

Accounting and Disclosure Practices in Life Insurance Corporation of India: A Critical Review

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Abstract

Accounting is the language of business. Therefore accounting must be not only prepared as per best practices but also disclosed properly. Disclosure of the accounts and related information becomes more important if it relates to company organization. Life Insurance Corporation of India which has been in a monopoly position until entrance of private sector in life insurance recently. The present study has been taken up to find out accounting and disclosure practices by the LIC so that it can be found out that how far it is in the best interest of its stakeholders. The study has been ended with the suggestions to improve the accounting and disclosure practices by the LIC.

Key Words: *Accounting, Disclosure, Accounting Standard, Financial Information, Non-Financial Information.*

INTRODUCTION

The decision to nationalize life insurance was taken in the year 1956 by amalgamating 245 insurance companies into a National institution i.e. Life Insurance Corporation of India (LIC). One of the purposes behind this decision was to save the insuring public of the country from morbidity and rampant malpractices of some life insurers of that time. The then Finance Minister Mr. C.B. Deshmukh outlined the objectives of LIC like spreading life insurance in every nook and corner of country by providing adequate financial cover at a reasonable cost, investment of funds to the best advantage of investors as well as community as a whole, conducting business with utmost economy etc. Decades after nationalization, the Malhotra Committee was set up by Govt. in 1993 for recommendations to bring reforms in insurance sector. The committee recommended for opening to industry to private sector competition as well as formation of regulatory authority in this sector. Thereafter the Insurance Regulatory and Development Authority were constituted in 1999. Since then there has been continuous stream of private entrants into insurance business. Right now there are 23 life insurance companies.

LIC continues to be the dominant life insurance even in the liberalized scenario of Indian insurance. LIC's share in premium income in August, 2012 is 76 percent and it has 81 percent share in number of policies. The IRDA Statistics reveal that nearly 11 percent of the death claims are repudiated by the private companies on average. The LIC holds the best claim settlement

record. It settles 99.86 percent of the claim settled. There are private companies where the lapsation ratio of policies is as high as over 50%. The lapsation ratio of LIC is just around 5%. The private companies may be making profits because of such high lapsation of policies.

OBJECTIVES OF THE STUDY

The study has been undertaken to find out accounting and disclosure practices in the Life Insurance Corporation of India from critical point of view and offer suggestions to improve upon accounting and disclosure practices.

RESEARCH METHODOLOGY

The main source of the study was annual reports of the Life Insurance Corporation of India since 2003-04 to 2012-13. The study has been supported by other secondary sources like website of LIC and other published manuals of LIC. The study is of explorative nature.

ACCOUNTING AND DISCLOSURE PRACTICES OF LIC

After discussing indomitable performance of LIC till now, it is important to study the Accounting and Auditing practices and procedures in order to maintain internal control, financial transparency and equity to serve the responsibility towards the policyholders and society at large. In order to make such study, we have to envisage the Accounting, Auditing and Inspection practices and procedures of LIC which are efficient, statutory and capable enough to build the faith of its policyholders.

The system of recording, classifying and summarizing the transactions in life insurance is made in the financial statements of LIC with the help of different IT modules such as Underwriting module, claims module, Agency management module, investment module and Reinsurance module.

The LIC has underwritten total premium of 2,03,473 crores during 2010-11. The LIC is the biggest life insurer in the world in terms of number of policies serviced and claim settled. The LIC services over 30 crore individual policy holders and another 10 crores group policyholders. LIC is the largest user of information Technology in the, insurance sector and network of 2048 Branches and 1202 satellite offices. It has various alternate channels of premium payment. The policyholders may avail online services on Internet and mobiles. Also now they may get their claims paid directly into their Bank accounts through NEFT. LIC's EDMS system project has now made the servicing paperless. Over the years the LIC has been awarded as the most trusted service Brand by Surveys conducted by many organizations.

The accounting function of an insurance company being different and complex than any other company, the same involves:

- (1) Ascertainment of liability in r/o insurance policies
- (2) The concept of policyholder fund and shareholders fund
- (3) Unit linked business and related investment valuations and

(4) Segmental reporting of all funds maintained by company.

The financial statements of an insurance company consists of - Revenue A/c (policyholders A/c), Profit & Loss (Share-holder A/c), Balance sheet, Receipt and Payment A/c (Cash flow statement), the segmental report relating to funds. These statements are to be in conformity with AS issued by ICAI. The segmental reporting shall apply to all the insurers. The IRDA has prescribed special formats of the financial statements. Any departure from the Accounting standards set by the ICAI is not allowed and hence it should be separately disclosed with reasons for such departure. The financial statement are attached with management report inter alia the prescribed confirmation, declarations, certifications and disclosures. Hence, we may assert that Accounting practices and procedures of LIC are efficient enough to maintain the financial transparency and equity in insurance business.

