A Study of Disclosures on Risk Management of Life Insurance Companies in India

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Abstract

This study attempted to find out different reporting practices used by Indian life insurance companies for risk management and risk governance in their annual reports. The factors considered for assessing the quality of the disclosure were risk management framework, risk governance, the independence and profile of chief risk officer, risk policies they explained, and quality certification they have obtained. The study showed that there was a very wide variation in content of their disclosures although every company was following the same corporate governance guidelines of the Insurance Regulatory and Development Authority of India (IRDAI).

Key words : **life insurance companies, risk management frame work, risk governance, IRDAI, policies and regulation, SEBI**

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After opening of the insurance sector for private players in 2000, it has opened a new door and has grown exponentially over years. The assets under management of private sector were to the tune of INR 3, 45, 190 crores (34, 51,900 million INR) as on December 31, 2015, and this is the sector which makes government securities vibrant and helps the Central and State governments and other financial institutions to raise money as a major player. The insurance penetration is 3.3% (measured as a percentage of premiums to a country's gross domestic product (GDP)) and the insurance density has gone up to $55 (INR 3,498)(calculated as the ratio of premium (in $) to total population) for the year 2014-15. With opening of the sector to foreign players, new and innovative products have been brought into the market. Now, insurance is not only for the sake of insurance in case of death, but also acts as an instrument of saving and investment. This is the source of covering risk for those who live long by making available annuity products. Given the heavy competition, insurers have brought attractive products to cover every section of the society, including people who are below the poverty line (BPL) by covering them under micro insurance.

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The recent Insurance Act amendment also allows foreign equity participation upto 49% in the insurance companies subject to the management being under Indian control. Knowing that India has a vast potential market in terms of insurable population, necessary infrastructure in terms of talent, and a vibrant capital market, most of the foreign partners have evinced interest to increase their equity to the maximum permissible limit of 49%.

The definition of *'risk'* has changed over years. In the beginning, it was only pure risk. Subsequent to globalization, it led to financial engineering and brought in financial instruments which looked very attractive but were opaque. The financial debacle that happened in 2008 is a clear indication of how rating agencies and so called financial wizards got into quagmire and lost money, forcing the government to rescue large companies even in the most developed market like the U.S.

In this context, it is important that insurance companies in the private sector realize that they have a huge responsibility reposed on them for managing such a large amount of money. The Indian regulator for insurance companies, namely Insurance Regulatory and Development Authority of India (IRDAI) brought in a lot of discipline by regulations and guidelines for covering various functionings of the insurance companies right from the time of granting license, management control, defining need for pattern of investment, and exposure norms. In this context, it is interesting to study the differences in the content of the disclosures of insurance companies in the private sector with reference to risk management.

Review of Literature

It is surprising to know that risk management began to be studied only after the World War II. International regulations of risk began in 1980s. At the same time, governance of risk management became essential. Integrated risk management was introduced and chief risk officer (CRO) was created. Stock exchanges, including New York Stock exchange, also added risk management rules for listed companies in 2002. According to Dionee (2013), one of the reasons for the financial crisis in 2008 was non-establishment of integrated risk management and the inadequate support of top management for the implementation of risk management policies. Unfortunately, it is also true that managers in various markets regularly skip the regulations and rules.

In the preface, the Securities and Exchange Board of India (SEBI) (Securities and Exchange Board of India, 2000) stated that focus on corporate governance and related issues is an inevitable outcome of a process which leads firms to increasingly shift to financial markets as a pre-eminent source of capital. In the process, more and more people are recognizing that corporate governance is indispensable to an effective market place. The growing consensus is both an enlightened and a realistic view. In an age where capital flows worldwide just as quickly as information, a company that does not promote a culture of strong, independent oversight risks its very stability and future health. As a result, the link between a company's management and its financial reporting system has never been more crucial.

