PEER - REVIEWED JOURNAL ISSN 00973-5372

Osmania Journal of International Business Studies

Global Impact Factor 0.58

Vol. XVII No. 1 (Bi-Annual) January - June 2022

DEPARTMENT OF COMMERCE
OSMANIA UNIVERSITY
HYDERABAD, TELANGANA

PEER - REVIEWED JOURNAL (ISSN 00973-5372)

Osmania Journal of International Business Studies (OJIBS)

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CORPORATE FINANCIAL DISCLOSURE PRACTICES OF INSURANCE SECTOR IN INDIA

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ABSTRACT

Insurance sector is an emerging sector in India. Entry of private and foreign insurance companies has created a highly competitive and volatile environment in the insurance market. Insurance Regulatory and Development Authority of India (IRDAI) is the regulator looking after the promotion and proper growth of insurance companies in India. It is required to maintain a structured, true and steady Insurance market for the growth of an insurance industry on one hand and the protection of policy holder's interest on another. Thus, it is essential for public disclosure of risks faced by the insurance sector. Such disclosure has to be well founded and timely to ensure smooth working of insurance markets. The present study is conducted to analyze the financial reporting practices of life insurance and non-life insurance companies. The study is based on the public disclosure reports of Indian insurance companies for a period of three years i.e., from 2018-2019 to 2020-2021.The study concludes that the life insurance companies of India is practically disclosing, however the non-life insurance companies in India is not practically disclosing financial information as life insurance companies do.

Key words : Insurance, Life insurance, non-life insurance, corporate disclosure.

INTRODUCTION :

Insurance is a contract represented by a policy in which an individual or an entity receives financial protection or reimbursement against losses from an insurance company. The company pools client s risks to make payments more affordable for the insured. Insurance policies are used to hedge against the risk of contingent or uncertain laws.

Insurance can be broadly divided into Life insurance and non-life insurance companies.

Life Insurance: Life insurance can be defined as a contract between an insurance policyholder and an insurance company, where the insurer promises to pay a sum of money in exchange for a premium, upon the death of an insured person or after a set period.

Non-life Insurance: It is a policy that provides compensation for losses incurred from a specific financial event. This is normally called General insurance.

CORPORATE DISCLOSURE:

Corporate disclosure can be defined as the communication of information by the people inside the public firms towards people outside the business. The main aim of corporate disclosures is to communicate business performance and governance to outside investors. This communication is not only called for by shareholders and investors to analyze the relevance of their investments, but also by the other stakeholder, particularly for the information about corporate social environmental policies.

CORPORATE DISCLOSURE IN INSURANCE :

The risks faced by an insurance company could affect the interests of the policyholders. With a view to ensuring reliable and timely disclosures for the safety of investors and policyholders. IRDA has laid down the public disclosure requirements for all insurance companies w.e.f period ended 31st march 2010.

Insurers are required to publish their profit and loss accounts, balance sheet, and revenue account and key analytical ratios on a quarterly basis through press advertisements and on their website.

REVIEW OF LITERATURE:

Prakash (2018) : Accounting function of life insurance companies is quite different from that of the other companies. There are a lot of opportunities in community of chartered accountants in this sector. The financial statements of insurance companies included revenue account, profit and loss account, balance sheet, receipts and payments account, segmental accounting etc.

Riaz et al (2018) : This study reveals that Insurance companies lag behind banking companies in compliance with the disclosure due to lack of proper regulations. There was improvement in the reporting practices overtime because of increasing awareness of corporate governance. Findings of the study shows that insurance companies do not comply with all the mandatory disclosure requirements in annual public disclosure.

Sarkar (2017) : Author has analyzed the essential and voluntary corporate financial disclosure practices of public limited companies in India for the year 2009-10. For, the purpose of the study published annual reports of 12 selected companies on the basis of 10 BSE Sensex stocks in decreasing order of their market capitalization. The author identified that 22 items are mandatory and 32 items are voluntary disclosure. The findings of the study disclosed that, there was 100 percent disclosure for mandatory items but wide diversity in the type and presentation of voluntary disclosure among the companies. He also suggested a common framework for presentation of information in the reports disclosed annually, and said that the failures should also be reported in that reports.

Shankaraiah and Rao (2016) : They has examined the accounting standards and their practices in Oman, with a view to strengthen the accounting standards and improve the practices for corporate good governance. For his study annual reports of 10 companies were taken out of which 6 were private and 4 were public in terms of assets for the year 2002-03. It revealed that, most of the selected companies complied with 20 to 25 accounting standards. Finally, he suggested that all the accounting standards have to be made mandatory otherwise it will be exceedingly difficult for Oman investors to trust the corporate disclosure.

