

SHAREHOLDER'S CONCERN THROUGH FINANCIAL DISCLOSURES: A CASE STUDY OF LIFE INSURANCE CORPORATION OF INDIA

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ABSTRACT

A business starts with a number of resources but the most important one is money/finance because if one has money, he will be able to arrange the other resources as per requirement. Therefore who so ever provide the finance to the organisation must be cared the most or must be given the top priority in the ethical manner. In case of a company organisation the shareholders are the prime finance provider. But the problem arises due to agency relationship between management and shareholders. Another issue is shareholders are totally dependent on the information provided to them by the management and hence the quality of disclosures matters for common shareholders. The present paper is focused on the financial disclosure practices in LIC to find out the concern for shareholders.

Key Words: Shareholder, Finance, Disclosure, Annual Report, stakeholder

INTRODUCTION

Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Europeans in Calcutta was the first life insurance company in India. In the year 1912, the life insurance Companies Act was passed. Life Insurance Act 1938 was amended in 1944. Life insurance in India was nationalized on 19th January 1956. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st September 1956 with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost.

LIC had 8 zonal offices, 113 divisional offices and about 3500 branch offices including satellites and customers zones apart from its corporate office in the year 1956.

REVIEW OF LITERATURE

Different aspects of financial reporting have been studied by various research scholars in India and abroad. Disclosure practices of public sector companies were analyzed by majority of the researchers i.e. (Singh and Bhargava, 1978; Meena, 1995; Bistra and Maria, 2002 and Sarkar, 2011). Some studies relates to comparative study of disclosure practices of public and private sector companies (Chander, 1992 and Rao and Sarma, 1997). Singh (2005) and Hossain (2008) examined the disclosure practices of Indian banking companies. Julia and Nick (2005) and Riaz et al (2006) analyzed the disclosure practices of banking companies of Russia and Dhaka,

respectively. Disclosure practices of manufacturing companies were analyzed by Lal (1985), Kohli (1998), Ubha (1999) and Rehman and Muttakiein (2005). Mahajan and Chander (2007) studied the reporting practices of software industry. Singh (2009) analyzed the disclosure practices of large and midcap companies of the country. Wood and Wilkinson (1985) studied financial reporting practices of general insurance companies in U.K and Adams (1997) life insurance companies of Newzeland.

OBJECTIVES OF THE STUDY

The main objectives of the study are as under:

- 1) To study the accounting and disclosure requirement for the Life Insurance sector.
- 2) To evaluate the disclosure practices and Procedure of the Life Insurance Corporation of India.

RESEARCH METHODOLOGY

Scope & Time Period Time Period the Study

The study includes Disclosure Practices in Life Insurance Corporation of India. It was the year 2002 when Insurance Regulatory Development Authority (IRDA) of India issued various guidelines for the preparation of financial statements of insurance companies. These guidelines are known as Insurance Regulatory Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002. Therefore the study has been conducted for a period of 10 years, from 2002-03 to 2013-14.

Data Collection

The study is based on secondary data. The annual reports of LIC were the major source of data which were collected through personal visits from the LIC head offices. Primary data has been collected through unstructured interview and discussions with the LIC officials as and when required for clarification or better understanding of disclosure practices

Analysis of Data

- i) **Mandatory Disclosure Index-** Mandatory disclosure index has been formulated by considering regulatory environment governing reporting practices of insurance sector in India and various guidelines issued by different professional bodies. There are many items included in the index of mandatory disclosure , which are divided into four broad categories viz. statutory disclosure as per IRDA(25 items), directors' report, balance sheet abstract and disclosure as per accounting standards issued by Institute of Chartered Accountants of India (ICAI).
- ii) **Voluntary Disclosure Index-** There are 61 items in the voluntary disclosure index. Voluntary disclosure items have been categorized into four broader areas viz. information on accounting and finance, information on human

resource and marketing, business specific information and general information.