Institute of Risk Management (n.d. a.) has classified the following for the purpose of risk reporting :

(i) Risk management strategy and architecture (Institute of Risk Management, n.d. b.),

(ii) Risk management policy and procedures (Institute of Risk Management, n.d. c.),

(iii) Risk culture and appetite (Institute of Risk Management, n.d. d.),

(iv) Risk performance and reporting (Institute of Risk Management, n.d. e.).

We are aware that there are certain issues of the above, namely risk strategy for operational risks are highly confidential and may not be shared in public. However, it will be good to inform the stake holders about the risk - management system & governance and the policies companies have in place in such a way without infringing upon confidentiality so that the stakeholders appreciate and get satisfied that the company they have invested in various capacities is safe and sound.

Coming to the Indian scenario, especially with reference to the life insurance industry, after the passing of the IRDA Bill in April 2000, the licenses were issued to the first set of private life insurance players. IRDA, knowing about the life insurance industry's long gestation period and taking into account that it will be quite some time before private sector insurers go public, put in place regulations and guidelines based on the listing requirements of Securities and Exchange Board of India for disclosure of information on various issues of corporate governance including the disclosures regarding risk management in the management report (Insurance Regulatory and Development Authority of India, 2009). In fact, it has gone beyond SEBI in issuing detailed guidelines on corporate governance including risk management and governance. The Insurance Regulatory and Development Authority of India also put together governances issued under various regulations notified by it covering different functional areas in different years.

With reference to the governance structure, it is relevant to observe here that the corporate governance requirements of companies listed on the stock exchanges have evolved over time and are outlined in Clause 49 of the Listing Agreement of the Stock Exchange (see Securities and Exchange Board of India, 2014). It further stated since the Indian insurance companies are yet unlisted, the Authority advised all insurers to familiarize themselves with corporate governance structures appropriate to listed entities. The companies were also well advised to initiate necessary steps to address the extant “gaps” that are so identified to facilitate smooth transition at the time of their eventual listing in the course of time. Under the control functions, it stipulated that : (a) robust and efficient mechanisms for the identification, assessment, quantification, control, mitigation, and monitoring of the risks be in place, (b) There should be independence of the control functions, including the risk-management function, from business operations demonstrated by a credible report arrangement. It specified that the risk management functions shall be organised in such a way that it is able to monitor all the risks across the various lines of businesses of a company and that this function should come under supervision of the Chief Risk Officer (CRO) with a clearly defined role (Insurance Regulatory and Development Authority of India, 2009).

In the Appendix 1, it is stated that there is a need to establish appropriate systems to regulate the risk appetite and risk profile of a company. It will also enable identification and measurement of significant risks to which the company is exposed in order to develop an effective risk management system. Under disclosure requirements, IRDA wanted the companies to disclose a description of their risk management architecture. Also, IRDAI vide their circular no IRDA/Reg/8/2000 – regarding the Preparation of Financial Statements and Auditors' Report of Insurance Companies 2000 under Part IV in the point No 8 of Contents of Management Report stipulated that a company should make disclosure with regard to the overall risk exposure and strategy adopted to mitigate the same (Insurance Regulatory and Development Authority of India, 2009).

Objectives of the Study

The study attempts to analyze how the life insurance companies in India have responded to the corporate governance guidelines of IRDA and in the disclosures of management reports. We rank the companies based on the quality of disclosures based on certain parameters, namely :

(1) Risk Management Framework,
(2) Risk Governance,
(3) Explanation of Various Risks,
(4) Chief Risk Officer (CRO),
(5) Quality Standard Certifications.

Data and Methodology

We took information from the annual reports for the financial year 2014-15 from 14 out of the 23 life insurance companies in India and from the Directors' Report as well as from the Management Report. We selected five factors to evaluate the overall quality of risk reporting in the annual reports :

(1) Risk Management Framework
(2) Risk Governance
(3) Types of Risks Explained
(4) Post of Chief Risk Officer (CRO) and his/her Independence/Capability
(5) Quality Standards Certification

(1) Risk Management Framework : We have evaluated the risk management framework reported in annual reports and have given score according to the quality of reporting. The scale is from 0-10.