RESEARCH GAP :

It is found from the review of literature that, there are few studies have been done on corporate financial disclosure practices of life and non-life insurance companies. Hence the present study is undertaking to fill the gap.

OBJECTIVES OF THE STUDY :

The present study is on Corporate Financial Disclosure Practices of Insurance sector in India has with the following objectives :

1. To study the disclosure of life and non-life insurance companies.
2. To make a comparative study of the corporate financial disclosure practices of life insurance of companies and non-life insurance companies in India.

HYPOTHESIS OF THE STUDY:

H_0 : There is no significant difference in corporate financial disclosure practices of life and non-life insurance companies.

H_1 : There is a significant difference in corporate financial disclosure practices of life and non-life insurance companies.

RESEARCH METHODOLOGY :

Type of the study : It is a census study as all the life and non-life insurance companies in Indian insurance sector have been taken for analyzing the corporate financial disclosure practices.

Sources of data : The study has been prepared based on secondary data. It has been collected from public disclosure reports of the insurance companies and IRDA annual reports.

Scope of the study : The present study is confined to study the corporate financial disclosure practices of life insurance companies and non-life insurance companies in India.

Period of the study : The period of the study is three years i.e., from 2018-2019 to 2020-2021.

Statistical tools : Descriptive statistics such as mean, standard deviation are used. Further Independent samples t test is applied to find the difference in mean score of life and non-life insurance companies.

Statistical software : The present study used SPSS statistical software.

DATA ANALYSIS AND INTERPRETATION:

For analyzing the corporate financial disclosure practices of life insurance and non-life insurance companies, a table has been prepared. For the purpose of the study, eighteen items from financial statements have been selected both from life insurance companies and non-life insurance companies. The select eighteen items comprises of revenue account, profit and loss account, balance sheet, premiums schedule, commission schedule, operating expenses, share capital schedule and pattern of share capital, reserves and surplus account, borrowings schedule, loans schedule, cash and bank account, provisions schedule, miscellaneous expenses, NPA s, downgrading of investment, claims data and product information.

The study uses the data from 2018-2019, 2019-2020 and 2020-2021 for the above eighteen selected items. The mean is calculated from those data for every selected corporate financial disclosure.

The interpretation for the study has been elucidated separately for the disclosure of life insurance companies and disclosures of non-life insurance companies and as well a comparative analysis has been interpreted.

A. Disclosure about Life insurance companies :

Table-1 : Item-wise Corporate Financial Disclosure by Life and Non-Life Insurance Companies from 2018-2019 to 2020-2021

	Life insurance companies				Non-life insurance companies			
Particulars	2018-2019	2019-2020	2020-2021	Mean	2018-2019	2019-2020	2020-2021	Mean
Revenue A/c	100	100	100	100	100	100	100	100
Profit & Loss A/c	100	100	100	100	100	100	100	100
Balance sheet	100	100	100	100	100	100	100	100
Premium	100	100	100	100	100	100	100	100
Commission	100	100	100	100	100	100	100	100
Operating expenses	100	100	100	100	100	100	100	100
Share capital	100	100	100	100	100	100	100	100
Pattern of sha2re capital	100	100	100	100	100	100	100	100
Reserves and surplus	91.30	91.30	91.30	91.30	88.88	88.88	88.88	88.88
Borrowings	30.43	30.43	30.43	30.43	45.45	45.45	45.45	45.45
Loans	95.66	95.66	95.66	95.66	30.30	30.30	30.30	30.30
Cash and bank	100	100	100	100	93.93	93.93	93.93	93.93
Provisions	100	100	100	100	100	100	100	100
Misc. Expenses	0	0	0	0	12.12	12.12	12.12	12.12
NPA's	95.66	95.66	95.66	95.66	66.66	66.66	66.66	66.66
Downgrading of investment	100	100	100	100	84.84	84.84	84.84	84.84
Claims data	100	100	100	100	96.96	96.96	96.96	96.96
Product information	100	100	100	100	87.87	87.87	87.87	87.87

(Source: https://www.irdai.gov.in)

There are 24 companies which deals with life insurance business. If all the 24 companies of life insurance business have disclosed a financial item in its financial statements, a score of 100 has been given. Otherwise, for non-disclosing of particular item, a score of 0 has been given.

The above table reveals that the items like Revenue account, profit and loss account, balance sheet, premium, commission, share capital, pattern of share capital, cash and bank, provisions, downgrading of investments, claims data and product information is properly (100 percent) disclosed by all the life insurance companies. In case of reserves and surplus, 91.30 percent of insurance companies have disclosed. Similarly, 95.66 percent of life insurance companies disclosed in case of loans and NPA s schedule and only 30.43 percent of this companies are disclosing the borrowings. Miscellaneous expenditures is not at all disclosed by any of these companies which stands for 0 percent.

