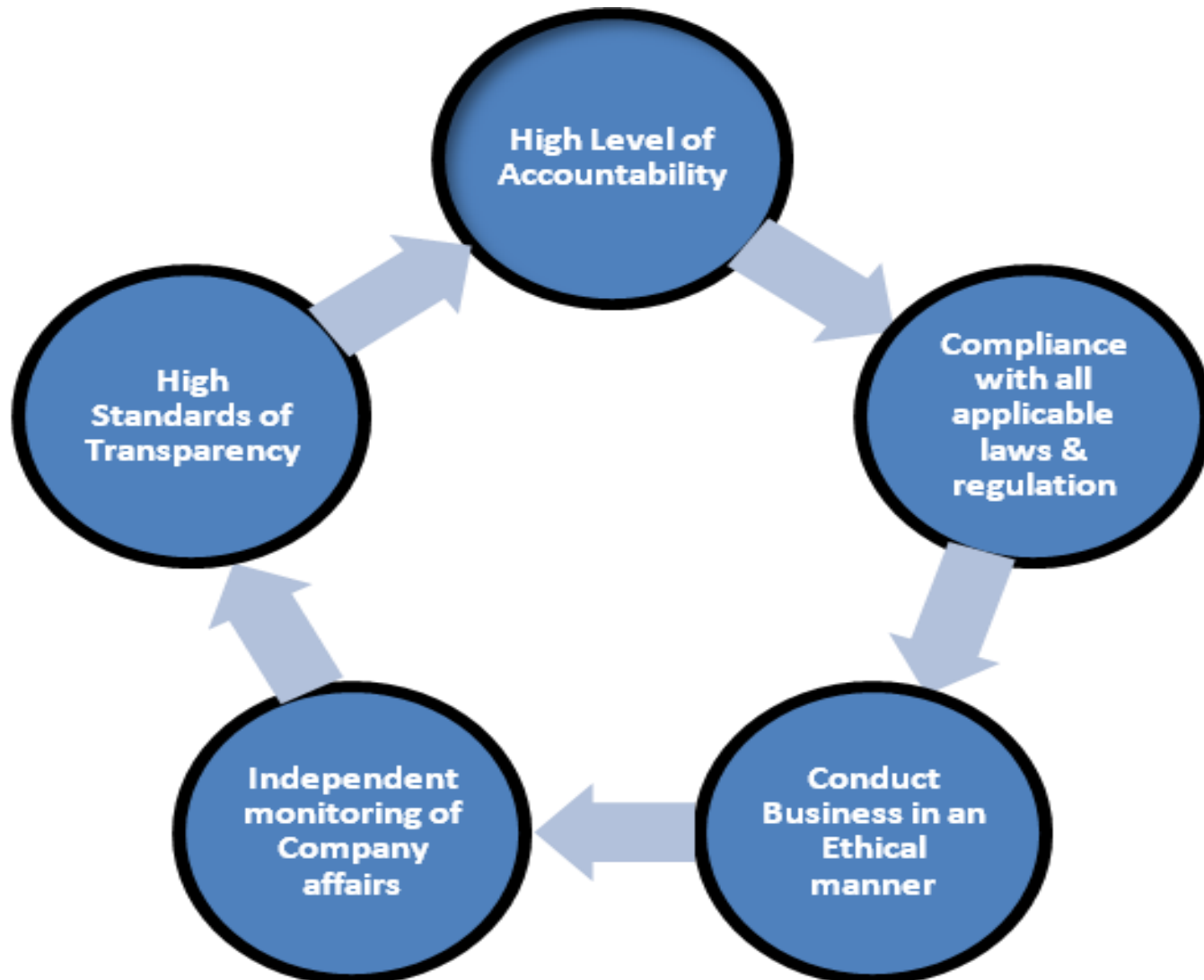
Governance in Insurance Industry

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The Pillars !