(2) Risk Governance : We evaluated the risk governance reported in annual reports and have given score according to the quality of reporting. The scale is from 0-10.

(3) Types of Risk Explained : We have categorized risk into three parts :

(i) Investment Side

- Market risk (Interest rate risk),
- Liquidity risk,
- Asset liability mismatch,
- Credit risk.

(ii) Operation Side

- Compliance risk,
- Strategic risk,
- Reputational risk,
- Insurance risk (surrender risk and mortality risk),
- Operational risk (risk registers, incident reporting, and fraud monitoring).

(iii) Miscellaneous

- Business continuity risk,
- Information security risk,
- Reinsurance risk.

We have given 1 point for each risk explained. The scale is from 0-12.

(4) Chief Risk Officer (CRO) : We have evaluated this factor based on who is the CRO of the company. Points assigned are shown in the Table 1.

(5) Quality Standards Certification : We have assigned points to different standards certification based on their importance. Points assigned are shown in the Table 2. The scale is from 0-19.

Table 1. CRO Scores

Independent official	10
Company Secretary	4
Chief Legal, Compliance, & Risk Officer	6
Appointed Actuary	8
Executive Vice President - Audit & Risk Management	7
Vice President	10
Chief (Investment Risk Management) - Chief Risk Officer	7
Chief Financial Officer	6

Scale is from 0-10

Table 2. Quality Standards Scores

ISO22301	Business Continuity Management System	5
ISO 10002	Customer Grievance Redressal process	2
ISO 27001	Information Security Requirements	3
ISO 9001	Customer Grievance Redressal process	2
COSO 1992	Ensuring Compliance with Sarbanes Oxley Act, 2002/Clause 49	7

Table 3. Weights

Weights	Factors
0.3	Risk Management Framework
0.3	Risk Governance
0.1	CRO
0.1	Quality Standards Certification
0.2	Risk Explained

➯ **Total Score :** Not all the factors have equal importance, hence we have given weightage to all the five factors according to their importance. The weightage given is shown in the Table 3. Now, we need to bring all the factors to the same scale, that is, 0-10. Risk management framework, risk governance, and CRO are already evaluated on a scale of 0-10. So, there is no need to change them. But quality standards certification and risk explained are not scaled on 0-10. So, to bring them to 0-10, we have to multiply the scores in risk explained factor by (10/12) and quality standards certification by (10/19). So, the final formula will be :

Total Score = (Risk Management Framework * 0.3) + (Risk Governance * 0.3) + (CRO * 0.1) + (Quality Standards Certification * 0.1 * (10/19)) + (Risk Explained * 0.2 *(10/12))

For e.g. Total Score of Aviva = (7*0.3)+(10*0.3)+(10*0.1)+(5*0.1*(10/18))+(2*0.2*(10/12)) = 6.7

Analysis and Results

(1) Risk Management Framework : This involves - identification of the key risks including operational risk, financial risk, investment risk, solvency risk, liquidity risk, business risk, reputational risk, information technology risk, underwriting risk, compliance risk, embedded value risk, etc. After identification of the key risks,

Table 4. Risk Management Framework

Company	Risk Management Framework	Scores
Aviva Life Insurance	other*	7
Bajaj Allianz Life Insurance	Enterprise Risk Management	8
Birla Sun Life Insurance	Enterprise Risk Management	8
Canara HSBC Oriental Bank life ins	Supporting 3 lines of defence	5
Future Generali India Life Insurance	Enterprise Risk Management	4
HDFC Standard Life Insurance	Enterprise Risk Management	9
ICICI Prudential Life Insurance	Enterprise Risk Management	10
IDBI Federal Life Insurance Company	Risk Taxonomy structure	8
Kotak Mahindra Old Mutual Life Insurance	Other*	7
Life Insurance Corporation of India	Enterprise Risk Management	4
Reliance Life Insurance	Enterprise Risk Management	5
SBI Life Insurance	Enterprise Risk Management	8
Star Union Dai-ichi Life Insurance	Enterprise Risk Management	8
Shriram Life Insurance	Other*	2

*Not specifically mentioned

the next task was to assess the methods to quantify and monitor them at periodic intervals and take corrective actions. Then, as in any of the management processes, it is followed by a control mechanism.

