

IMPACT OF ACTIVE AND INDEPENDENT BOARD ON THE PERFORMANCE AND FINANCIAL STRENGTH: AN EMPIRICAL EVIDENCE FROM INDIAN LIFE INSURANCE COMPANIES

Nitu Rana* & Kuldip Singh Chhikara**

ABSTRACT

The present paper is an attempt to see the impact of active and independent board on the performance and financial strength of the life insurance companies operating in India. The study is based purely on secondary data which was collected from the annual reports of the life insurance companies in India and the IRDAI. The data were analysed with the help of SPSS software by using multiple regression model. It was revealed through the study that the active and independent board affects ROA (return on assets) and EPS (Earnings per share), which are variables of performance and does not affect Net Worth (variable of financial strength) of the life insurance companies operating in India. The independent directors were found to be affecting ROE significantly and the managerial remuneration is affecting the ROA and EPS significantly (p value less than 0.05). The study exposed that the size of the board in case of EPS and board interlocking in case of ROA are the significant variables for the active and independent board. The paper suggests that the number of directors in the board should be increased to enhance the EPS and also the number of independent directors so as to improve the ROE of the life insurance players.

Keywords: Life Insurance, Performance, Financial Strength, Independent Directors, Managerial Remuneration.

INTRODUCTION

In any financial sector of an economy, the insurance industry not only contributes towards the financial sector but also provides an important social security net in the developing nations. For a growing economy, a strong and dynamic insurance sector is beneficial. The life insurance industry is channelizing small savings into long-term financial solutions. In this way the Life Insurance Industry is a good source of long term funds for nation-building and for the development of infrastructure projects. Amongst financial services, after banking, the life insurance industry has the widest reach, however, number of customers is the highest in case of life insurance industry. In 2000, when the Indian Insurance sector was opened for the private players, large global players also entered into Indian Insurance market and till date there are twenty three private players in Life Insurance, offering different kinds of products and services to the present as well as the prospective policyholders.

In the initial ten years of post-liberalisation, the Life Insurance Industry has witnessed an enormous growth. This growth was due to the expansionary business policies of the companies like opening up of new offices and hiring of more agents (both individual and corporate). All these things had become popular due to the entry of the foreign companies in the insurance sector. Because of this, more capital was infused in the insurance market and there was also introduction of global products and policies by these companies. This leads to the growth of the Indian Insurance market.

Since the performance of any organisation mainly depends on the governance provided by the top level management, hence the corporate governance practices of the sector are needed to be studied to assess the role of the same in the performance of various life insurance companies working in India. Life insurance sector is basic and elementary in the economy and also infra structural kind of sector. Hence, corporate governance study is to be made as it is fruitful for the companies and

* Assistant Prof. Aditi Mahavidyalaya, University of Delhi, New Delhi
** Prof. Dept. of Commerce, M.D. University, Rohtak, Haryana

NAAC
Coordinator
Aditi Mahavidyalaya
Bawana, Delhi-110039

I.Q.A.C.
Coordinator
Aditi Mahavidyalaya
Bawana, Delhi-110039

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