Secondly, the Auditing practices and procedures of LIC follow the generally accepted auditing principles absolutely in comparison with an insurance company.

After having conferred the powers under Insurance Act, 1938 and IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies Regulations, 2000, the IRDA calls for the Auditors Report vide Regulation 3 under schedule C of the said Regulation. The Auditor in its report, verifies, the genuineness of the financial statements and compliance of provisions of the relevant Act Regulations and applicable Accounting Standards. Apart from this, the Auditor further certify the correctness of management reports, verification of cash balance and securities as well as value of investment and assets in accordance with the provisions of Insurance Act, 1938. Hence we may further assert that Auditing Practices and Procedures of LIC follow the generally accepted auditing principles absolutely in comparison with other companies carrying life insurance business in India.

Thirdly, the Inspection practices and procedures of LIC are capable enough to build and win the faith of their policyholder. Section 33 of Insurance. Act 1938 empowers IRDA to direct any person (by engaging CA) to investigate and inspect the affairs and investment functions of the insurer and submit report to the authority. The Inspector's primary objective is not only to check compliance with the regulation but to generate the idea of whether the overall plan reveals the degree sustainability. Asset liability Management, Risk based standards etc. are all important tools to be used by the Inspector in performing his functions.

Various regulatory bodies have different regulations to improve the disclosure practices of Insurance sector from time to time. Following are the statutes governing particularly disclosure practices of insurance sector in India are:

- i) Companies Act- 1956,
- ii) Insurance Act -1938,
- iii) Insurance Regulatory Development Authority (IRDA) Act 1999 and
- iv) Various regulations issued by IRDA.

It is worthwhile to mention here that LIC is not governed by the Companies Act-1956, Insurance Act-1938 norms as far as disclosures are required and therefore LIC has to follow the disclosure requirement norms as laid down by IRDA.

FINDINGS

Insurance sector plays an important role in the financial system and in the socio-economic environment of a country. Insurance is an emerging sector in India with large population and untapped market. Indian insurance industry is on the way of deep and fundamental changes. Passing of Insurance Regulatory Development Authority (IRDA) Act in 1999 opened it for private companies which are giving a stiff competition to their public counterparts. To protect the interests of policyholders and to increase transparency and credibility of companies, there is a need to have an effective regulatory system for financial reporting of insurance companies. On the basis of an evaluation of annual reports of LIC from 2002-03 to 2012-13 it was found that:

- 1. Financial Disclosures by LIC:** It was found that LIC has been preparing and disclosing the following information in their annual reports during the last ten years ended 31-03-2013:

Table-1: Disclosure of Financial Information by LIC

S. No.	Contents of Disclosure
I	Summary Results
II	Analysis of Income
III	Business Related to New Business
IV	Total In force Business
V	Statutory Statements Regarding Policies
VI	Position of Life Fund
VII	Total Investment
VII	Claim Settlement
IX	Income and Profitability Statements
X	Schedule Forming Part of Revenue A/C & P &L A/C
XI	Balance Sheet
XII	Schedule forming Part of Balance Sheet
XIII	Cash Flow Statement
XIV	Analytical Ratios
XV	Notes to Accounts
XVI	Significant Accounting Policies
XVII	Auditors Report
XVIII	Management Report

Table -2: Classification of Mandatory Disclosure by LIC

S. No.	Nature of Disclosure	No. of Items to be Disclosed
1	Statutory disclosure as per IRDA	25
2	Directors Report	Not Applicable to LIC
3	Balance sheet abstract	Not Applicable to LIC
4	Disclosure as per accounting standards	Not Applicable to LIC
	Total	25

It was found that LIC has disclosed all the mandatory information as required by IRDA.

- 2. Non-Financial Disclosure by LIC:** It was also find while observing annual reports of LIC that it has been preparing and disclosing the following non-financial nature of information in their annual reports during the last ten years ended 31-03-2013

Table-3: Contents of Non-Financial Information Disclosed by LIC

S. No.	Nature of Disclosure
1	Corporate Social Responsibility
2	Members of the Corporation
3	Agents Information
4	Business Acquisition Through Different Channels
5	Geographical Distribution of Channels
6	Statements of Aging of Claims
7	Marketing Activities
8	Personnel & Employee Relations
9	RTI Information
10	Grievance Disposal

Table-4: Classification of Voluntary Disclosure by LIC

S. No.	Nature of Disclosure	No. of Items to be Disclosed
1	Accounting and Finance related Information	14
2	Human Resource & Marketing related Information	14
3	Business related Information	18
4	General Nature related Information	15
	Total	61

It was found that LIC has been showing the above information voluntarily because the same is not required by IRDA.