If we go through the top scoring company disclosures, these give detailed presentation right from determining the risk profile of the company, enhancing the ability of the company by providing timely information and not missing any opportunity for making profits and ensuring that the risk culture is spread throughout the organization. They were also clear in their scope that they should be compliant with the regulatory requirements and see that the reputational risk is minimized. Based on this, we allotted the maximum score of 10 for this company. On the other end of the spectrum, we had another insurer who had disclosed the entire risk management in one paragraph without giving out any details. We gave the least score of 2 to this company. In between these scores, there were other companies, and based on their quality of disclosures, we allotted graded marks and the scores are presented in the Table 4.

(2) Risk Governance : This is a subset of the risk management framework and details out how the responsibilities are fixed at different levels. This starts from the top - Board of Directors, Board Risk Management Committee (BRMC), Executive Risk Committee (ERC), and its supporting committees. There are board approved detailed policies on key risks of the company. There are three lines of defence to manage the risks properly :

(i) First Level of Defence : These consist of process owners or line managers who are responsible for executing risk and control procedures.

(ii) Second Level of Defence : This consists of the supporting team who design, facilitate implementation, monitor, and report their findings to the risk committee.

(iii) Third Level of Defence : This function is discharged by the audit function who, on a periodical basis, check and validate whether the risk management is being carried out properly and report their findings along with their suggestions to the audit committee.

Table 5. Risk Governance

Company	Risk Governance	Scores
Aviva Life Insurance	Three line of defence	10
Bajaj Allianz Life Insurance	Three line of defence	7
Birla Sun Life Insurance	In line with IRDA Corporate Governance Guidelines	8
Canara HSBC Oriental Bank life ins	Three line of defence	8
Future Generali India Life Insurance	Other*	6
HDFC Standard Life Insurance	Three line of defence	8
ICICI Prudential Life Insurance	Three line of defence	10
IDBI Federal Life Insurance Company	Other*	6
Kotak Mahindra Old Mutual Life Insurance	Not mentioned	3
Life Insurance Corporation of India	Other*	2
Reliance Life Insurance	Other*	5
SBI Life Insurance	Other*	7
Star Union Dai-ichi Life Insurance	Not mentioned	3
Shriram Life Insurance	Not mentioned	1

*Not specifically mentioned

Two companies scored a maximum score of 10 by going into the above mentioned details. For the remaining companies, based on their disclosures, we have allotted graded scores. Scores and risk governance structure used by different companies are shown in the Table 5.

(3) Chief Risk Officer : We analysed whether the Chief Risk Officer was an independent officer or one existing officer who was already holding another responsibility like Appointed Actuary, Chief Financial Officer (CFO), Compliance Officer, or the Company Secretary. The importance of having an independent Chief Risk Officer

Table 6. Chief Risk Officer

Company	CRO	Score
Aviva Life Insurance	Independent	10
Bajaj Allianz Life Insurance	Company Secretary	4
Birla Sun Life Insurance	Chief Legal, Compliance, & Risk Officer	6
Canara HSBC Oriental Bank life ins	Independent	10
Future Generali India Life Insurance	Appointed Actuary	8
HDFC Standard Life Insurance	Executive Vice President - Audit & Risk Management	7
ICICI Prudential Life Insurance	Vice President	10
IDBI Federal Life Insurance Company	Independent	10
Kotak Mahindra Old Mutual Life Insurance	Appointed Actuary	8
Life Insurance Corporation of India	Chief (Inv Risk Mgmt) - Chief Risk Officer	7
Reliance Life Insurance	Independent	10
SBI Life Insurance	Actuarial	8
Star Union Dai-ichi Life Insurance	Independent	10
Shriram Life Insurance	Chief Financial Officer	6