B. Disclosure about non-life insurance companies :

There are 33 companies which deals with non-life insurance business. If all the 33 companies of non-life insurance business have disclosed a financial item in its financial statements, a score of 100 has been given. Otherwise, for non-disclosing of particular item, a score of 0 has been given.

The above table divulges that, the items like revenue account, profit and loss account, balance sheet, premium schedule, commissions schedule, operating expenses, share capital, pattern of share capital and provision schedule was 100 percent disclosed by all the non-life insurance companies. Reserves and surplus disclosed by 88.88 percent of the companies. However, cash and bank was disclosed by 93.93 percent, claims data was disclosed by 96.96 percent, product information by 87.87 percent, downgrading of investment by 84.84 percent of non-life insurance companies. NPA s was disclosed by 66.66 percent of non-life insurance companies, whereas only 45.45 percent of these companies disclosed Borrowings and 30.30 percent of companies disclosed Loans schedule. The least stands for Miscellaneous expenditure by only 12.12 percent of the non-life insurance companies.

C. Comparative Analysis of Corporate Financial Disclosure by Life Insurance companies and Non-Life Insurance companies:

The table-1 reveals that, the revenue account, profit and loss account, balance sheet, premium schedule, commission schedule, operating expenses schedule, share capital schedule, pattern of shareholdings schedule, provision schedule was practically disclosed by all the life and non-life insurance companies. Reserves and surplus schedule is disclosed by 91.30 percent of life insurance and 88.88 percent of non-life insurance companies. Cash and Bank schedule, downgrading of investments, claims data and product information was disclosed by 100 percent of life insurance companies and 93.93 percent,84.84 percent,96.96 percent and 87.87 percent respectively by non-life insurance companies. NPA s was disclosed by 95.66 percent of life and 66.66 percent of non-life insurance companies. Borrowings schedule was disclosed by 30.43 percent of life and 45.45 percent of non-life insurance companies. There was a major variation in disclosing percentage of the loans schedule by life and non-life insurance which stands for 95.66 percent of life insurance companies and only 30.30 percent of non-life insurance companies. However, the least disclosed item by both the life and non-life insurance companies was Miscellaneous expenditure. None of the life insurance company has disclosed the miscellaneous expenditure, whereas only 12.12 percent of non-life insurance companies disclosed this item.

D. Corporate Financial Disclosure Practices: Life and non-Life Insurance Companies

An analysis is carried out to find if there is any significant difference in mean score assigned for

Financial Disclosure Practices of the Life and non-Life Insurance Companies. Independent Samples t Test is conducted to find the difference in mean scores of 18 items pertaining to the financial items in their annual reports. The test results are given in the following tables.

Table-2 : Financial Disclosure Practices of the Life and Non-Life Descriptive Statistics

Insurance	N	Mean	Std. Deviation	Std. Error Mean
Life Insurance	18	89.613	27.665	6.520
Non-Life Insurance	18	83.722	27.057	6.377

Source : Computed from Secondary Data.

Table-3 : Independent Samples t Test : Mean Scores of Financial Disclosure Practices

Levene's Test for Equality of Variances			t-test for Equality of Means						
	F	Sig. P	t	df	Sig. (2-tailed)	Mean Diff.	Std. Error Diff.	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	.283	.598	.646	34	.523	5.891	9.121	-12.645	24.427
Equal variances not assumed			.646	33	.523	5.891	9.121	-12.645	24.427

Source : Computed from Secondary Data.

Table-2 on descriptive statistics reveals that the mean financial disclosure score of life insurance companies is 89.61 with the standard deviation of 27.66, whereas non-Life insurance companies have the mean financial disclosure score of 83.722 with a standard deviation of 27.05.

For interpreting the Independent Samples t Test results, p value of Levene s test for Equality of Variances is to be checked first. As the p value of Levene s test of Equal variances assumed is more than 0.05, the t test values in Equal variances assumed row is taken for interpreting the results. The Independent Samples t Test results shows that there is no significant difference in financial disclosure practices of Life and non-Life Insurance companies, where $p = 0.523$, $t(34, 33) = 0.646$.

Conclusion : Out of the select eighteen financial items of insurance companies in India, the majority of the financial disclosure items have been properly disclosed by the life insurance companies, whereas non-life insurance companies have not properly disclosed in case of reserves and surplus, borrowings, loans, miscellaneous expenses, NPA s, downgrading of investment, claims data and product information. Therefore, it is suggested that, the non-life insurance companies should disclose all the financial items for a growth and transparency in Insurance sector.

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