Indian Insurance – An overview

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The study was conducted with the primary objective of knowing about the major impacts of IFRS adoption in insurance sector. Questionnaire was based on variables. The respondents to this questionnaire include CA professionals and people working in accounting firms. The sample size is 30. SPSS is used as the statistical tool and analytical techniques like chi-square is used to reach a conclusion. chi-square was done to prove the hypothesis. The analysis proved that the variables and components are dependent on IFRS. As the world become a global village, cross border movements of capital and other resources are becoming increasingly common. To ensure the trust and confidence of the investors chasing global opportunities, a sound financial reporting system, supported by strong governance, high quality standard and a firm regularity framework are necessary. In this background ,convergence of National Accounting Standards with the International Financial Reporting Standards (IFRS) have become necessary.

From the study conducted it is evident that the organization has to go through tough times while implementing IFRS because integrating the present system with the IFRS standards is not an easy job. The companies would find it hard when the IFRS implementation takes a toll on the financial resources of the company. This is because the implementation of IFRS would incur costs such as auditing costs, training costs, additional resources and a lot of changes would be required in the IT infrastructure and the HR policies of a company.

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) set out the recognition ,measurement, presentation and disclosure requirement , which deals with transaction and event that are important in General Purpose Financial Statement (GPFS).They may also set such requirements which are industry specific . These standard are based on such framework ,which addresses the concept underlying the information presented in the financial statements. the objective of the framework is to facilitate the consistent and logical formulation of IFRS. IFRS are designed to apply to the general purpose financial statements and other financial reporting of all profit oriented entities, which include commercial, industrial and financial sector etc. Although ,they are not designed to apply to not for profit activities in the private ,public or government sector, the international public sector Accounting standard (IPSASB) prepared the accounting standards for government and other public sector entities.

The financial statement to which the IFRS apply, are directed towards the common information needs of a wide range of users like the shareholders , creditors , employees and public at large.

The IFRS comprises of :

International Financial Reporting Standard (IFRSs)

International Accounting standards (IAS)

Interpretations issued by International Financial Reporting interpretation committee (IFRIC)

Interpretations issued by Standing interpretation committee (SIC)

Thus there are 38 standards and 26 interpretations which comprise the total IFRS.

IFRS(International Financial Reporting Standards) Globalization and break down of cross border barriers have encouraged the need to move towards a single set of consistent and understandable financial information reporting standards. The International Accounting Standards Board (IASB) has developed uniform global financial reporting standards which are termed as the ‗International Financial Reporting Standards (IFRS)'. IFRS is used worldwide. As of August 2008, around 113 countries including all of European Union require or permit IFRS reporting. IFRS reporting is mandatory for all domestic and local companies in around 85 countries. IFRS adoption worldwide is generally accepted to be beneficial to the investors. This is due to reduction in the cost of comparing alternate investment and by increasing the quality of information. Through this the investors would be more willing to invest which would in turn benefit the companies. Now, as the world globalizes, it has become crucial for India to make a formal strategy for convergence with IFRSs with the objective to harmonizes with globally accepted accounting standards. International Financial Reporting Standards (IFRS) is gaining momentum throughout the world as a single, consistent accounting framework and is positioned to become the predominant GAAP in the near future.

Indian Accounting Standards have not kept pace with changes in IFRS. There are significant differences between IFRS and I-GAAP, because Indian standards remain sensitive to the legal and economic environment. Recognizing the significance of having full convergence with IFRS, the ICAI has decided to adopt a „big bang" approach and fully converge with IFRS issued by IASB, from accounting periods commencing on or after 1 April 2011 subject to regulatory approvals.

The convergence of International Financial Reporting Standards (IFRS) is on the anvil for insurance companies in India. All insurance companies are expected to converge with converged Indian accounting standards effective 1 April 2012 in accordance with the Ministry of Corporate Affairs' announcement on 31 March 2010. Thus, going by aforesaid directives, the insurance companies in India needs to publish IFRS financial statements for 2012-2013.