(CRO) who understands the various risks faced by the insurance company is to be understood. IRDAI, considering the seriousness of this issue, has issued a circular directing companies that they should appoint a CRO and the same to be informed to the Regulator. Also, according to Dionne (2013), a CRO must be a Senior Vice President Level or equivalent. He/she must report to the Chief Executive Officer (CEO) and periodically meet the Board of Directors. He/she must have the decision making powers rather than passively monitor risk measurement and analysis. Subsequently, the Insurance Regulatory and Development Authority of India (IRDA, 2009) has also reiterated in their corporate governance guidelines stressing the need for independence of the CRO. Based on the above consideration, we thought the companies who had appointed an independent CRO (who did not have any other responsibilities other than risk management functions) should be given the maximum score of 10.

Then there were those companies who had appointed their Appointed Actuary as their CRO. Insurance Regulatory and Development Authority of India (IRDA, 2009), in its corporate guidelines, while spelling out the role of Appointed Actuary, assigned the task of identification and estimation of material risks and management of the risks. Recognizing the importance of the Actuary's role in the area of risk management of solvency asset liability management, stress testing, mortality risk etc., we gave the next level score of 8 to such companies. Next in the order were those companies who had appointed their Chief Investment Risk Officer as their CRO. Since the role of the Chief Investment Risk Officer is taking care of investment related risks, he/she would have exposure and time for taking care of identifying other risks of the company and we have allotted a score of 7 to companies who appointed the Chief Investment Risk Officer as the CRO.

Next is the Executive Vice President - Audit & Risk Management. Given his/her audit background and his/her exposure to functioning of various other departments, we considered that given the responsibilities of audit, he/she may not do justice to the additional responsibilities as CRO. We placed him with a score of 7. Coming to the Chief Finance Officer (CFO) shouldering the responsibilities of a CRO, we felt that the CFO should be occupied with overseeing the finance function and over all accounting functions in addition to helping the Chief Executive Officer (CEO) in planning out the strategy for the company's growth etc. So, he/she would not do justice to his/her additional responsibilities as CRO. Therefore, we gave him/her a score of 6.

When it came to Chief Legal, Compliance, & Risk Officer holding the post of CRO, we thought he/she deserves a score of 6 only since he/she does not have exposure to the various risks faced by the company despite his/her expertise in assessing the legal risks. The last was the Company Secretary entrusted with this job of CRO ; we thought given his/her profile of specializing in secretarial functions and managing Board of Directors' meetings etc., he/she will not have the in depth knowledge of risks faced by an insurer. Therefore, we have given him/her the least score of 4 (see Table 6).

(4) Risk Explained : We have divided risks into three parts : Investment side risk, Operational side risk, and Miscellaneous risk. Investment side risk includes market risk, liquidity risk, interest rate risk, ALM, and credit risk. Operational side risk includes compliance risk, strategic risk, reputation risk, insurance risk, surrender/ lapse risk, risk registers, mortality risk, incident reporting, and fraud monitoring. Miscellaneous risk includes business continuity risk, information security risk, and reinsurance risk ; 1 point is given for each risk explained. Score obtained in each of the components are given in Appendix Tables 1, 2, and 3 ; and total scores for types of risk explained is shown in the Table 7.