Strategic framework - Governance Risk & Compliance

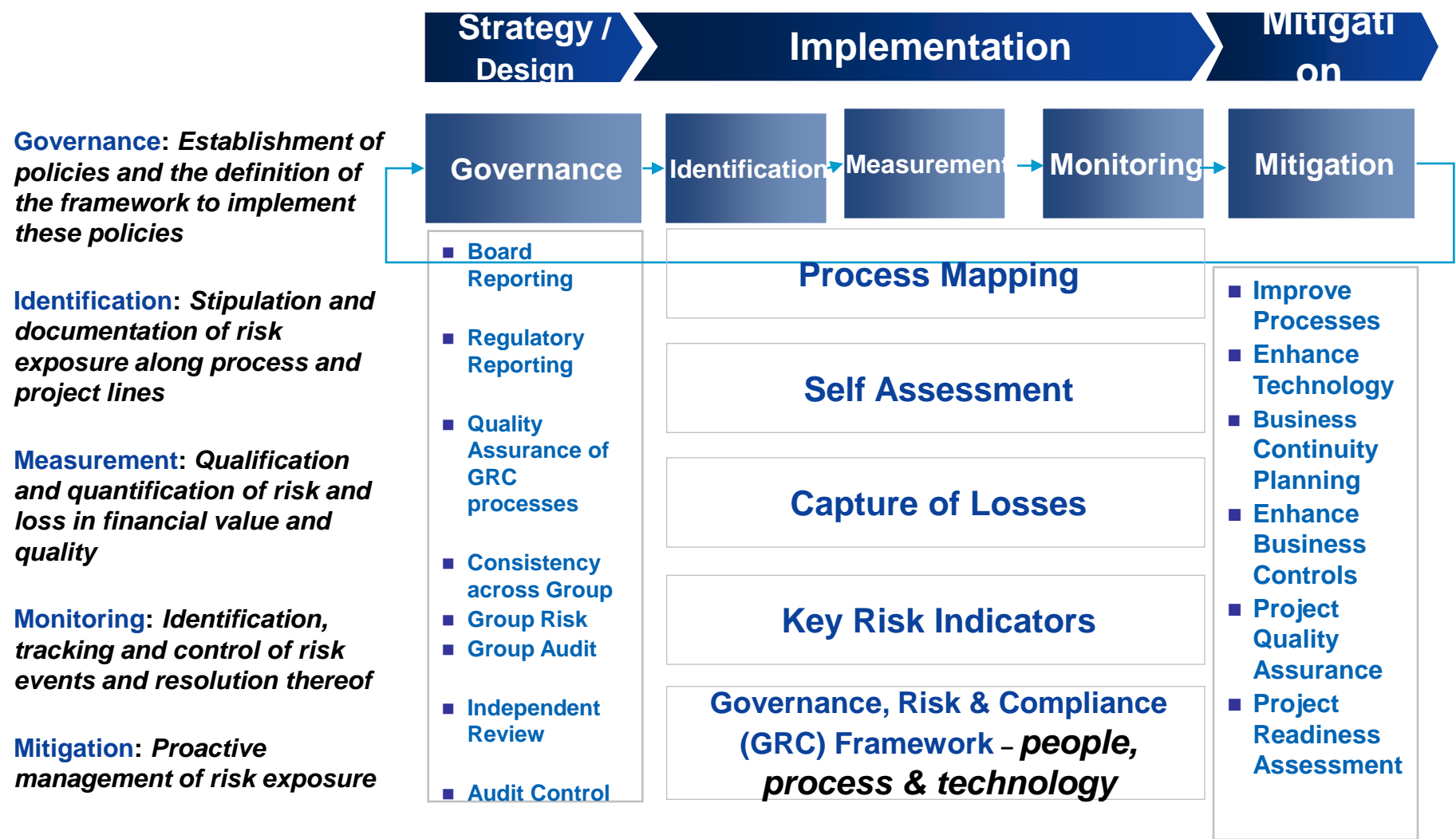
Governance	<ul style="list-style-type: none"> Corporate Vision Value drivers Corporate Mission and Objectives Corporate Strategy Corporate Plans Governance Culture Corporate Governance IT Governance
Risk	<ul style="list-style-type: none"> Strategic / Reputational Risk Credit Risk Management Market Risk Management Operational Risk Management (Fraud Risk, IT Risk, Security Risk, BCP Risk) Business Risk Management Insurance Risk Management
Compliance	<ul style="list-style-type: none"> Regulatory Compliance Compliance of corporate ethics, culture, enterprise policies, processes

