

## MANDATORY DISCLOSURE PRACTICES OF IRDA IN LIFE INSURANCE SECTOR: A COMPARATIVE STUDY

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### ABSTRACT

*There are two types of disclosure practices in life insurance sector - mandatory & voluntary disclosure practices. The present study is mainly based on mandatory disclosure practices by IRDA and its analysis with reference to one public sector company i.e. LIC and nine private sector companies.*

**KEYWORDS:** *Disclosure Practices, Insurance Sector, IRDA, Public Sector Company.*

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### Introduction

The present study discusses the disclosure results of life insurance companies including one public sector company (LIC) and 09 selected private sector companies operating in India. To analyze the financial reporting practices, 24 mandatory items of IRDA are selected from the annual reports of 6 years i.e., from 2012-13 to 2017-18 of following companies:

- Life Insurance Corporation of India (the only Public sector company exists)
- HDFC Standard Life Insurance Co. Ltd.
- Max Life Insurance Co. Ltd.
- ICICI Prudential Life Insurance Co. Ltd.
- Aditya Birla Sun Life Insurance Co. Ltd.
- Tata AIA Life Insurance Co. Ltd.
- SBI Life Insurance Co. Ltd.
- Bharti AXA Life Insurance Co. Ltd.
- Kotak Mahindra Life Insurance Co. Ltd.
- Future Generali India Life Insurance Co. Ltd.

### Mandatory Disclosure

These disclosures are mandatory for each and every insurance player. If they don't follow them they have to be penalized by regulator IRDA.

**Table 1: Mandatory Disclosure Index for Life Insurance Sector**

S.No.	Area	Index of Items
01	Statutory Disclosure as per IRDA	24
02	Balance Sheet Abstract	05
03	Directors Report	10
04	Disclosure as per Accounting Standards	06
	Sub Total	45

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As shown in Table 1, mandatory disclosure index is of 45 items but this study is confined to 24 items of IRDA which are as follows:

**Table 2: Statutory Disclosure Items as per IRDA**

01	Balance sheet
02	Revenue account
03	Profit and loss account
04	Schedules forming part of financial statements
05	Significant accounting policies
06	Notes to accounts
07	Receipts and payments account
08	Auditors report
09	Management report
10	Contingent Liabilities
11	Claim Settlement and Age wise Analysis
12	Summary of Financial Statements of last five years
13	Sector wise Details of Policies Issued
14	Employee Benefit Plans
15	Allocation of Income and Expenditure
16	Managerial Remuneration
17	Accounting and performance Ratios
18	Basis of allocation of investment
19	Certificate as per schedule C
20	Premium Deficiency
21	Performance of Social Sector Schemes for last five years
22	Commitment in Respect of Loans and Investments
23	Encumbrances on Assets
24	Shareholders and Policyholders funds

**Table 3: Average Mandatory Disclosures as per IRDA of LIC and Private Life Insurers**

Life Insurance Co.	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
LIC	23 (95.83%)	23 (95.83%)	23 (95.83%)	24 (100%)	24 (100%)	24 (100%)
Private Life Insurance Co.	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
HDFC SLI	15	19	20	21	21	22
Max LIC	16	18	20	21	22	23
ICICI PLI	15	20	19	22	21	23
AB SLI	15	20	21	23	23	22
Tata AIA LIC	18	19	21	22	23	23
SBI LIC	19	18	22	23	22	23
Bharti AXA	17	18	22	23	22	23
Kotak M LIC	18	20	22	21	22	24
Future GILIC	20	19	22	22	22	24
Average	17 (70.83%)	19 (79.17%)	21 (87.50%)	22 (91.67%)	22 (91.67%)	23 (95.83%)
S.D.	1.87	0.87	1.12	0.87	0.71	0.71
C.V. (%)	11.00	4.56	5.32	3.94	3.21	3.07

Here S.D. = Standard deviation, C.V. = Coefficient of Variation.  
Source: Author's compilation.

As can be seen from Table 3, out of total 24 items, for each disclosed item given '1' point whereas '0' given for an undisclosed item. In 2012-13, LIC of India disclosed all items except only one i.e., item number 23 which represents 'encumbrances on assets'. In 2013-14 and 2014-15 respectively, item number 21 and 20 were not disclosed which represent 'performance of social sector schemes for last 5 years' and 'premium deficiency' respectively. In this manner, it was 95.83 percent disclosure of mandatory items from LIC of India in 2012-13 to 2014-15 first three years of the period under study as in these three years 23 items were disclosed out of 24 items. It is interesting to note that each time, undisclosed item was different in these three years.

Then in 2015-16 onwards, all the items scheduled mandatory from IRDA have been disclosed by LIC of India i.e., from 2015-16 to 2017-18, the disclosure was 100 percent.