(5) Quality Standards Certification : Risk management encompasses business continuity management, information security management, and IT management. Quality standard certification from International Organization for Standards (ISO) covers various aspects including the overall processes of the company ; then there is area focused certification also. Getting the company quality certification in any of the area demonstrates to the customer and other stakeholders that the company has systems and processes in place and these are audited and

Table 7. Risks Explained

Company	Scores
Aviva Life Insurance	2
Bajaj Allianz Life Insurance	9
Birla Sun Life Insurance	7
Canara HSBC Oriental Bank	0
Future Generali India Life Insurance	1
HDFC Standard Life Insurance	8
ICICI Prudential Life Insurance	10
IDBI Federal Life Insurance Company	0
Kotak Mahindra Old Mutual Life Insurance	7
Life Insurance Corporation of India	3
Reliance Life Insurance	0
SBI Life Insurance	6
Star Union Dai-ichi Life Insurance	6
Shriram Life Insurance	2

certified by a qualified external agency. This is a not one time affair as there are periodic audits to monitor whether the company continues to follow the standards. In the early years, in 1990s, many of the manufacturing companies got themselves certified with ISO certification to demonstrate their products were ISO certified.

The following are some of the quality standard certifications the insurance companies have obtained :

➯ **ISO 9001/10002 on Complaint Management :** This demonstrates that the company has a system and process to handle customer complaints management. This will help a company to align and help the Integrated Grievance Management System (IGMS) suggested by the IRDAI. This might mitigate some of the risks of customer dissatisfaction ; however, it does not address any significant areas of risk management. Therefore, we allotted the least score of 2 only to a company having this certification.

➯ **ISO22301 Business Continuity Management System :** This is one of the key areas of the operations risks. Every company, leave alone the insurers, should have systems and processes in place to take care in case of emergencies and disasters and see that their business operations continue unaffected. This includes disaster recovery also. 2015's floods in Chennai, the capital of Tamil Nadu, which handles some BPOs of the leading companies in the world has highlighted the importance of this feature.

A company which has IT Security System audited for ISO 27001 demonstrates that the company has in place for establishing, implementing, operating, monitoring, and maintaining information security management system. Similarly, ISO 22301 quality system certification ensures that the company has in place plans to take care of disruption and mitigate the risks of operations discontinuance. Based on this, we awarded 5 marks for these quality standard certifications in the areas of business continuity management and a score of 3 for ISO 27001 information security management system (ISMS).

➯ **COSO 1992 Internal Control - Integrated Framework :** "COSO" stands for The Committee of Sponsoring Organization of the Treadway Commission. It is a framework to help business and other entities assess and enhance their internal control systems. It covers the following five interconnected areas namely: (a) control environment; (b) risk assessment ; (c) control activities; (d) information and communication ; and (e) monitoring.

By complying with this standard, a company stands to gain and help to follow and put a system in place on the lines of Sarbanes Oxley Act of 2002 (Sarbanes Oxley Act of 2002, n.d.) which talks about controls over financial Processes and Clause 49 of the Listing Agreement of Securities and Exchange Board of India (SEBI, 2014). This will also improve the risk governance. Understanding the importance of this compliance standard, we have allotted a score of 7 for this, and the Table 8 presents the scores for the quality standard certification for the companies.

Table 8. Quality Standards Certification

Company	ISO	Scores
Aviva Life Insurance	COSO	7
Bajaj Allianz Life Insurance	ISO 9001	2
Birla Sun Life Insurance	ISO 22301	5
Canara HSBC Oriental Bank life ins	NONE	0
Future Generali India Life Insurance	ISO 9001	2
HDFC Standard Life Insurance	ISO 27001	3
ICICI Prudential Life Insurance	COSO 1992	7
IDBI Federal Life Insurance Company	NONE	0
Kotak Mahindra Old Mutual Life Insurance	ISO 9001	2
Life Insurance Corporation of India	ISO 9001	2
Reliance Life Insurance	ISO 22301,ISO 27001	8
SBI Life Insurance	ISO 22301,ISO 27001,ISO 10002	10
Star Union Dai-ichi Life Insurance	ISO-27001	3
Shriram Life Insurance	NONE	0

Discussion and Conclusion

(1) Ranking of Companies : Based on the scoring system enumerated in the previous section, we have tabulated the total scores of the insurers as shown in the Table 9.