Agenda

- ❑ Introduction ✓
- ❑ Governance in Indian insurance
 - Status
 - Integrated Risk Management
 - Emerging Requirements under the new Companies Act
- ❑ Example of a Case in point application in a specific areaa – IT – using COBIT 5

Risk Management – The Building Blocks

case study of Reliance Life Insurance



Committees of the Board

Committee	Members	Meeting Frequency
Board Audit & Compliance Committee & Board Risk Management Committee (2 Committees) Board + Remuneration	Adequate Independent and Non Executive Directors	Quarterly
Board Investment Committee & Board Grievance Redressal Committee	Adequate Independent & Non Executive Directors	Quarterly
Executive Investment Committee	MD, CFO, AA , CIO, CRO	Monthly
Control Committee – Executive	MD, CRO, AA, CFO, CHRO, Head - LCCS	Monthly
Claims Review Committee - Executive	MD, CFO, AA, CRO, Head – LCCS, Head - Claims	On-going
Executive Grievance Redressal Committee	MD, CRO, AA, Head - LCCS, , GRO, Independent Member, Customer Care & Business Excellence	Monthly
Board With Profits Committee	MD, CRO, AA, Independent Member, CFO	Half Yearly

Risk Management Monitoring Framework

- **Risk Management framework with independent reporting line to CEO / CRO / Group** – matrix reporting to Audit committee and Board
 - **Governance** – Policies and processes
 - **Identification** – Risk Assessment, Stipulation of risks along processes and projects
 - **Measurement** – Quantification and Qualification of risks and losses / impact – Financial and Reputation – risks not measurable are qualified
 - **Monitoring** – Identification, tracking and control of risk events and resolution thereof
 - **Mitigation** – Proactive management of risks

- Quarterly review of the framework – efficiency and effectiveness

- Appointed Actuary a part of the Risk Committee / Framework

- **Risk Management operational framework** – few key areas:
 - Operational risks, Product / Pricing risks, Risk Transfer to Reinsurance , Underwriting policies....
 - Fraud prevention framework, Mis-selling, Investigations,
 - Risk Control and monitoring
 - ALM risk or a separate ALM / ALCO with AA as a member
 - Insider Trading Policy
 - Information Systems Risk
 - Risk Management processes – key processes: Control Self Assessments, Root Cause Analysis, Risk Assessments and Risk Reviews

Awareness & Training	Vulnerability	Risk Assessment
Responsibilities	Policy	Controls
Whistle blowing	Risk Measurement	Early Detection

The Companies Act, 2013

470 Sections divided into 29 Chapters and 7 Schedules

Important New Concepts and Definitions:

- Associate Companies / Subsidiary Companies
- Related Parties / Relatives
- Promoter and Conduct
- Key Managerial Personnel (KMP) – CEO / CFO / CS
- Small Companies / One Person Companies / Listed Companies
- ESOP and Sweat Equity
- Code for Independent Directors
- Infrastructure Projects / Infrastructure Facilities
- CSR Policy

Independent Directors (IDs): Section 149(6)

Companies Act, 2013	Companies Act, 1956
<p>Definition:</p> <ul style="list-style-type: none"> ▪ Director other than MD / WTD / Nominee ▪ Not a Promoter / not related to Promoter / its holding/ subsidiary / associate i.e. no pecuniary relationship not only with Company but also with its' holding / subsidiary / associate has to be checked in the beginning and at each stage onwards. Thus, a drastic increase in eligibility criteria 	<p>No such provision earlier</p>
<p>Limited liability of ID and *NED: only in case of omission / commission which occurred with their knowledge / consent</p> <ul style="list-style-type: none"> ▪ Not liable to retire by rotation ▪ Term: 2 consecutive terms of 5 years each with the approval of members by Special Resolution <ul style="list-style-type: none"> • Cooling-off period of 3 years from an Executive post and to become ID ▪ ID shall not be appointed / associated with Company in any other capacity either directly / indirectly ▪ Appointment of ID approved by Company in General Meeting ▪ Alternate Director to Independent Director shall also satisfy all criterias of ID 	<p>No such provision earlier</p>
<p>Notes:</p> <p>*NED : Non-Executive Director</p>	