The IFRS 4 standard IFRS 4 applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that the entity holds, except for specified contracts that IFRS standards cover. It does not apply to an insurer's other assets and liabilities such as financial assets and financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement. This standard is applicable to 1. Insurance contracts (including reinsurance contracts) that an entity issues and reinsurance contracts that it holds; and 2. Financial instruments with a discretionary participation feature. IFRS 7, Financial Instruments: Disclosures, is applicable to such instruments as well. The following are examples of insurance contracts, if the transfer of insurance risk is significant: 1. Insurance against theft or damage to property. 2. Insurance against product liability, professional liability, civil liability, or legal expenses. 3. Life insurance and prepaid funeral plans (although death is certain, it is uncertain when death will occur or, for some types of life insurance, whether death will occur within the period covered by the insurance). 4. Life-contingent annuities and pensions (i.e., contracts that provide compensation for the uncertain future event—the survival of the annuitant or pensioner—to assist the annuitant or pensioner in maintaining a given standard of living, which would otherwise be adversely affected by his or her survival). 5. Disability and medical cover.

Indian insurance sector

India's rapid rate of economic growth over the past decade has been one of the more significant developments in the global economy. This growth has its roots in the introduction of economic liberalization in the early 1990s, which has allowed India to exploit its economic potential and raise the population's standard of living. Insurance has a very important role in this process. Health insurance and pension systems are fundamental to protecting individuals against the hazards of life and India, as the second most populous nation in the world, offers huge potential for that type of cover. Furthermore, fire and liability insurance are essential for corporations to keep investment risks and infrastructure projects under control.

Private insurance systems complement social security systems and add value by matching risk with price. Accurate risk pricing is one of the most powerful tools for setting the right incentives for the allocation of resources, a feature which is key to a fast developing country like India. By nature of its business, insurance is closely related to saving and investing. Life insurance, funded pension systems and (to a lesser extent) non-life insurance, will accumulate huge amounts of capital over time which can be invested productively in the economy. In developed countries (re)insurers often own more than 25% of the capital markets. The mutual dependence of insurance and capital markets can play a powerful role in channeling funds and investment expertise to support the development of the Indian economy. In 2003, the Indian insurance market ranked 19th globally and was the fifth largest in Asia. Although it accounts for only 2.5% of premiums in Asia, it has the potential to become one of the biggest insurance markets in the region. A combination of factors underpins further strong growth in the market, including sound economic fundamentals, rising household wealth and a further improvement in the regulatory framework.

The insurance industry in India has come a long way since the time when businesses were tightly regulated and concentrated in the hands of a few public sector insurers. Following the passage of the Insurance Regulatory and Development Authority Act in 1999, India abandoned public sector exclusivity in the insurance industry in favour of market-driven competition. This shift has brought about major changes to the industry. The inauguration of a new era of insurance development has seen the entry of international insurers, the proliferation of innovative products and distribution channels, and the raising of supervisory standards. By mid-2004, the number of insurers in India had been augmented by the entry of new private sector players to a total of 28, up from five before liberalization. A range of new products had been launched to cater to different segments of the market, while traditional agents were supplemented by other channels including the Internet and bank branches. These developments were instrumental in propelling business growth, in real terms, of 19% in life premiums and 11.1% in non-life premiums between 1999 and 2003. LIC is by far the biggest life insurance company in India both in terms of market share and their presence in India – it is the only government owned entity. Most of the private players, in both life and non-life sectors, have started business in India with the partnership of established insurance players in the world. The expertise of these global players help the Indian insurance company‘s perform much better as they can replicate the learning gained from other markets over a large period of time. The foreign partner in any insurance company in India is not allowed to own more than 26% of the shares in Indian insurance company as per IRDA regulations. We have seen big financial groups in India like SBI, ICICI and HDFC enter this pace and become aggressive players. Other famous corporate groups like the Tatas, Birlas and the Ambanis have also formed insurance companies.

Statement of Problem:

The IFRS implementation roadmap has been set for the insurance companies in India. So the insurers in the country have to mandatorily adhere to the standards that are set in the IFRS. But this may have an impact on the organization in many ways. This study is aimed at finding out the impact of the implementation of IFRS on the insurance companies The insurance industry in India is all set to converge to IFRS standards in the coming years. But the insurance companies has to take into account various factors while implementing IFRS in their organization. This research is aimed at analyzing the various factors that affect the implementation of IFRS.

Objectives of the Study:

· To study the IFRS accounting standards.

· To study the impact of implementing IFRS on the insurance companies.

· To study the various differences between present system and IFRS.

· To analyse the implementation procedure in the foreign countries.