(2) Wide Variation in Score is a Concern : Although all the above - mentioned insurance companies have followed the corporate governance guidelines issued by the Insurance Regulatory and Development Authority of India (IRDA, 2009), the vast difference in the scores - from the top score to the bottom score - is a matter of concern. It is possible that the companies were looking for more detailed guidelines and clarity for the disclosure regarding risk management. The low score may also imply that risk management was not in the priority list as far as the disclosures were concerned.

(3) Insurers are Preparing to for Public Issue Listing : There are very few indications that two of the largest insurance companies are going to go public in the latter part of the financial year 2016 -17 to test the waters of valuation of insurance companies and unlock their potential, and at the same time, give an opportunity to share with the public the gains of participating and sharing the increased valuation. This will tempt other insurers who are waiting in the side lines to follow suit and come out with a public issue. The recent amendments to the Insurance Act, which has allowed foreign equity participation up to 49% in the insurance sector, will also add fillip to this. Impetus may also be given because of the recent guidelines of IRDAI regarding the time lines for the insurance companies to go public subject to certain conditions.

Table 9. Total Score

Rank	Company	Total Score
1	ICICI Prudential Life Insurance	9.21
2	HDFC Standard Life Insurance	7.42
3	Birla Sun Life Insurance	6.95
4	SBI Life Insurance	6.95
5	Aviva Life Insurance	6.85
6	Bajaj Allianz Life Insurance	6.65
7	Star Union Dai-ichi Life Insurance	5.56
8	IDBI Federal Life Insurance Company	5.20
9	Kotak Mahindra Old Mutual Life Insurance	5.18
10	Canara HSBC Oriental Bank	4.90
11	Reliance Life Insurance	4.44
12	Future Generali India Life Insurance	4.09
13	Life Insurance Corporation of India	3.16
14	Shriram Life Insurance	1.86

(4) IRDA Should be more Specific Regarding Framework and Governance : Once the insurers go public and the company shares get listed, IRDAI has to shoulder the responsibility of the larger public. Therefore, knowing the responsibility, it has to put in place various systems and processes for addressing the risks faced by the insurers like solvency risk, ALM risk, re - insurance risk, concentration risk for the industry sector, issuer, group company, IT risk, etc. We are more than confident that IRDA will come out with more detailed guidelines and enforce stricter compliance with reference to risk management framework, risk governance, and disclosure of the same. As mentioned in the report Shri Kumar Mangalam Birla on Corporate Governance, in an environment in which emerging markets increasingly compete for global capital, the funds will flow to those markets which are better regulated and observe higher standards of transparency (SEBI, 2000).

Implications

The present study is done at a stage where none of the life insurance companies in India are listed. Also, the regulator, namely IRDAI, is preparing a list of directives for directing the companies for listing. In the discussion paper released by IRDAI on August 11, 2016, they wanted the companies to respond with their comments with respect to the following points within 21 days from the date of issue of this communication (also see End Note) :

(i) All life insurance companies which had completed 10 years of operations shall take steps to get their shares listed within a period of 3 years from the date of issue of directions under these guidelines.

(ii) Take up the matter of listing with their Board of Directors within 3 months from the date of issue of these guidelines.

(iii) File the road map for IPO duly approved by the Board of Directors with the Authority within 45 days from the date of approval by the Board.

(iv) Initiate action for IPO in accordance with the road map within such a period as may be approved by the Authority.

In the current scenario of the insurance sector, there may be some more mergers and acquisitions within the next 3 years. Thus, there will be very big players and some medium players who will be competing. Once the insurance companies are all listed, they will all abide by the guidelines of the Securities and Exchange Board of India. This would bring some more transparency, disclosures, and improvement in the corporate governance practices of these companies. With the shareholders from the public also becoming stakeholders, the insurance regulator might come out with more detailed and stricter regulations on disclosures and other aspects of risk management. It will be interesting to study after 3 years, how in the changed scenario, the insurers who would like to maximize the wealth of the shareholders would change their approach with regards to the disclosures on risk management.

