with the opening of insurance sector, the number of general insurance companies operating in the country is increasing gradually. At present there are 13 general insurance companies out of which 8 are private sector companies viz. Royal Sunderam, Tata AIG, Reliance General, IFFCO-Tokio, ICICI Lombard, Bajaj Allianz, HDFC Chubb, Cholamandalam, and remaining 5 companies are public sector companies viz The New India Assurance Company Ltd., National Insurance Company Ltd, United India Insurance Company Ltd, Oriental General Insurance Company Ltd, and ECGC. At present there is one national reinsurer viz. General Insurance Corporation of India. For the year 2003-04, the total premium completion of the general insurance business is 16118 crore with the accretion rate of 13%. Still there is lot of untapped general insurance market and there is a huge potential for development of general insurance business.

Normally most of the general insurance policies are annual policies with few exception as Erection policies, Contractor’s All Risk policies etc. Nowadays there is an increasing trend to issue long term policies in personal lines of business such as Personal Accident Policies, Housing Loan Policies etc.

**LEGAL FRAMEWORK:** The primary legislations which deals with the insurance business in India are the Insurance Act, 1938 and the IRDA Act, 1999. Various aspects relating to accounts and audit are dealt with by the following statutes and rules/regulations made thereunder;

1. The Insurance Act, 1938 (including Insurance Rules, 1939)
2. The Insurance Regulatory and Development Authority Act, 1999;
3. The Insurance Regulatory and Development Authority Regulations;
4. The Companies Act, 1956; and

S 11 of the Insurance Act, 1938 prescribes the manner in which the accounts of an insurance company has to be maintained. With the opening of the insurance sector for private players, IRDA Act, 1999 was passed to provide for the establishment of an Authority to protect the interests of the holders of insurance policies, to regulate, promote and ensure orderly growth of the
insurance industry and for matters connected therewith and incidental thereto and further to amend the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalisation) Act, 1972. Section 114A of the IRDA Act, 1999 empowers IRDA to make regulations consistent with the Act, to carry out the purposes of this Act for various matters specified in said Section 114A.

In exercise of the powers conferred by section 114A of the Insurance Act, 1938 (4 of 1938), and in supersession of The Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditors Report of Insurance Companies) Regulations, 2000, Authority, in consultation with the Insurance Advisory Committee, has made the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditors Report of Insurance Companies) Regulations, 2002. Thus the Regulations made in the year 2000 were modified and superseded by the Regulations made in the year 2002. As per these Regulations, an insurer carrying on general insurance business has to comply with the requirements of Schedule B.

Schedule B is divided into 5 parts as under:

PART I—Accounting principles for preparation of financial statements

1. Applicability of Accounting Standards:- Every Balance Sheet, Receipts and Payments Account [Cash Flow Statement] and Profit and Loss Account[ Shareholders Account] of the insurer shall be in conformity with the Accounting Standards (AS) issued by the ICAI to the extent applicable to the insurers carrying on general insurance business. However, there are 3 exceptions viz.

   (i) AS-3 Cash Flow Statement shall be prepared only under Direct Method
   (ii) AS-13 Accounting for Investments, shall not be applicable and
   (iii) AS-17 Segment Reporting—shall apply to all insurers irrespective of the requirements regarding listing and turnover mentioned therein.

2. Premium – Premium shall be recognised as income over the contract period or the period of risk, whichever is appropriate. Premium received in advance, which represents premium income not relating to the current accounting period, shall be disclosed separately under the head “Current Liabilities” in the financial statements.

   A reserve for unexpired risks shall be created as the amount representing that part of premium written which is attributable to, and to be allocated to the succeeding accounting periods and shall not be less than as required under 64V(1)(ii)(b) of the Act.

   As per the provisions of section 64V(1)(ii)(b), reserve for unexpired risks shall be created in respect of—

   (i) fire and miscellaneous business, 50 per cent
   (ii) marine cargo business, 50 per cent, and
   (iii) marine hull business, 100 per cent

   of the premium, net of re-insurances, during the preceding twelve months.

3. Premium Deficiency- Premium deficiency shall be recognised if the sum of expected claim costs, related expenses and maintenance costs exceed related reserve for unexpired risks.

4. Acquisition Costs—Acquisition costs, if any shall be expenses in the period in which they are incurred.

5. Claims- The ultimate cost of claims to an insurer comprise the claims under the policies and spe-
specific claims settlement costs. Claims under policies comprise the claims made for losses incurred, and those estimated or anticipated under the policies following a loss occurrence.