Independent Directors (IDs): Section 149(6)

Companies Act, 2013	Companies Act, 1956
<p>Selection: ID may be selected from Data Bank containing names, address, qualification, eligibility criterias and willingness to act as ID</p>	
<p>Remuneration: Sitting fee, re-imburement of expenses for attending meetings, profit related commission as approved by members</p> <p>• No ESOPs</p> <p>Sitting Fees to other Directors: Maximum Rs. 1,00,000/- Sitting fees payable for attending Board / Committee meetings</p> <p>ID / Women Director's Sitting fee not less than other Directors</p>	<p>Earlier, sitting fees of Rs. 20,000/- paid to Directors per Board / Committee meeting.</p>
<p>Code of Conduct: featuring:</p> <ul style="list-style-type: none"> ▪ Guidelines for Professional Conduct ▪ Role and Functions ▪ Duties ▪ Manner of Appointment ▪ Re-appointment, Resignation and Removal ▪ Separate Meetings by ID (not Executive+ Non-executive Directors) ▪ Evaluation Mechanism <ul style="list-style-type: none"> • Key Indicators allotted to Directors • Expertise and Value Addition to Board 	

Board Composition:

Companies Act, 2013	Companies Act, 1956
<p><u>Board Composition for Un-listed Public companies:</u></p> <ul style="list-style-type: none"> ▪ Minimum No. of Directors : 3 ▪ Maximum No. of Directors : 15 ▪ Independent Directors : 2 minimum ▪ Woman Director : 1 	<p>Concepts on Independent Director and Women Director was not there earlier</p>
<p><u>Restriction on number of Directorships:</u> Director shall not be a Director (including in the capacity of Alternate Director) in more than 20 Companies. Further, he shall not be a Director in more than 10 public companies.</p>	<p>Earlier a Director can hold office in <u>15</u> Companies at one time.</p>
<p>Every Company to have at least one Director who stayed in India for at least 182 days in the previous calendar year</p>	<p>No such provision existed earlier.</p>

Provisions related to Directors:

Companies Act, 2013	Companies Act, 1956
<p><u>Resignation of Director:</u></p> <ul style="list-style-type: none"> ▪ Compliance requirements enhanced: <ul style="list-style-type: none"> • <u>Company to inform ROC about Director’s resignation</u> within 30 days • <u>Director to forward copy</u> of his resignation with detailed reasons to <u>ROC within 30 days</u> ▪ Company to post information on Director’s resignation on it’s Website ▪ <u>Director liable even after his resignation for offences occurred during his tenure</u> 	<p>No such provision existed earlier.</p>
<p><u>Prohibition on forward dealing by Directors or KMPs</u> i.e. buying in the Company or its holding or Subsidiary company or Associate Company <u>a right to call for delivery at a specified time and price.</u></p>	<p>No such provision existed earlier.</p>
<p><u>Prohibition on Insider Trading of securities:</u> No Director or KMPs of the Company shall enter into Insider Trading.</p>	<p>No such provision existed earlier.</p>

Provisions related to Key Managerial Personnel (KMP):

Companies Act, 2013	Companies Act, 1956
<p><u>KMPs are classified as follows:</u></p> <ul style="list-style-type: none"> ▪ CEO / MD / Manager (as defined under the Companies Act) ▪ Whole time Director ▪ Company Secretary ▪ Chief Financial Officer ▪ Such other officer as may be prescribed 	<p>The term “KMP” was not defined earlier.</p>
<p><u>Appointment & Remuneration of KMPs:</u></p> <ul style="list-style-type: none"> ▪ Shall be determined by Board resolution ▪ KMPs shall not hold office in more than one company except in its subsidiary ▪ However, with Board approval, such KMP can hold similar position in any other Company. 	<p>No such provision existed earlier.</p>

The Companies Act, 2013

Liabilities enhanced for CEO / CFO / CS:

- KMP includes CEO / CFO / CS
- “Officer in Default” includes KMP
- Prohibition on Insider Trading / Forward Dealing by Director and KMP
- Appointment, Terms and Conditions and Remuneration of KMPs shall be by Board Resolution
- Failure to file Financial Statements on time attracts penalty