Limitations of the Study and Scope for Further Research

The study is based on the Annual Reports of 14 out of a total of 23 life insurance companies in India for the financial year 2014-15. The companies may have a robust system and processes in place for risk governance, but may not have disclosed the same in the Management Report or in the Directors' Report. To this extent, our conclusions drawn may not reflect the factual position. Also, in the wake of some life insurance companies in the private sector going public in the latter part of 2016, and the directions from the insurance regulator, namely IRDAI, that life insurance companies should go public under certain conditions may force the other insurance companies to go for public issue. Once they get listed on the Stock exchanges - either National Stock Exchange (NSE) or Bombay Stock Exchange (BSE), they will adhere to the guidelines of SEBI, and IRDAI also might bring some stricter detailed disclosure norms. It will be interesting to study the scenario then.

End Note

Only one insurer namely, ICICI Prudential Life Insurance Company came out with a public issue in September 2016. SBI Life may come out with the public issue most likely within this financial year 2016-17. IRDAI is yet to make its final decision on this issue. They have received the representation from the Life Insurance Council requesting the IRDAI to reconsider the imposition of the dead line for the public issue.

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APPENDIX

Note: 1 in the cell represents risk explained and 0 indicates risk not explained. This include risks which are specifically explained, and it does not include risks just mentioned.

Appendix Table 1. Investment Side Risk

Company	Market Risk	Liquidity risk	ALM	Credit Risk
Aviva Life Insurance	1	0	0	0
Bajaj Allianz Life Insurance	1	1	1	1
Birla Sun Life Insurance	1	1	1	0
Canara HSBC Oriental Bank	0	0	0	0
Future Generali India Life Insurance	0	0	0	0
HDFC Standard Life Insurance	1	1	1	1
ICICI Prudential Life Insurance	1	1	1	1
IDBI Federal Life Insurance Company	0	0	0	0
Kotak Mahindra Old Mutual Life Insurance	1	1	1	1
Life Insurance Corporation of India	1	1	0	1
Reliance Life Insurance	0	0	0	0
SBI Life Insurance	1	1		1
Star Union Dai-ichi Life Insurance	1	1	1	1
Shriram Life Insurance	0	0	1	0

Appendix Table 2. Operation Side Risk

Company	Compliance Risk	Strategic Risk	Reputation Risk	Insurance risk	Operational risk
Aviva Life Insurance	0	0	0	1	0
Bajaj Allianz Life Insurance	1	0	1	1	1
Birla Sun Life Insurance	0	1	0	1	1
Canara HSBC Oriental Bank	0	0	0	0	0
Future Generali India Life Insurance	0	0	0	0	0
HDFC Standard Life Insurance	1	1	0	1	1
ICICI Prudential Life Insurance	1	0	1	1	1
IDBI Federal Life Insurance Company	0	0	0	0	0
Kotak Mahindra Old Mutual Life Insurance	1	0	0	1	1
Life Insurance Corporation of India	0	0	0	0	0
Reliance Life Insurance	0	0	0	0	0
SBI Life Insurance	0	1	0	1	1
Star Union Dai-ichi Life Insurance	1	0	0	1	0
Shriram Life Insurance	0	0	0	0	0

Appendix Table 3. Miscellaneous

Company	Misc.
Aviva Life Insurance	None
Bajaj Allianz Life Insurance	Business Continuity risk
Birla Sun Life Insurance	Information Security Risk
Canara HSBC Oriental Bank	None
Future Generali India Life Insurance	Re insurance risk
HDFC Standard Life Insurance	None
ICICI Prudential Life Insurance	Business Continuity risk, Information Security Risk
IDBI Federal Life Insurance Company	None
Kotak Mahindra Old Mutual Life Insurance	None
Life Insurance Corporation of India	None
Reliance Life Insurance	None
SBI Life Insurance	None
Star Union Dai-ichi Life Insurance	None
Shriram Life Insurance	Re insurance risk