A liability for outstanding claims shall be brought to accounts in respect of both direct business and inward reinsurance business. The liability shall include:
(a) Future payments in relation to unpaid reported claims;
(b) Claims Incurred But Not Reported (IBNR) including inadequate reserves [sometimes referred to as Claims Incurred But Not Enough Reported (IBNER)], which will result in future cash/asset outgo for settling liabilities against those claims. Change in estimated liability represents the difference between the estimated liability for outstanding claims at the beginning and at the end of the financial period.

The accounting estimates shall also include claims cost adjusted for estimated salvage value if there is sufficient degree of certainty of its realisation.

Claims made in respect of contracts where the claims payment period exceeds four years shall be recognised on actuarial basis.

6. Procedure to determine the value of investments:- According to this sub clause of the Regulations, a detailed procedure has been prescribed for determining value of various investments viz.
(a) Real Estate- Investment Property:-To be measured at historical cost less accumulated depreciation and impairment loss. Revaluation is not permissible. Fair value as at the balance sheet date and the basis of its determination shall be disclosed in the financial statements as additional information.
(b) Debt Securities shall be considered as “ held to maturity” securities and shall be measured at historical cost subject to amortisation.
(c) Equity Securities and Derivative Instruments that are traded in active markets shall be measured at fair value as at balance sheet date. For the purpose of calculation of fair value, the lowest of the last quoted closing price of the stock exchanges where securities are listed shall be taken.Unrealised gains/losses arising due to change in the fair value of listed equity shares and derivative instruments shall be taken to equity under the head “Fair Value Change Account”. Profit / Loss on sale of such investments shall include accumulated changes in the fair value previously recognised under the heading Fair Value Change Account in respect of a particular security and being recycled to Profit and Loss Account on actual sale of that listed security. The balance in Fair Value Change Account or any part thereof shall not be available for distribution as dividends. Also, any debit balance in the said Fair Value Change Account shall be reduced from the profits/free reserves while declaring dividends.
(d) Unlisted and other than actively traded Equity Securities and Derivative Instruments will be measured at historical costs. Provision shall be made for demunition in value of such investments.

7. Loans:- Loans shall be measured at historical cost subject to impairment provisions.

8. Catastrophe Reserve:- Catastrophe reserve shall be created in accordance with the norms, if any, prescribed by the Authority. Investment of funds out of catastrophe reserve shall be made in accordance with prescription of the Authority.

Till date the Authority has not prescribed any norms for creation of such reserve.

PART II- Disclosures forming part of Financial Statements:- This contains various disclosures to be made by an insurer as per sub clause A, B and C.

PART III- General Instructions for Preparation of Financial Statements:- This part contains 8 instructions for the preparation of financial statements.

PART IV- Contents of Management Report:- The management report is required to be attached to the financial statements. This report contains various confirmations, certifications and declarations duly authenticated by the management.

PART V:- Preparation of Financial Statements:- An insurer shall prepare the Revenue Account, Profit and Loss Account [Shareholders’ Account] and the Balance Sheet in Form B-RA, Form B-PL, and Form B-BS, or as near thereto as the circumstances
permit. An insurer shall prepare Revenue Accounts separately for fire, marine and miscellaneous insurance business and separate schedules shall be prepared for Marine Cargo, Marine- Other than Marine Cargo and the following classes of miscellaneous insurance business under miscellaneous insurance and accordingly application of AS-17 – Segment Reporting shall stand modified.

1. Motor
2. Workmen’s Compensation/ Employers’ Liability
3. Public/Product Liability
4. Engineering
5. Aviation
6. Personal Accident
7. Health Insurance
8. Others

An insurer shall prepare separate Receipts and Payments Account in accordance with the Direct Method prescribed in AS-3 – “Cash Flow Statement” issued by the ICAI.

ORGANIZATIONAL STRUCTURE
A large general insurance company having operations through out India and abroad usually has three tier organization structure. At level one, there are operating offices transacting general insurance business. These are called branch/divisional offices. Basic general insurance functions like acceptance of general insurance business, issuance of policies, development and training of agency force, payment of commission / brokerage to various insurance intermediaries, settlement of insurance claims under policies and payment of management expenses and other statutory payments. At level two, there are Regional Offices which are controlling 20-25 operating offices depending on the geographical area and the requirements and policies of each company. The main function of the regional office would be to supervise the operating offices under their jurisdiction and to give them support and guidance for expanding the business and settlement of large claims. At the top there is a Head Office or a Corporate Office whose main function is to guide, supervise and control the various activities carried on by the operating offices and regional offices. Head office also supervises the operations of overseas offices.

