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INSTITUTE OF ACTUARIES OF INDIA

Corporate Governance

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Agenda

- ✓ Corporate governance –Why should it matter?
- ✓ Corporate governance in India
- ✓ Effective Corporate Governance and Board culture

Corporate governance – Why should it matter?

Why has 'corporate governance' been brought to the forefront?

The last decade has been marked by many corporate failures and, as a result, has spurred a lot of activism around corporate governance



Satyam scandal shocks India

The Satyam scandal has shocked India.

It is being called India's Enron.



Enron board: We were misled
Current and former directors of the bankrupt energy trader insist management withheld information.

May 7, 2002: 4:10 PM EDT



Reebok India alleged a Rs 870 crore corporate fraud by ex-India head and COO. Investigating authorities blamed it on the gross mismanagement and collapse of business planning and ruling of the company.

theguardian | TheObserver

Series: Peter Preston on press and broadcasting

News of the World scandal: God's newspaper executive less than visionary

Phone-hacking at the News of the World suggests Rupert Murdoch has taken risks too far

Reason for Corporate Governance Failures

- **Breakdown of ethical procedures**
- **Failure of internal control mechanisms to detect illegal/unethical activities**
- **Board members were not truly independent and were not 'empowered'**
- **Board and board committees' oversight practices were ineffective**
- **Lack of strong tone at the top about unethical business practices**
- **Lack of auditor independence**

Shift in global corporate governance trends

- 1 Move to more 'prescriptive regulations' regime on Board composition
- 2 Increased scrutiny of oversight time
- 3 Effectiveness of independent directors
- 4 Focus on independent assurance and risk management
- 5 Accountability

Boards can no longer be involved at the periphery of oversight – Intensity and accountability lie at the core of effective Board oversight

Benefits of good corporate governance

What is expected...

Wealth creation for Shareholders

Integrity and Ethics in Business

Responsibility to communities

Development of Human Capital

Focus on Sustainability Issues

Benefits...

Enhances reputation and brand

Adds value to strategy

Attracts Investors

Improves positioning in the market

Transition to professional management / succession

Facilitates objective resolution of family disputes

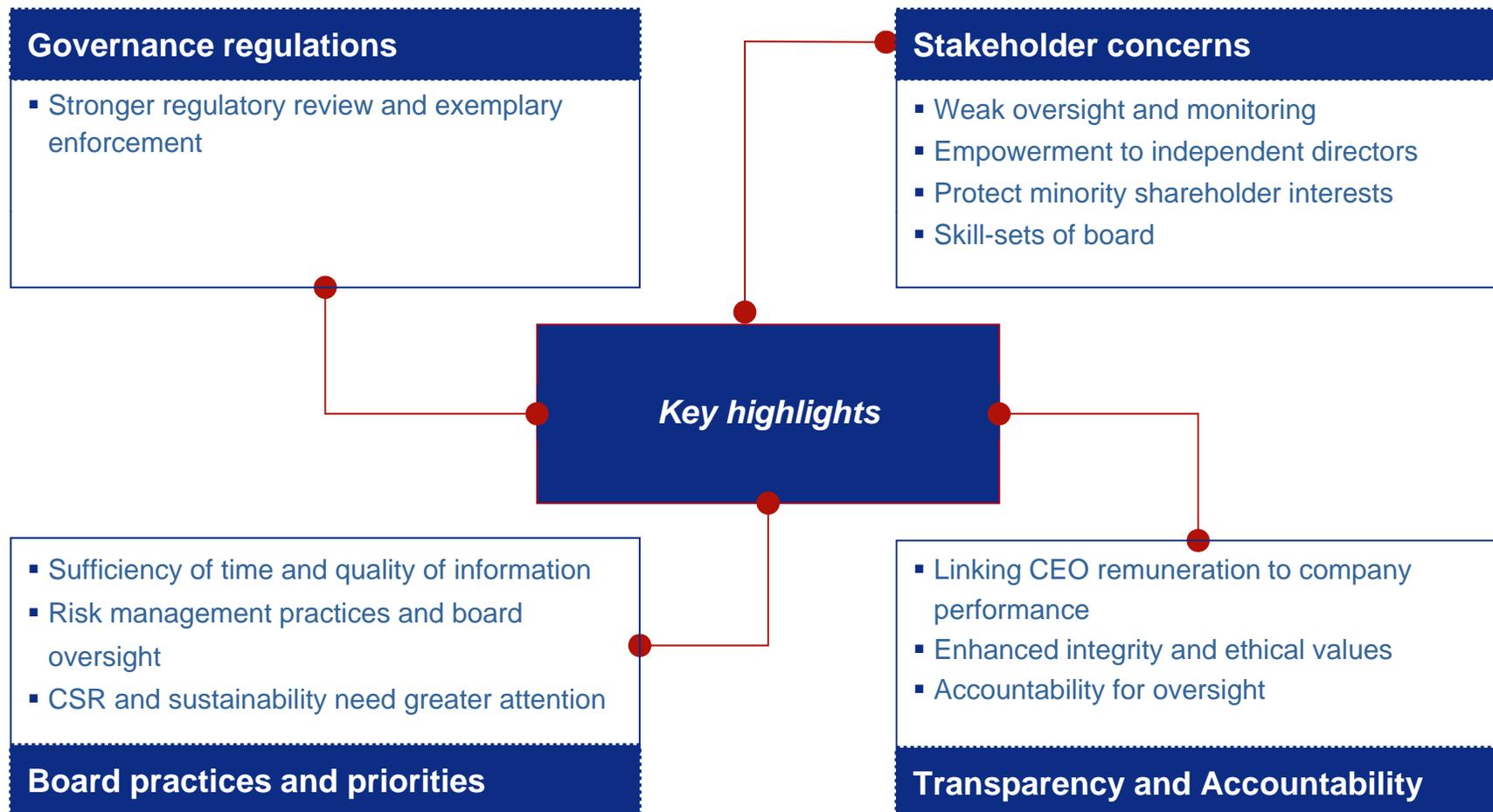
A S&P study on corporate governance at Indian companies suggest:

- There is a link between corporate governance and market value
- Specifically, for every 1 point increase in the S&P governance score, a company's market value increased by 3%.
- Firms having high corporate governance scores were less leveraged with higher ROI and stable profit margin.

State of corporate governance in India

What is the current state of corporate governance in India?

Results from recent KPMG surveys suggests that stronger regulatory enforcement coupled with empowerment of Boards is fundamental to effective governance in India



Key challenges faced by independent directors

Do independent directors get the right quality and level of information ?

Do independent directors validate information independently where necessary?

Do independent directors have sessions outside regular board meetings?

Do independent directors meet with auditors & internal auditors separately?

Do Board members assess their own knowledge and competency needs?

Does reputation more than the candidate's ability drive selection?

Corporate governance in Indian Insurance sector

- **Board of Directors**
- **Control functions**
- **Role of Appointed Actuaries**
- **External audit – Appointment of Statutory Auditors**
- **Disclosures**
- **Outsourcing**
- **Interaction with the Supervisor**
- **Whistle blowing policy**

Effective Corporate Governance and Board culture

Boards role in driving corporate governance



Bob Tricker analysis frequently referenced and used in corporate governance analysis

Outward looking futuristic role of the Board

Strategy development:

- **Developing, along with senior management, the company's vision, purpose, core values, strategic direction and objectives**
- **Reviewing, approving and monitoring the implementation of corporate plan**
- **Achieving sufficient agility to function in changeable and uncertain times**

Oversight of the management team:

- **Appointing, supporting, evaluating and rewarding the CEO**
- **Evaluating management's consideration on important strategic and operational matters**
- **Overseeing management succession plans**

Source: KPMG's Director Toolkit

Inward looking performance based role of the Board

Internal control and risk Management:

- **Scrutinizing key financial and non-financial risks and ensuring the effectiveness of the company's risk management framework**
- **Ensuring effectiveness of the company's internal control systems**
- **Ensuring adequacy of internal regulatory and policy compliance systems**
- **Adopting appropriate ethical standards, codes of conduct and appropriate behaviors**

Stakeholder management:

- **Communicating the company's performance in a transparent, timely and insightful manner**
- **Placing adequate importance to financial and non-financial indicators in such communications**

Source: KPMG's Director Toolkit

The nature of board oversight is changing

There is a major shift in Board and Audit Committee Oversight which means:



What highly influential Boards do differently?

Focus on substantive and long-term issues

Assist in developing the company's strategy

Guide management to enhance organizational performance

Develop robust group dynamics to ensure the Board pulls together in the same direction

“Oversight” has a different meaning from what it was a year or two ago and progressive board have understood this

Enablers of board effectiveness – Intangible Factors

1

Ethical leadership

2

Professionalism

3

Productive meeting

4

Better communication

5

Openness to self evaluation

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Thank you

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