Duties of CS

- **To represent before various Regulators & Authorities**
- **Assist Board in conduct of affairs of Company**
- **Assist / advice Board in ensuring Good Corporate Governance requirements and best practices**
- **Other duties as may be assigned by Board**

Provisions related to Meetings:

Companies Act, 2013	Companies Act, 1956
<p><u>Board Proceedings</u></p> <ul style="list-style-type: none"> ▪ Four meetings in an year ▪ Gap between 2 consecutive meetings not to exceed 120 days ▪ Video conferencing / other audio visual means allowed ▪ Directors participating through electronic / audio visual mode counted for quorum ▪ Notice of 7 days for Board meeting <ul style="list-style-type: none"> • Shorter notice, presence / ratification by one ID mandatory 	<p>Requirement of holding meeting every quarter</p> <p>Meetings at shorter notices permitted without presence / ratification by ID</p>

Provisions related to Statutory Auditors / Audit Committee:

Companies Act, 2013	Companies Act, 1956
<p>An auditor cannot have more than 1 term of 5 consecutive years, while an audit firm cannot have more than 2 terms of 5 consecutive years.</p> <p>Audit firms can't take more than 20 audits at a time.</p> <p><u>Cooling-off Period</u> – 5 years from the completion of term by Individual Auditor & Audit Firm</p>	<p>No such provision existed earlier.</p>
<p><u>Procedure for appointment of Auditors & their rotation:</u></p> <p>Audit Committee shall recommend to Board; name, qualifications and experience of Statutory Auditors proposed to be appointed / rotated.</p> <p>Board shall recommend to General meeting.</p> <p>If Board has a difference of opinion, then it shall state the reasons thereof.</p> <p>Joint Auditors shall be rotated in such a manner that all the Statutory Auditors do not complete their terms in the same year.</p>	<p>Audit Committee only reviewed the appointment and recommended the same to Board and was approved in Annual General Meeting.</p> <p>Rotation of Auditors was not required.</p>

Provisions related to Internal Auditors : Section 138

Companies Act, 2013	Companies Act, 1956
<p>Internal Audit: Mandatory for:</p> <ul style="list-style-type: none"> ▪ Listed Company ▪ Every Unlisted Public company having in preceding Financial Year: <ul style="list-style-type: none"> • Paid up share capital of Rs. 50 Crore • Turnover of Rs. 200 Crore • Outstanding loans or borrowings from bank or public financial institutions in excess of Rs. 100 Crore • Outstanding Deposit of Rs. 25 Crore 	<p>No such provision existed earlier.</p>

Provisions related to Audit Committee : Section 177

Companies Act, 2013	Companies Act, 1956
<p><u>Applicability:</u></p> <ul style="list-style-type: none"> ▪ Listed company ▪ Public Company having: <ul style="list-style-type: none"> • Paid-up share capital of Rs. 10 Crore or more • Turnover of Rs. 100 Crore or more • Outstanding loans or borrowings or debentures or deposits in aggregate of Rs. 50 Crore or more • Private company which is a subsidiary of Public company 	
<p><u>Composition:</u> Minimum 3 Directors with IDs forming majority</p>	
<p><u>Terms of Reference:</u></p> <ul style="list-style-type: none"> ▪ Recommendation for Appointment and Remuneration of Auditors ▪ Effectiveness of Audit process, Internal financial controls and Risk Management Systems ▪ Approval / modification of Related Party transactions ▪ Scrutiny of Inter-corporate loans and Investments 	