Further two specialised functions viz. re-insurance and investments are traditionally handled only by head office.

ACCOUNTING MODULE:-
As seen earlier, the basic insurance functions including accounts are carried on at the operating office of the general insurance company. In an IT accounting environment, the support of documentation, maintenance of books of accounts and reporting are based on the structure using which transactions are fed and retrieved in and out of the system. In the current IT era, where most of the data may be available across locations, except for preparation of journal vouchers and few other emerging transactions, all other transactions input to the system could be system generated.

As seen earlier, the most important accounting functions in a general insurance company are:-

- Premium accounting
- Commission/brokerage accounting
- Claims accounting
- Accounting of expenses of management
- Co-insurance accounting
- Re-insurance accounting
- Investment accounting, and
- Accounting of foreign operations

Premium Accounting:- In case of Tariff business such as fire insurance, motor insurance etc., the premium is charged as per tariff. In case of non-tariff business the premium is charged as per the guideline rates fixed by the respective technical departments of Head Office of the insurer with certain discretion to the operating offices while underwriting such business. According to section 64VB of the Insurance Act, 1938; no risk can be assumed by an insurer unless premium is received in advance.

Recently, in addition to collection of premium by cash/cheque/DD/BG/CD, IRDA has permitted to collect the premium by other manner of receipt of premium such as credit card/Debit card/E transfer etc. However, the same has to be collected before assumption of the risk. Applicable service tax (at present 8%) has to be collected on taxable premium and deposited with the respective excise authorities within prescribed time limit. Sometimes, same business is shared by more than one insurer as desired by the insured. The lead insurer has to collect the full premium alongwith service tax on the full premium. However, only own share of premium is accounted as
premium and the balance is shown as amount due to other co-insurers. A policy stamp is required to be affixed as per the provisions of the Stamp Act and has to be accounted properly by debiting policy stamp expenses. A premium register is generated in the system on daily basis.

As seen earlier, as per IRDA Regulation, the premium has to be recognised as income over the contract period or the period of risk, whichever is appropriate. Most of the general insurance policies are annual contracts and hence the earned premium is worked out by 1/365 method. Where the same is not practicable, the same is worked out either 1/24 or 1/12 method. At the end of the financial year, the unearned premium is compared with the reserve for unexpired risks as required under section 64V(1)(ii)(b) of the Insurance Act, 1938 and the shortfall if any is accounted as unearned premium.

ACCOUNTING OF COMMISSION/BROKERAGE:- Commission/brokerage is paid at different rates on different classes of insurance business. No commission/brokerage is paid on certain classes of business. Commission/brokerage becomes payable as soon as business is underwritten. However, the same is paid on monthly basis. The applicable service tax on commission is borne by the insurer and paid to the excise authorities. TDS is deducted as per provisions of IT Act and deposited in Govt. account within prescribed time limit. In case of cancellation of a policy due to cheque dishonour or any other reason, commission/brokerage payable is reversed or recovered if already paid to the agent/broker.

CLAIMS ACCOUNTING:- Claims outgo is the major outgo of an insurance company. A claim processing is done by the respective technical department and approved by the competent authority. The payment and accounting of the claims is done by the accounts department. In case of claims on policies involving co-insurance arrangements, the full amount of claim is paid by the lead insurer, but only own share of claim is accounted as claims cost and the balance is shown as amount recoverable from the co-insurers where a claim is reported but not settled by the end of the financial year, an adequate provision is made for such outstanding claims. At the end of each financial year, as required by IRDA the actuarial valuation of the claims liability of an insurer is made by the appointed actuary, and the shortfall, if any is provided as IBNR/IBNER.

EXPENSES OF MANAGEMENT:- For managing insurance business certain administrative expenses are incurred such as Employees’ remuneration and welfare benefit, managerial remuneration, travel, conveyance etc., rent, rate and taxes, repairs, printing and stationery, communication, legal and professional charges, medical fees, auditors fees & expenses, advertisement and publicity, interest and bank charges, depreciation, and others.

These expenses are first aggregated and then apportioned to each class of business viz. Fire, Marine and Miscellaneous revenue account on a reasonable and equitable basis. Any major expenses (Rs. 5 lacs or in excess of 1% of net premium, whichever is higher) are required to be shown separately.

Section 40C of the Insurance Act, 1938 prohibits an insurer to spend as expenses of management in excess of the limits prescribed in the Act.

An adequate provision for outstanding expenses is made in the accounts at the end of the financial year. A provision for leave encashment, gratuity etc. at the end of each financial year is made on actuarial basis.

