(**CS Muskan Gupta)**

CSR & Social Governance

(Chapter 5)

(Total= 20 marks) **Time – 1 Hr**

Answer the following question.

Case Study 1

Corporate Social Responsibility (CSR) is an initiative with the basic aim to include responsibility for the Company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and society at large.

In the modern world, a good and responsible corporate citizen recognizes that apart from the financial responsibilities / obligations it has important responsibilities/obligations towards the society, community, and the environment. Reaching out to the underserved & underprivileged section of communities is part of business responsibility.

Every major business has an impact on the communities and societies in which it operates. It is a well acknowledged and accepted fact that an organization cannot focus only on economic outcomes and performance, without paying attention to the society at large within which it operates. It is the responsibility of the Company to get involved in the social development and societal upliftment of the community surrounding it.

Corporate Social Responsibility is strongly linked to the principles of sustainable growth and development. A responsible organization should make decisions based not only on financial factors, but also on the social and environmental impact. Therefore, it is the primary responsibility of the Company to ensure its corporate values include a commitment to grow in a socially and environmentally responsible way, while contributing to the society.

Questions: **(5 marks each)**

1. What does Section 135 of the Companies Act, 2013 mandate regarding Corporate Social Responsibility (CSR)? How does Schedule VII to the Companies Act, 2013 guide companies in selecting permissible CSR activities? What are the key provisions of the Companies (CSR Policy) Rules, 2014?

Answer

(1) Section 135 of Companies Act, 2013

It contains the provisions regarding CSR which inter-alia includes eligibility and spending criteria for CSR, Formulation and contents of CSR Policy, role and functions of CSR committee and the board of the company, treatment of unspent CSR amount, disclosures requirements and penal provisions concerning CSR.

Section 135 has been recently amended vide Companies (Amendment) Act, 2019 and Companies (Amendment) Act, 2020 and the same has been commenced w.e.f 22nd January 2021.

(2) Schedule VII to the Companies Act, 2013

Schedule VII of the Companies Act, 2013 specifies the areas or subjects to be undertaken by the company as CSR activities. These areas are broadly aligned with national priorities and relate to sustainable and inclusive development. The act does not recognize any expenditure on areas/activities outside of Schedule VII of the Companies Act, 2013 as CSR expenditure.

(3) Companies (CSR Policy) Rules, 2014

Companies (CSR Policy) Rules, 2014 prescribes the operational framework and the manners in which company shall comply with CSR provisions of Act. The mode of implementation of CSR activities, the content of CSR policy, impact assessment, reporting requirements & disclosures of CSR have been covered under the Companies (CSR Policy), Rules 2014.

2. What are the guidelines issued by the government for CSR expenditure by Central Public Sector Enterprises (CPSEs)?

Answer

CPSE conclave was conducted in the month of April, 2018 and the point in regards to utilization of CSR funds was deliberated upon in detail, based on the deliberations that took place during the CPSE conclave, the Department of Public Enterprises (DPE) has approved the following course of **actions for undertaking CSR activities by Central Public Sector Enterprises (CPSES):**

1. A common theme may be identified for each year for undertaking CSR by CPSES.
2. CSR expenditure for thematic programme should be around 60% of annual CSR expenditure of CPSES.
3. Aspirational Districts may be given preference.
4. The annual theme for the future will be decided by the DPE separately.

The DPE, herein after termed as Competent Authority has further entrusted to NlTl Aayog the responsibility to pilot the programme.

Accordingly, the CPSE undertaking CSR activity in Aspirational districts would:

(i) designate a senior level functionary as nodal officer to liaise closely with the District Administration of concerned Aspirational district

(ii) furnish the details of nodal officer along with the name of selected aspirational district(s) to NlTl Aayog, DPE and concerned administrative Ministry/Department of the CPSE

(iii) furnish the details of projects funded by CPSE under CSR in an aspirational district to NlTl Aayog, DPE and concerned administrative Ministry/Department of CPSE

(iv) brief the concerned Central Prabhari Officer of Aspirational District (Joint Secretary/Additional Secretary nominated by GOI for aspirational district), about the CSR project being funded by CPSE. (The list of Central Prabhari Officer of Aspirational District can be extract out from website of DPE)

It will be the responsibility of the concerned CPSE to ensure that all the CSR activities being undertaken are in accordance with the relevant provisions of the Companies Act 2013, its Schedules and Rules issued under the said Act and there is no deviation from statutory provisions.

Case Study 2

The Companies Act, 2013 has introduced the concept of CSR by mandating companies to set aside 2% of their net profits and utilize the same for approved CSR Activities. The private sector banks incorporated as company under the Companies Act, 2013 are covered by the provisions of section 135 of the Act, and accordingly required to ensure the compliance of CSR provisions.

Since the Nationalized Banks are not incorporated as a company under the Companies Act, 2013, they are not covered under section 135 of the Act and accordingly, the requirement to spent 2% of net profits on CSR activities remains voluntary for such banks. However, they are required to spend 1% of net profits through donations as specified by the Reserve Bank of India (RBI).

