

LIFE INSURANCE SECTOR: STATUTORY DISCLOSURE PRACTICES

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ABSTRACT

The present study discusses the disclosure results of life insurance companies including one public sector company (LIC) and nine private sector companies operating in India. In the process to analyze the financial reporting practices, 24 mandatory and statutory items as per Insurance Regulatory and Development Authority (IRDA) have been selected from the annual reports of 6 years from 2014-15 to 2019-20.

KEYWORDS: *Disclosure Practices, Public Sector Company, Financial Reporting Practices, IRDA.*

Introduction

There are 24 statutory disclosure items as per IRDA are mandatory for each and every insurance player. If they don't follow them, they have to be penalized by the regulator IRDA. These are shown in Table 1:

Table 1: Statutory Disclosures 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

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Statutory Disclosure Analysis for Life Insurance Companies

There are total 24 statutory disclosure as per IRDA and Table 2 shows number of disclosures given by life insurance companies under study in their published annual financial reports.

Table 2: Number of Statutory Disclosures as per IRDA of LIC and Private Life Insurers

Company	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
LIC	23 (95.83%)	23 (95.83%)	23 (95.83%)	24 (100%)	24 (100%)	24 (100%)
Private Life Insurance Co.						
HDFC SLI	15	19	20	21	21	22
Max LIC	16	18	20	21	22	23
ICICI PLI	15	20	19	2	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

As can be seen from Table 2, out of total 24 items, for each disclosed item given '1' point whereas '0' given for an undisclosed item. In 2014-15, LIC of India disclosed all items except only one i.e., item number 23 which represents 'encumbrances on assets'. In 2015-16 and 2016-17 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 2014-15 to 2016-17 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 2017-18 onwards, all the items scheduled mandatory from IRDA have been disclosed by LIC of India i.e., from 2017-18 to 2019-20, 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 2. The averages for 24 statutory items as per IRDA of all these companies for each year from 2014-15 to 2019-20 have been shown in Table 2. Standard deviation and coefficient of variation have also been calculated. In 2014-15 and 2016-17, significant fluctuations indicated between different private sector companies' disclosures otherwise, it remained insignificant in rest of the period under study.

Table 3: Yearly Statutory Disclosures in Life Insurance Companies**(In Percent)**

Year	Public Insurance Company	Private Insurance Companies
2014-15	95.83	70.83
2015-16	95.83	79.17
2016-17	95.83	87.50
2017-18	100.00	91.67
2018-19	100.00	91.63
2019-20	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 2.

Table 3 shows that in 2014-15, percentage of statutory disclosures by the only public sector life insurance company LIC of India was 95.83 percent which remained same in 2015-16 and 2016-17 although disclosure items not remained same in these years. Then, disclosure percentage reached up to complete 100.00 percent in 2017-18 which remained same in the last two years of the period under study i.e., 2018-19 and 2019-20.

On the other hand, private sector life insurance companies under study have 70.83 percent statutory disclosures in 2014-15 which increased to 79.17 percent in 2015-16, 87.50 percent in 2016-17, 91.67 percent in 2017-18 and 2018-19 and reached up to 95.83 percent in the final year 2019-20.

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 statutory 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 statutory disclosures.

From Table 3, 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 statutory disclosures is significant or not, chi-square test has been performed. For the public life insurance company LIC, following hypothesis has been tested:

H₀₁ There is no significant difference between the actual and expected statutory disclosure scores for public life insurance company during the period under study.

Table 4: Chi-Square Test results for Public Life Insurance Company

Observed Value (O)	Expected Valued (E)	(O-E)	(O-E) ²	[(O-E) ²]/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 4, calculated $\chi^2 = 0.0777$ and tabular value to $\chi^2 = 11.07$ at degree of freedom $df = (6-1) = 5$ at 0.05 significance.

Result

As the calculated χ^2 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 statutory disclosure scores 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. Its disclosure policy was not dependent on any factor of business environment.

For private life insurance companies, following hypothesis has been tested:

H₀₂ There is no significant difference between the actual and expected statutory disclosure scores of private life insurance companies during the period under study.

Table 5: Chi-Square Test results for Private Life Insurance Companies

Observed Value (O)	Expected Valued (E)	(O-E)	(O-E) ²	[(O-E) ²]/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 5, 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 χ^2 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 statutory disclosure scores of private life insurance companies during the period under study.

Conclusion

For the only public sector life insurance company LIC, there is no significant difference between the actual and expected statutory disclosure scores i.e. its scores during 2014-15 to 2019-20 were quite satisfactory and up-to-the mark. For private sector life insurance companies under study, although there is no significant difference between the actual and expected statutory disclosure scores but the difference was more than public sector company LIC.

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