CO-INSURANCE:- As seen earlier, the lead insurer has to collect the full premium along with service tax and pay the same to the respective excise authorities. The lead insurer accounts its own share as premium and balance is shown as payable to other co-insurers. Similarly in case of claim, the entire claim amount is paid by the lead insurer to the policy holder, but only his own share is accounted as claims expense and the balance is shown as amount due from the co-insurer. Lead insurer also recovers certain percentage of the co-insurer’s share for managing co-insurance arrangement as a leader. Co-insurance accounts are settled as per the agreement between the co-insurers. Usually, there is a provision for charging of interest for delayed settlement of accounts. At the end of each financial year, provision for outstanding claims, if any is communicated by the lead insurer and balance confirmation certificates are exchanged by all co-insurers.
INVESTMENT ACCOUNTING:-
Investments are assets held by an insurer for earning income by way of dividends, rent and interest or for capital appreciation or for other benefits to the insurer. An insurance company makes investment, apart from earning income, to comply with the statutory requirements and also for meeting any unforeseen contingencies and claims. There are two main sources of investible funds viz., surplus funds arising out of the business and income from interest and dividends on existing investments.

Section 27B, 27C and 27D of the Insurance Act, 1938 lays down certain norms for investment of the funds by an insurance company. Earlier we have seen the procedure to determine the value of investments as laid down in the IRDA’s Regulations for preparation of financial statements. Further IRDA has also issued detailed guidelines under IRDA (investment) (amendment) Regulations, 2001 for making investments by the insurer. IRDA prohibits any investment abroad out of policyholders’ funds. Accounting entries for investments are involved for buying/selling investments, receipts / accrued and outstanding of interest, dividends, rent, and recording impairments, write off and write down of certain investments.

FOREIGN OPERATIONS:-
Foreign branch accounts are merged with the Indian operations of an insurer to present global financial position. In addition to the Indian requirements, these offices have to comply with the local laws for preparation of financial statements and get the accounts audited by the local qualified auditors or the Indian firms of auditors, as the case may be.

These accounts which are prepared in local currencies are converted in Indian currency as per AS11 and merged with Indian accounts.

CONSOLIDATION:-
The accounts of a large insurance company having number of offices in India and abroad, are consolidated at the head office of the company. The accounts prepared by the operating offices in India are audited by the branch auditors. These are consolidated at various regional/ zonal offices and the consolidated accounts for the whole region are submitted to head office. At head office, separate accounts are prepared for the re-insurance and investment operations. If the company has foreign branches, their accounts audited by the local statutory auditors or the central statutory auditors are converted in Indian currency and merged with the Indian accounts.

Further, following special provisions/reserves are made only at head office while preparing final accounts:

(a) Unexpired Risk Reserve:- Most of the general insurance policies are annual policies, which are issued through out the year. Thus at the financial year end, there is unexpired liability under various policies which may occur during the remaining term of the policy beyond the year end and for which the entire premium is accounted as income. Section 64V(1)(ii)(b) of the Insurance Act, 1938 has provided certain percentage of net premium as Reserve for unexpired risks, as seen earlier, which is a compulsory minimum requirement. In addition to this, if unearned premium exceeds such reserve for unexpired risks, calculated as per the provisions of the Act, the difference is to be accounted as unearned premium.

(b) Provision for terminal benefits of the employees:- Every year provision for leave encashment, gratuity etc. payable to the employees on superanuation is made on actuarial basis at the head office.

(c) Reserve for Bad and Doubtful Debts:- After doing age-wise analysis of the debtors, a suitable provision is made at head office of an insurer.

(d) Provision for taxation:- Tax liability of an insurance company is governed by the special provisions contained in section 44 of the Income tax Act. Adequate provision for tax liability (including wealth tax) is made at head office.

(e) Provision for proposed dividend:- An adequate provision is made for proposed dividend as per the board resolution at head office.

(f) IBNR/IBNER provision is made as suggested by the appointed actuary by increasing the outstanding claims reserve.

Thus the central accounts department at head office is responsible for the consolidation of all regional office accounts (where the accounts of various operating offices are consolidated), reinsurance accounts, investment accounts and foreign operation accounts. The consolidation is done with the help of a suitable consolidation software. Fire revenue account, Marine revenue account, Miscellaneous revenue account, Profit and Loss account and Balance Sheet along with 15 schedules is prepared as per formats given in the PartV of the IRDA Regulations for the financial statements.

The final accounts are audited by the statutory auditors appointed by the shareholders’ (by C&AG in case of a Govt. company) and presented in the Annual General Meeting for approval.