In terms of RBI circular no. RBI. No./ 2005-06/ 237, DBOD.No.Dir.BC. 50/13.01.01/2005-06 dated 21st December, 2005, donations by Banks are capped at 1% of the published net profit. Donations are plain contribution as opposed to CSR which is a collaborative and monitored exercise. The said circular set the following guiding principles for donations by banks in India:

i. The profit-making banks may make donations during a financial year aggregating upto 1% of the published profit of the banks for the previous year. In some cases, banks create funds for specific purposes to encourage research and development in fields related to banking. The Board of the banks may determine the amount of contribution to be made to such funds. The contribution made to such funds in a year will be reckoned for computation of the 1% ceiling.

ii. The donations out of the research and development funds should normally be made for setting up professional chairs, granting fellowships/ scholarships for studies and research at universities and approved institutions and for commissioning special projects for investigation, analysis and research for areas pertaining to banking, finance, statistics, management, and economics, etc.

iii. The donations to Prime Minister's National Relief Fund and subscriptions / contributions to professional bodies / institutions related to banking industry like Indian Banks' Association, National Institute of Bank Management, Indian Institute of Banking and Finance, Institute of

Banking Personnel Selection and Foreign Exchange Dealers' Association of India may be excluded from the limit indicated in para (i) above.
iv. Loss-making banks can make donations totalling Rs.5 lakh only in a financial year including donations to exempted entities / funds indicated in para (iii) above.
v. Unutilised portion of the limit of 1% should not be carried forward to the next year.
vi. The banks may continue to submit annual review of donations to their Boards of Directors.
At present, CSR is mandatory for only those corporate entities that are incorporated under the Companies Act, 2013. LLPs and public sector banks (PSBs) are outside its preview as they are governed by different laws—the LLP Act, 2008, and the Banking Regulation Act, 1949.
The government is considering a proposal to make it mandatory for limited liability partnership (LLP) firms and state-run banks such as State Bank of India (SBI) to spend 2% of their net profits in corporate social responsibility (CSR) activities by making appropriate amendments in the existing laws.
Questions: **(3 marks each)**
1. What is the significance of Corporate Social Responsibility (CSR) in the insurance sector?
Answer
We are aware that making profit only should not be the objective of any business. Focus should be laid on wellbeing of the society as that indirectly affects the profits therefore CSR is the DNA of business which incorporated would be beneficial to the business ensuring sustainable development. Despite the obvious recognition of CSR investment benefits, CSR is only an emerging phenomenon in the Indian Insurance market. Insurance companies needs to prove that it is more than just a profit-generating entity. It is important for insurers to highlight the essential responsibility they play in economic and societal development. CSR determines implemented in good times and in bad will develop the industry's reputation and strengthen stakeholder relationships.

2. Explain any 3 steps to execute Corporate Social Responsibility in Insurance Sector ?
Answer
a. Paying Valid Claims Efficiently
The yardstick to judge insurance company's efficiency is as to how quick the claim settlement is made. The less time consumption and fairness with which an insurer handles claims show the maturity of the company and may lead to great satisfaction of the client.
b. Risk Minimization
Insurers should focus to minimise risks both internally in their operations and externally for their clients and other stakeholders. Though external risk minimization is a difficult task, but insurers should try to minimise the same by reducing claims cost and frequency for clients and insured's will thus be incentivized to reduce the likelihood and severity of loss in order to lower their premiums. Insurers should, and often do, consider offering discounted premiums to insured's that take preventative measures.
c. Strategic Philanthropy
Strategic philanthropy involves associating with charities or similar non-profit organizations in the community. This type of corporate giving cannot only impact the community but also other stakeholders in the business. Insurers can also take part in disaster relief activities. Companies can provide substantial financial support to the victims of different catastrophes. Life insurance companies can relax the norms to ensure faster and easier claim settlement for the victims of disasters.
d. Corporate Governance Initiatives
Insurers should take initiative in designing and formulating some codes of conduct and ethics, some guidelines comprising the basic principles that should guide the activity of top and middle managers.
e. Environmental Initiatives
The companies can make financial investments in the environmental projects including energy conservation, environmental risk management and recycling operations of different natural resources.

f. Legal initiatives
The firm can performs numerous activities in order to improve the laws in the countries in which the corporation operates, to adapt them to the new trends of different markets, provide necessary assistance to the area regulation and supervision authorities, as well as to state authorities on different themes.
g. Recognition for Human Rights
Corporations develop a means to hold themselves accountable and to provide for remediation through grievance or other mechanisms. Companies should show enthusiasm for observing voluntary human rights codes of conduct usually operate in a business with the potential to considerably impact human rights.

Q3. **(4 marks)**
Government provides the broad framework of CSR through Section 135 of the Companies Act, 2013 enumerates the provisions regarding CSR; Schedule VII to the Companies Act, 2013 indicates the activities to be undertaking by the company under CSR, and Companies (CSR Policy) Rules, 2014 prescribes the manner in which companies shall comply with CSR provisions of the Act. How does the CSR Department at the Corporate Centre ensure proper monitoring and evaluation of CSR donations and projects?
Answer
Monitoring
- CSR Department at Corporate Centre should be in close touch with the Circles for ensuring proper use of donations.
- Circles must report their spends on Monthly basis to CSR Department at Corporate Centre.
- Donations sanctioned within the discretionary powers of CGM of the Circle as per delegation of powers should be submitted to Corporate Centre for control purpose. l Projects under SBI Foundations are subject to audit by the CAG.

Evaluation
- Random checking of assets / scrutinizing documents & assessment of impact by the Circle/ Corporate Centre functionaries.
- For bigger projects, impact assessment may be done by the independent agencies.
- Bank shall undertake impact assessment, through an independent agency, of their CSR projects having outlays of one crore rupees or more, and which have been completed not less than one year before undertaking the impact study.
- The impact assessment reports shall be placed before the Board and shall be annexed to the annual review on CSR.
- For impact assessment bank may book the expenditure towards Corporate Social Responsibility for that financial year, which shall not exceed five percent of the total CSR expenditure for that financial year or fifty lakh rupees, whichever is less.

BEST OF LUCK