Provisions related to Nomination and Remuneration Committee : Section 178

Companies Act, 2013	Companies Act, 1956
<p><u>Applicability:</u></p> <ul style="list-style-type: none"> ▪ Listed Company ▪ Public company having: <ul style="list-style-type: none"> • Paid-up share capital of Rs. 10 Crore or more • Turnover of Rs. 100 Crore or more • Outstanding loans or Borrowings or Debentures or Deposits in aggregate of Rs. 50 Crore or more ▪ Private company which is subsidiary of Public company 	<p>No such provisions earlier</p>
<p><u>Composition:</u></p> <p>3 or more Non-executive Directors out of which not less than ½ shall be ID</p>	<p>No such provisions earlier</p>
<p><u>Terms of Reference:</u></p> <ul style="list-style-type: none"> ▪ Identification / Appointment / Removal / Performance evaluation of Directors / KMP / Senior Management Personnel ▪ Recommend to Board Policy related to remuneration of Director / KMP / Other Employees of Company ▪ Ensure relationship of remuneration to performance is clear and involves balance between fixed and variable pay ▪ Policy of Committee to be disclosed in Director's Report 	<p>No such provisions earlier</p>

Provisions related to Stakeholders Relationship Committee : Section 178(5)

Companies Act, 2013	Companies Act, 1956
<p><u>Applicability:</u></p> <p>Companies having more than 1000 shareholders, debenture holders and other Security holders</p>	<p>No such provisions earlier</p>
<p><u>Composition:</u></p> <p>Chairperson who shall be Non-executive Director and such other members as may be decided by Board</p>	
<p><u>Terms of Reference:</u></p> <p>Consider resolving grievance of Security holders of Company</p>	

Provisions related to Related Parties:

Companies Act, 2013	Companies Act, 1956
<p>“Related Party” for the first time defined under Section 2(76) of the Companies Act, 2013 as follows :</p> <ul style="list-style-type: none"> ▪ A Director or his relative ▪ KMP or his relative ▪ Firm in which a Director / manager / his relative is a partner ▪ Private Co. in which Director / manager is member / Director ▪ Public company in which a Director / manager is a Director or holds along with his relatives more than 2% of its paid-up capital ▪ Body corporate whose Board / MD / manager is accustomed to act in accordance with the advice of a Director / manager, ▪ Person on whose advice a Director / manager is accustomed to act ▪ Company which is holding / subsidiary or an associate company of such company, or a subsidiary of a holding company to which it is also a subsidiary. ▪ Director / KMP of holding company or his relative 	<p>Not defined earlier.</p>

Provisions related to Related Parties:

Companies Act, 2013	Companies Act, 1956
<ul style="list-style-type: none"> ▪ Transactions with Related Parties are to be ratified by Board / <u>prior approval by Special Resolution in certain cases</u> (Refer note for details) ▪ Details to be incorporated in Agenda for Board Meeting / explanatory statement incase of Special Resolution and in Directors' Report with reasons 	<p>No such provision existed earlier.</p>
<p>Section 188- Contract with related parties for:</p> <ul style="list-style-type: none"> ▪ sale, purchase or supply of goods or material; ▪ selling, disposing of or buying of property; ▪ leasing of property; ▪ appointment of agent for purchase or sale of goods, material, services or property; ▪ availing, rendering of services; ▪ Related Party's appointment to any office / place of profit in the company / its subsidiary / associate company; and ▪ underwriting the subscription of any securities or derivatives thereof, of the Company. <p>Contract voidable by Board:</p> <ul style="list-style-type: none"> ▪ Breach of provisions ▪ Non-ratification by Approving Authority (Board / Shareholders) <ul style="list-style-type: none"> • Directors to Indemnify Company • Repay losses sustained by Company 	<p>Similar provisions existed earlier.</p> <p>Exemptions existed for Banking and Insurance Companies from obtaining Central Govt. approval.</p>

Provisions related to Corporate Social Responsibility:

Companies Act, 2013	Companies Act, 1956
<p><u>Applicability:</u> CSR provisions are applicable to Companies having-</p> <ul style="list-style-type: none"> ▪ Net worth of Rs. 500 Crore or more, or ▪ Turnover of Rs.1000 Crore or more or ▪ Net profit of Rs.5 Crore or more during any Financial Years (FY) is required to spend at least 2% of the average net profits made during the 3 preceding FYs ▪ $384+380+359/3) \times 2\% = 7.486$ Crore <p><u>Procedural aspects:</u></p> <ul style="list-style-type: none"> ▪ Board CSR Committee with 3 or more Directors with atleast 1 ID ▪ CSR Committee formulate and recommend to Board CSR Policy <ul style="list-style-type: none"> • Recommend amount of expenditure to be increased on the activities • Monitor CSR Policy • Board shall after taking into account recommendations made by CSR Committee, approve CSR Policy • Board shall disclose the contents of CSR Policy in Board Report and display them on the Company's website 	<p>No such provisions existed.</p>