DISCLOSURE REQUIREMENT AS PER LAW

1. DISCLOSURES FORMING PART OF FINANCIAL STATEMENTS NOTES TO BALANCE SHEET

- ✓ Contingent Liabilities, including partly paid-up investments, underwriting commitments outstanding, reinsurance obligations, claim other than those under policy not acknowledged as debts, guarantees given by or on behalf of the company, statutory demands/liabilities under dispute, not provided for, etc;
- ✓ Encumbrances to assets in and outside India;
- ✓ Commitments made and outstanding for Loans, Investments and Fixed Assets;
- ✓ Actuarial assumptions for valuation of liabilities for life policies in force;
- ✓ Basis of amortization of debts securities;
- ✓ Claims settled and remaining outstanding for a period of more than six months as on the balance sheet date;
- ✓ Value of contracts in relation to investments for purchases, where deliveries are pending and sales, where payments are overdue;
- ✓ Basis of allocation of operating expenses related to insurance business to various classes of business;
- ✓ Historical costs of investments valued on fair value basis;
- ✓ Computation of managerial remuneration;
- ✓ Basis of revaluation of investment property.

2. ACCOUNTING POLICIES

All significant accounting policies in terms of the Accounting Standards issued by the Institute of Chartered Accounts of India, and significant principles and policies laid under Part I of Accounting Principles, together with any other policies followed by the insurer would form an integral part of the financial statements. Any departure from the accounting Standards should be separately disclosed with reasons for such departure.

3. ADDITIONAL INFORMATION

- ✓ Investments made in accordance with the statutory requirements, together with the amount, nature, security and any special rights in and outside India should be disclosed;
- ✓ Segregation of investments into performing/non-performing for the purpose of income recognition as per the directions, if any, issued by the Authority;
- ✓ Percentage of business, sector-wise;
- ✓ Summary of financial statements for the last five years in the manner as may be prescribed by the Authority;
- ✓ Accounting ratios as may be prescribed by the Authority;
- ✓ Basis of allocation of investment and income thereon between policyholders' account and shareholders' accounts.
- ✓ Assets to the extent required to be deposited under local laws or otherwise encumbered in or outside India.

4. MANAGEMENT REPORT

Every insurer has to attach with the financial statements, a management report, containing, inter alia, the prescribed confirmations, declarations, certifications and disclosures. The management report places significant responsibility on the management of the company. The matters to be reported upon by the management are briefly noted below:

- ✓ Confirmation regarding continuing validity of registration, where the management has to ensure continuous compliance with IRDA (Registration of Indian Insurance company) Regulations, 2000 and the provisions of Section 3 of the Insurance Act, 1938, read with other relevant provisions (the details are discussed under Chapter 2);
- ✓ Certification that all the dues payable to the statutory authorities have been duly paid;
- ✓ Confirmation to the effect that the shareholding pattern and transfer of shares is in accordance with the statutory requirements;
- ✓ Declaration to the effect that the funds of the holders of policies issued in India have not been invested directly or indirectly outside India;
- ✓ Confirmation that the required solvency margins have been maintained;
- ✓ Certification to the effect that the values of assets have been reviewed on the Balance Sheet date and the assets in the Balance Sheet are disclosed in the aggregate of amounts not exceeding their realizable or market value under relevant headings as prescribed;
- ✓ Certification to the effect that no part of Life Insurance Fund has been directly or indirectly applied in contravention of the provisions of the Insurance Act relating to the application and investment of the Life Insurance Funds.
- ✓ Disclosure with regard to overall risk exposure and strategy adopted to mitigate the same;
- ✓ Operations in other countries, if any, giving management's estimate of country risk and exposure risk and hedging strategy adopted;
- ✓ Ageing of claims with average claims settlement time during the preceding five years;
- ✓ Certification as to how the values of investments have been arrived at in the balance sheet and the market value thereof has been ascertained for the purpose of comparison with the values shown;
- ✓ Review of asset quality and performance in terms of portfolios;
- ✓ A responsibility statement regarding the preparation of financial statements in accordance with the Accounting Standards, policies and principles as prescribed, consistency in application of the accounting policies, reasonability and prudence of judgement⁶ and determination of estimates, maintenance of

adequate accounting records in accordance with the applicable provisions of Insurance Act, 1938 and Companies Act, 1956, preparation of financial statements on a going concern basis and existence and operation of an effective internal audit system.

- ✓ It is mentioned under Part IV that the management report should be duly authenticated by the management. It may, therefore, be inferred that the management report should be signed and authenticated by the Managing Director of the Company duly authorized to do the same by the Board.