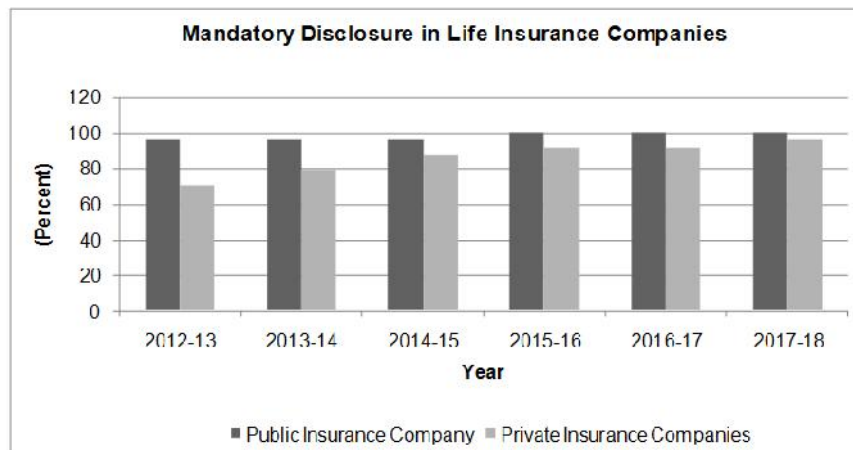
In private sector, as 9 different life insurance companies have been taken under study. They have differences in mandatory disclosures as can be seen from Tables 3. The averages for 24 statutory items as per IRDA of all these companies for each year from 2012-13 to 2017-18 have been shown in Table 3. Standard deviation and coefficient of variation have also been calculated. In 2012-13 and 2014-15, significant fluctuations indicated between different private sector companies disclosures otherwise, it remained insignificant in rest of the period under study.

**Table 4: Mandatory Disclosure in Life Insurance Companies**

(In Percent)

Year	Public Insurance Company	Private Insurance Companies
2012-13	95.83	70.83
2013-14	95.83	79.17
2014-15	95.83	87.50
2015-16	100.00	91.67
2016-17	100.00	91.63
2017-18	100.00	95.83
Average	97.91	86.11
S.D.	2.28	9.38
C.V. (%)	2.33	10.89

Source: Author's compilation from Table 3.



**Fig. 1: Mandatory Disclosure in Life Insurance Companies**

Table 4 shows that in 2012-13, percentage of mandatory disclosure by the only public sector life insurance company LIC of India was 95.83 percent in 2012-13 which remained same in 2013-14 and 2014-15 although disclosure items not remained same in these years. Then, disclosure percentage reached up to complete 100.00 percent in 2015-16 which remained same in the last two years 2016-17 and 2017-18.

On the other hand, private sector life insurance companies under study have 70.83 percent mandatory disclosure in 2012-13 which increased to 79.17 percent in 2013-14, 87.50 percent in 2014-15, 91.67 percent in 2015-16 and 91.67 percent in 2016-17 and reached up to 95.83 percent in the final year 2017-18. The average for the period under study was much higher at 97.91 percent for the only public sector company in comparison to average of private sector companies which was 86.11 percent. Standard deviation and coefficient of variation value showed that LIC of India has insignificant fluctuation whereas private companies having significant fluctuations in their mandatory disclosure percentage which should be controlled by improving disclosure practices. Earlier, these were penalized for inadequate mandatory disclosures also but now, they are exhibiting most of the mandatory disclosures. From Table 4, it is clear that the track record of the public sector insurance company LIC is far superior in comparison to selected private life insurance companies.

### Chi-Square Test

Now, to know whether the difference between actual and expected mandatory disclosure is significant or not, chi-square test has been performed. For the public life insurance company LIC, following hypothesis has been tested:

**H<sub>01</sub>:** There is no significant difference between the actual and expected mandatory disclosure scores for selected items for public life insurance company during the period under study.

**Table 5: Chi-Square Test results for Public Life Insurance Company**

Observed Value (O)	Expected Valued (E)	(O-E)	(O-E) <sup>2</sup>	[(O-E) <sup>2</sup> ]/E
95.83	97.28	-1.45	2.1025	0.0216
95.83	97.28	-1.45	2.1025	0.0216
95.83	97.28	-1.45	2.1025	0.0216
100.00	99.35	0.65	0.4225	0.0043
100.00	99.35	0.65	0.4225	0.0043
100.00	99.35	0.65	0.4225	0.0043
				0.0777

From Table 5, calculated = 0.0777 and tabular value to = 11.07 at degree of freedom df = (6-1) = 5 at 0.05 significance.

Result: As the calculated value is lower than tabular value, null hypothesis can be accepted and it can be said that there is no significant difference between the actual and expected mandatory disclosure scores for selected items of public life insurance company during the period under study. From the chi-square test, it is clear that public sector insurance company (LIC) strictly follows the disclosure norms. Their disclosure policy was not dependent on any factor of business environment. For private life insurance companies, following hypothesis has been tested:

**H<sub>02</sub>:** There is no significant difference between the actual and expected mandatory disclosure scores for selected items of private life insurance companies during the period under study.

**Table 6: Chi-Square Test results for Private Life Insurance Companies**

Observed Value (O)	Expected Valued (E)	(O-E)	(O-E) <sup>2</sup>	[(O-E) <sup>2</sup> ]/E
70.83	86.30	-15.47	239.3209	2.7731
79.17	89.36	-10.19	103.8361	1.1620
87.50	88.90	-1.40	1.9600	0.0220
91.67	83.24	8.43	71.0649	0.8537
91.67	83.47	8.20	67.2400	0.8056
95.83	87.73	8.10	65.6100	0.7479
				6.3643

Source: Author's compilation.

From Table 6, calculated  $\chi^2 = 6.3643$  and tabular value to  $\chi^2 = 11.07$  at degree of freedom  $df = (6-1) = 5$  at 0.05 significance.

Result: As the calculated value is less than tabular value, null hypothesis can be accepted and it can be said that there is no significant difference between the actual and expected mandatory disclosure scores for selected items of private life insurance companies during the period under study.

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