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CORPORATE REPORTING PRACTICES OF INSURANCE SECTOR IN INDIA: A STUDY

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ABSTRACT

Corporate financial reporting is a communication system between an entity and target audience (Lal, 1985).It assists the investors to select the best portfolio for their investments. Besides investors, the disclosure of financial information also benefits the lenders, suppliers, creditors, customers, financial analysts, brokers, underwriters, stock exchange authorities, government, financial press, labour unions, trade associations and academicians etc. As per American Accounting Association (AAA), the financial reporting is the movement of information from the private domain into the public domain.

KEYWORDS: *Corporate Financial Reporting, Portfolio, Underwriters, Communication System.*

Introduction

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.

It is clear from above studies that yet no attempt has been made to study the financial reporting practices of insurance companies in India. With large population and untapped market, insurance is an emerging sector in India. Insurance sector has vital importance for economic growth of the country as it provides important financial services, transfers funds from the insured to capital investment and generates long term funds for infrastructure development.

Objectives of the Study

The present study analyzes the financial reporting practices of the public and private sector life and general insurance companies in India with following objectives:

- To study the regulatory environment governing the financial reporting of insurance sector in India.

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- To study the mandatory and voluntary disclosure by life and general as well as public and private sector insurance companies in India.
- To make a comparative study of the financial reporting practices of life insurance companies and general insurance companies as also of public and private sector insurance companies in India.
- To examine the company attributes and extent of disclosure in life and general as well as public and private sector insurance companies in India.
- To examine the compliance of corporate governance requirements both in life and general insurance companies as well as public and private sector insurance companies in India.
- To make suggestions for improvement in financial reporting of insurance companies in India.

Scope of the Study

The study includes all the public and private sector companies operating in life and general insurance sector. The present study was initiated in 2009 and there were 35 insurance companies registered with Insurance Regulatory Development Authority (IRDA) at that time. Out of these 35 companies 17 were life insurance companies and 18 were general insurance companies. In life insurance sector number of companies operating in the private sector was 16 but only one company was there in the public sector i.e. Life Insurance Corporation. In general insurance sector 11 companies were in the private sector and 7 in the public sector.

Data Collection

The study is based on secondary data. The annual reports of the selected public and private sector insurance companies were the major source of data. The management of these companies was requested through letters for their annual reports from 2008-09 to 2013-14. Some of the companies send their annual reports either in published form (hard copy) or soft copy in the form of a CD. Reminders were also sent to the companies who did not send their annual reports on first request. The annual reports for 2009-10 were obtained from the websites of the selected insurance companies. In life insurance sector there were 13,13, 14, 15, 16, 17, 17 and 17 companies in 2002-03, 2003-04, 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10, respectively. In year 2013-14 there were 24 insurance companies in India. But number of reports available for respective years was 8, 8, 9, 15, 16, 17, 17, and 17. Annual reports of all the general insurance companies for all the years were available.

Analysis of Data

For analyzing the financial reporting practices of the insurance companies, a yardstick in the form of an index of disclosure has been prepared. Various indexes of items such as mandatory disclosure index, voluntary disclosure index and an index of items relating to corporate governance have been prepared for both the sectors. 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 45 items included in the index of mandatory disclosure for both life and general insurance sector, which are divided into four broad categories viz. statutory disclosure as per IRDA, directors' report, balance sheet abstract and disclosure as per accounting standards issued by Institute of Chartered Accountants of India (ICAI). But for Life Insurance Corporation of India (LIC) only statutory disclosure as per IRDA is considered mandatory as LIC is a statutory corporation and incorporated under a special Act of Parliament i.e. Life Insurance Corporation Act 1956.A statutory corporation is not subject to the accounting, reporting and audit regulations applicable to government companies.

There are 58 items in the voluntary disclosure index for life insurance companies and 65 items for general insurance companies. 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. Table 1 shows the classification of items into different areas for both the sectors. The index relating to corporate governance items constitute 40 items of disclosure for both life and general insurance sector (Table 2).

The study uses an un-weighted disclosure index methodology to maintain the objectivity and independence in the scoring and analysis of the study. Various researchers like Chander (1992), Coombs and Tayib (1998), Kohli (1998), Singh (2005) and Singh (2009) have also used un-weighted scores. The fundamental theme of the un-weighted disclosure index is that all items of information in the index are considered equally important. The un-weighted disclosure scores ranges between '0' and

'1'.Score '1' is assigned if an item is disclosed by a company and for non-disclosure score '0' is assigned. Percentage disclosure scores are calculated by dividing the actual score of an item by its total scores. Extent of disclosure has been measured as item-wise disclosure,