5. NOTES TO BALANCE SHEET

The following shall be disclosed by way of notes to the Balance Sheet:

1. Contingent liabilities comprising.
 - (a) Partly-paid up investments;
 - (b) Underwriting commitments outstanding;
 - (c) Claims, other than those under policies, not acknowledged as debts;
 - (d) Guarantees given by or on behalf of the company;
 - (e) Statutory demands/liabilities in dispute, not provided for;
 - (f) Reinsurance obligations to the extent not provided for;
 - (g) Others (to be specified).
2. Actuarial assumptions for valuation of liabilities for life policies in force.
3. Encumbrances to assets of the company in and outside India.
4. Commitments made and outstanding for loans, investments and fixed assets.
5. Basis of amortisation of debt securities.
6. Claims settled and remaining unpaid for a period of more than six months as on the balance-sheet date.
7. Value of contracts in relation to investments, for.
 - (a) Purchases where deliveries are pending.
 - (b) Sales where payments are overdue.
8. Operating expenses relating to insurance business basis of allocation of expenditure to various segments of business.
9. Computation of managerial remuneration.
10. Historical costs of those investments valued on fair value basis;
11. Basis of revaluation of investment property.

6. ADDITIONAL DISCLOSURES

1. Investments made in accordance with any statutory requirement should be disclosed separately together with its amount, nature, security and any special rights in and outside India.
2. Segregation into performing/non-performing investments for purpose of income recognition as per the directions, if any, issued by the authority.
3. Assets to the extent required to be deposited under local laws or otherwise encumbered in or outside India.
4. Percentage of business sector-wise.

5. A summary of financial statements for the last five years, in the manner as may be prescribed by the authority.
6. Bases of allocation of investments and income thereon between policyholders' account and shareholders' account.
7. Accounting ratios as may be prescribed by the authority.

DISCLOSURE PRACTICES IN LIC

Table-1: Mandatory Disclosures (%) of Life Insurance Company (LIC)- Statutory Disclosure As Per IRDA

S.N .	Description of Item	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Mean	SD	% Change
1	Balance sheet	100	100	100	100	100	100	100	100	100	100	100	0	0
2	Revenue account	100	100	100	100	100	100	100	100	100	100	100	0	0
3	Profit and loss account	100	100	100	100	100	100	100	100	100	100	100	0	0
4	Schedules forming part of financial statements	100	100	100	100	100	100	100	100	100	100	100	0	0
5	Significant accounting policies	100	100	100	100	100	100	100	100	100	100	100	0	0
6	Notes to accounts	100	100	100	100	100	100	100	100	100	100	100	0	0
7	Receipts and payments account	100	100	100	100	100	100	100	100	100	100	100	0	0
8	Auditors report	100	100	100	100	100	100	100	100	100	100	100	0	0
9	Management report	0	0	0	0	0	100	100	100	100	100	50	37.5	100%

[illegible]

2	Product Portfolio	100	100	100	100	100	100	100	100	100	100	100	0	0
3	Branch Network	100	100	100	100	100	100	100	100	100	100	100	0	0
4	Industrial Relations	0	0	0	0	100	100	100	100	100	100	60	15.34	100
5	Rural Insurance, Special sector insurance and Special Schemes	100	100	100	100	100	100	100	100	100	100	100	0	0
6	Vigilance Activities	100	100	100	100	100	100	100	100	100	100	100	0	0
7	Organization Structure	0	0	0	0	100	100	100	100	100	100	60	15.34	100
8	New Products	0	0	0	0	100	100	100	100	100	100	100		100
9	Market Scenario in the Industry	100	100	100	100	100	100	100	100	100	100	100	0	0
10	Market Share	100	100	100	100	100	100	100	100	100	100	100	0	0
11	Micro and Small Scale Business Entities	0	0	0	0	100	100	100	100	100	100	60	15.34	100
12	Incentive Plans													
13	Industry Premium Growth	100	100	100	100	100	100	100	100	100	100	100	0	0
14	Contribution to Retail Business	0	100	100	100	100	100	100	100	100	100	90	12.23	100
15	Reinsurance	0	0	0	0	0	0	0	0	0	0	0	0	-
16	Foreign operations	100	100	100	100	100	100	100	100	100	100	100	0	0
17	Internal Audit	100	100	100	100	100	100	100	100	100	100	100	0	0
18	Name of Statutory Auditors of the company	0	0	0	0	100	100	100	100	100	100	60	15.34	100

DISCUSSION

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.

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. The present study is an attempt to analyze that how efficiently the LIC is disclosing information in their annual reports. Mandatory and voluntary disclosure by LIC for ten years i.e. 2004-05 to 2013-14. For better analysis the results are explained as item wise as well as area wise.

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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