It was found that LIC has disclosed sufficient financial as well as non financial information which helps to various stakeholders for better decision making in respect of financial decisions as well as other non financial relations.

PROBLEMS & SUGGESTIONS

- (1) **Old and Absolute Rules and Regulations :** The Insurance Act, 1938 and LIC Act, 1956 governing the functions of LIC are too old and now with 22 private life insurer in the pray, it is suggested that a separate legislation may be prepared to cover the LIC and other private life insurance players for uniformity of the procedures.
- (2) **Problem of Network Connectivity:** Although the LIC has nationwide presence through 2048 Branch, 1202 Satellite offices, 8 Zonal offices, 113 Divisional Offices and these offices are working under computerized environment through LAN system, still there is need to impart technical training to its staff for adopting new changes for advanced computer environment so that IT may be used as decision making instrument of global standards.
- (3) **High Turnovers of Employees:** LIC is under challenge of retaining its talented human resource which may shift over to private insurer companies, attracting them with higher pays and perquisites. Though LIC has given handsome pay revision to its manpower but still there is need to give them greater incentives, motivation and loyalty bonus based on years of their service in the organization. With the global crisis since 2008 and dismal financial position of private insurance, the shift of LIC employees to private companies has come to standstill for the time being.
- (4) **Lack of Standardized Procedures:** There is no unanimity in many accounting and auditing practices being followed by LIC and other private players. LIC is governed by LIC Act but there is no statute for other private life insurance companies. The ICAI has also not issued any accounting standards (AS) nor any Auditing and Assurance Standard (AAS) specifically for companies carrying life insurance business. The ICAI may be directed to issue AS and AAS for life insurance companies.
- (5) **Problem in Comparison with other Life Insurers:** Only few companies have nation wide network. It makes business of these companies incomparable and unfair.
- (6) **Lack of Knowledge:** On the one hands LIC employees, although experienced are not quick to adopt new developments and amendments. On the other hand, employees of private insurers are mainly concentrating on marking aspects only and Accounting and Auditing do not carry so much importance for them. Hence imparting scheduled training is necessary for LIC employees.
- (7) **Difficulty in Calculation of Premiums:** In view of non uniformity in premium rates and to facilitate smooth calculation of premium a guideline note may be issued on the methods.

- (8) **Difficulty in Measurement of Risk:** As of now the regulations allow only equity as the accepted form of capital. The calculation of solvency margin, necessary to protect the interest of policyholders, is in itself a difficult task as many insurance companies manipulate data for maintaining minimum solvency margin. It is hence suggested that life insurance industry should move to risk based capital approach in consultation with the Actuarial Society of India.
- (9) **Problems of Internal Audit:** There remains question on independence of internal Auditions and their qualification. Hence it is suggested that a guideline statute may be issued on internal audit and internal auditors may be made responsible for their internal audit report.
- (10) **Corporate Governance:** At Present insurance comp lack the environment of trust and confidence amongst all stakeholders as they are not accountable to SEBI. These companies may be compelled to publish their financial statements in newspapers having nationwide circulation. Also they are obliged to provide as copy of financial statement to the stakeholders.

CONCLUSION

Accounting is a language of business and the basic function of any language is to serve as a means of communication. Accounting has two fold phases-first measuring and arraying the economic data and secondly, communicating the results of this process to the interested parties. The primary function of accounting is to record the economic data of a business enterprise and to assist the administration in performing its financial activities. The ultimate output of accounting is the corporate annual reports communicating essential information to the users in taking a variety of decisions. In an annual report all the activities of a business enterprise must be disclosed so that shareholders and other users can develop their own attitude towards the firm and know that how efficiently the limited resources of the organization are being utilized through sound decisions.

The corporate financial reporting in annual reports helps the end users to know the results of the business activities of a corporate enterprise and its credibility, accountability and reliability of working. It is a process through which an entity communicates with the outside world. Financial reporting is gaining significance now a days due to the expansion and growth of company form of organization, increased competition and increase in the information needs of the users. A series of scandals in financial markets, which have shaken investor's confidence, increased the importance of financial reporting.

It was found that LIC has been disclosing financial as well as non financial information with consistency. A number of additional information has been added after entering private sector in life insurance business. There is need of better disclosure by using charts and exhibits so that a layman can also understand the information provided in annual reports. It can be expected that in future LIC will provide more insight into financial as well as non financial information which will develop confidence in its stakeholders. More research in the areas proposed is required to carried out to overcome the limitations of the present study.

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