Table 1: Classification of items included in the Disclosure Index

S. No.	Area	No. of Items	
		General Insurance Sector	Life Insurance Sector
Index of Voluntary Items			
1	Accounting and finance	15	12
2	Human resource and marketing	14	14
3	Business specific information	16	16
4	General/other information	20	16
	Sub Total	65	58
Index of Mandatory Items			
1	Statutory disclosure as per IRDA	24	24
2	Balance sheet abstract	05	05
3	Directors Report	10	10
4	Disclosure as per accounting standards	6	06
	Sub Total	45	45
	Total items	**110**	**103**

Table 2: Classification of Corporate Governance Items

S. No.	Categories of Items	No. of Items
1	Disclosure about Corporate Governance Code	1
2	Board of Directors	9
3	Board Meetings	5
4	Mandatory Board Committees	5
5	Voluntary Board Committees	7
6	Other Disclosure	13
	Total Items	**40**

Area–wise disclosure and company-wise disclosure

Analysis of disclosure practices followed by life and general insurance companies irrespective of their grouping into public and private sector companies has been done by taking combined means and combined standard deviation of both the sectors. To know the relation between various company attributes and extent of disclosure, four attributes, size of the company (on the basis of total assets), net premium (taken after reinsurance adjustments), age of the company (in years) and net profit (after tax) are selected. In addition to this, the following statistical tools have been used to analyze the results of financial reporting practices of insurance companies and to test various hypotheses formulated:

Mean

It is used to get the average of items disclosed by the insurance companies in the eight years of study. The means disclosure value has been calculated by applying the following formula:

$$\bar{X}2 = \frac{\Sigma X}{N}$$

Where ΣX = Sum of disclosure during different years

N = Number of years

Standard Deviation

It is used to study the variation in the items disclosed by insurance companies in different years. The following formula is used to get the values of standard deviation of the continuous series:

$$\text{S.D.} = \pm\sqrt{\Sigma X^2 - \frac{(\Sigma X)^2}{N}}$$

Where X = Individual observation

N = Number of observations

As far as the standard deviation of the various items of disclosure is concerned it has been calculated by using MS-EXCEL software on the Computer.

Percentage Change: It is used to calculate the percent change in disclosure score in 2009-10 over 2002-03. Following is the formulae used to calculate the percentage change:

Percentage change= $\frac{(\text{Disclosure in 2009–10})-(\text{Disclosure in 2013–14})}{\text{Disclosure in 2009–10}}$ X 100

Students t-test

This test is used to study the difference between the mean disclosure values of the public and the private sector insurance companies at 5 percent level of significance. The following formula is used to calculate the value of (t):n1.n2

$$T=\frac{(X1-X2)}{S}\times\sqrt{\frac{n1.n2}{n1+n2}}$$

Where,

$$S=\pm\sqrt{\frac{\Sigma(x_1-\bar{x}_1)^2+\Sigma(x_2-\bar{x}_2)^2}{n_1+n_2-2}}$$

$$=\pm\sqrt{\frac{n_1n_2}{n_1+n_2-2}}$$

Here X1 = Mean Disclosure of the first sample
X2 = Mean Disclosure of the second sample
n_1 = Number of years of study of the first sample
n_2 = Number of years of study of the second sample
1 2 = Square of standard deviation of the first sample
2 2 = Square of standard deviation of the second sample

Variance Ratio test or F - test

This test is used to study the difference between the variation of items of disclosure between the public and private sector insurance companies. The following formula is used to calculate F-Test:

$F=\frac{S_1^2}{S_2^2}$ where $S_1^2>S_2^2$

Here

$S_1^2=\frac{\Sigma(x_1-\bar{X}_1)^2}{n_1-1}$ and

$S_2^2=\frac{\Sigma(x_2-\bar{X}_2)^2}{n_2-1}$

Where: $S_2^2>S_1^2$ then formula becomes

$F=\frac{S_2^2}{S_1^2}$

S12 = Square of the standard deviation of the first sample S_2^2 = Square of the standard deviation of the second sample.

Correlation coefficient analysis

The simple correlation coefficient in the present study is estimated as follows: $r_{xy}=COV_{xy}/(V_xV_y)^{\frac{1}{2}}$

Where,
rxy = correlation coefficient between x and y
Cov.xy = covariance between x and y
N = number of observations
Vx = variance of x
Vy = variance of y

Regression analysis

Simple regression analysis: The linear regression relationship between two variables is determined as per the following regression model:

y = a + bx Where,

y = dependent variable

x = independent variable

a = intercept

b = slope, gradient or the rate of change of y per unit change in x

For testing whether b differ significantly from 0.0 ‘t’ test as.

Indian insurance sector is continuously doing well to achieving its social servicing goal. To cover more and more common public segments and improve its operation industry, currently working on various challenging issues of dynamic nature like Micro insurance, Corporate Governance, corporate social responsibility, insurance portability etc.

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