Provisions related to Corporate Social Responsibility:

Companies Act, 2013	Companies Act, 1956
<ul style="list-style-type: none"> ▪ Tax treatment of CSR shall be notified by CBDT ▪ Activities covered for the purpose of CSR specified ▪ Modalities / Specified areas for spending amount towards CSR stated. Company shall give preference to local areas where it operates ▪ CSR Initiatives to be disclosed in Director's Report 	
<p>Power of Board to make contributions to National Defense Fund or other Central Government approved Fund</p>	<p>No such provision existed earlier.</p>

Other Provisions impacting RLIC:

Companies Act, 2013	Companies Act, 1956
<p>“Associate Company”: A company in which the investor has significant influence (control of at least 20% of total share capital or of business decisions under an agreement) and includes a joint venture company.</p>	<p>Similar definition contained in Accounting Standard 23 of ICAI.</p> <p>However, it never included joint venture.</p>
<p>Contribution to political parties: A Company in existence for three years can contribute upto 7.5% of its average profits during immediately preceding 3 financial years to the Political party either directly or indirectly</p>	<p>Similar Provision (Sec. 293A) was there but the limit for contribution was upto 5% of its average profits during immediately preceding 3 financial years</p>

Other Provisions impacting RLIC:

Companies Act, 2013	Companies Act, 1956
<p><u>Section 185-Loan to Directors:</u></p> <ul style="list-style-type: none"> ▪ Not allowed except loan to MD / WTD: <ul style="list-style-type: none"> • As a part of the condition of service extended to all employees • Scheme approved by special resolution ▪ Company's whose ordinary course of business is providing loans / guarantees. 	<p>Earlier was not allowed to all Directors except prior CG approval .</p>
<p><u>Secretarial Audit Report (SAR):</u></p> <ul style="list-style-type: none"> ▪ Mandatory for : <ul style="list-style-type: none"> • Listed Co. • Public companies with paid-up share capital of Rs. 50 Crore / more or turnover of Rs. 250 Crore / more ▪ Part of Director's Report ▪ Explanation by Board on remarks by Practicing Company Secretary in SAR 	

Processes for Governance of Enterprise IT

Evaluate, Direct and Monitor

EDM01 Ensure Governance Framework Setting and Maintenance

EDM02 Ensure Benefits Delivery

EDM03 Ensure Risk Optimisation

EDM04 Ensure Resource Optimisation

EDM05 Ensure Stakeholder Transparency

Align, Plan and Organise

AP001 Manage the IT Management Framework

AP002 Manage Strategy

AP003 Manage Enterprise Architecture

AP004 Manage Innovation

AP005 Manage Portfolio

AP006 Manage Budget and Costs

AP007 Manage Human Resources

AP008 Manage Relationships

AP009 Manage Service Agreements

AP010 Manage Suppliers

AP011 Manage Quality

AP012 Manage Risk

AP013 Manage Security

Monitor, Evaluate and Assess

MEA01 Monitor, Evaluate and Assess Performance and Conformance

Build, Acquire and Implement

BAI01 Manage Programmes and Projects

BAI02 Manage Requirements Definition

BAI03 Manage Solutions Identification and Build

BAI04 Manage Availability and Capacity

BAI05 Manage Organisational Change Enablement

BAI06 Manage Changes

BAI07 Manage Change Acceptance and Transitioning

BAI08 Manage Knowledge

BAI09 Manage Assets

BAI10 Manage Configuration

MEA02 Monitor, Evaluate and Assess the System of Internal Control

Deliver, Service and Support

DSS01 Manage Operations

DSS02 Manage Service Requests and Incidents

DSS03 Manage Problems

DSS04 Manage Continuity

DSS05 Manage Security Services

DSS06 Manage Business Process Controls

MEA03 Monitor, Evaluate and Assess Compliance With External Requirements

Processes for Management of Enterprise IT

Thank you

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RELIANCE