Hypothesis

H0: IFRS implementation will not impact/ affect the working of insurance companies.

H1: IFRS implementation will impact/ affect the working of insurance companies.

Design of the study

Research design is a statement or specification of procedures for collecting and analyzing the information required for the solution of specific problem. It provides a specific framework for conducting some research investigation. A primary data collection was done have an idea about the impact of IFRS implementation on various factors. The aim was to gain more information before doing more through research.

Then a questionnaire was sent to respondents to collect the primary data

Sampling procedure

The sampling process used was the convenience sampling method in which the respondents were not selected on a systematic basis. The respondents were sent a questionnaire through mail and their response was collected..

Sources of data:

· Primary sources:

Questionnaire was sent to Chartered Accountants, CA final year students and the people working in accounting firms.

· Secondary data

The research work done on this subject before was analyzed to get an idea about development of IFRS implementation in foreign countries.

<u>Tools used in the study</u>

Questionnaire

To conduct the detail study a printed Questionnaire was prepared for the respondents and also online forms were sent. The data collected from the survey was analyzed & conclusion is drawn. All the factors are considered and designed in the Likert Scale format.

I have made the questionnaire in which questions are according to the research requirements and these are convenience for the respondent.

SPSS

SPSS tool was used to find out for the hypothesis testing that has been used for the study. The tool was used to conduct the chi square test.

		Strongly Agree	Agree	Neutral	Disagree	Strongly Agree
1.	IFRS require the organization to put in more internal process control	6	18	6	0	0
2.	IFRS is better than IAS	8	12	10	0	0
3.	IFRS requires additional resource, as compared to present accounting practice	1	13	14	2	0
4.	IFRS "Conversion project team" is required for implementation in an organization.	8	16	6	0	0
5.	Implementation of IFRS would increase the complexity of financial report.	2	14	14	-	-
6.	Implementation of IFRS would have a impact on key performance indicators.	3	11	16	0	0

7.	A training program is essential for the employees, for a organization for implementing IFRS.	8	16	6	0	0
8.	If training program is provided, it would be a huge financial expense for the company.	0	17	13	0	0
9.	The regulatory authority have to make significant changes in the norms for the industry.	10	11	9	0	0
10.	Measurement of insurance liabilities is the CEV (Current Exit Value) method specified in IFRS has significant difference than Gross premium valuation done in India Gaap.	9	10	11	0	0
11.	The fair vale method used for valuing embedded derivatives is a complex method. Do you agree?	1	16	13	0	0
12.	Extra efforts in IFRS result in better Internal management reporting.	9	18	3	0	0
13.	The unbunding concept used in the IFRS would result in significant changes in the presentation of accounts.	2	19	9	-	-
14.	The insurers would have to make changes in the IT infrastructure & compensation policies when 'IFRS' is	7	15	8	0	0

	implemented						

Hypothesis testing

H0: The implementation of IFRS does not have an impact on on the working of the insurance industry

H1: The implementation of IFRS have an impact on on the working of the insurance industr

To prove the hypothesis, a Chi-square test has been conducted.

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
row * coloumn	410	100.0%	0	.0%	410	100.0%

row * coloumn Crosstabulation

	Coloumn				Total
	disagree	neutral	agree	strongly agree	
Row 1.00 Count	0	6	8	16	30
Expected Count	.1	9.1	13.3	7.4	30.0
2 Count	0	10	12	8	30
Expected Count	.1	9.1	13.3	7.4	30.0
3 Count	2	14	13	1	30

Expected Count	.1	9.1	13.3	7.4	30.0
4 Count Expected Count	0 .1	6 9.1	16 13.3	8 7.4	30 30.0
5 Count Expected Count	0 .1	14 6.1	4 8.9	2 4.9	20 20.0
6.00 Count Expected Count	0 .1	16 9.1	11 13.3	3 7.4	30 30.0
7.00 Count Expected Count	0 .1	6 9.1	16 13.3	8 7.4	30 30.0
8.00 Count Expected Count	0 .1	0 9.1	13 13.3	17 7.4	30 30.0
9.00 Count Expected Count	0 .1	9 9.1	11 13.3	10 7.4	30 30.0
10.00 Count Expected Count	0 .1	11 9.1	10 13.3	9 7.4	30 30.0
11.00 Count Expected Count	0 .1	3 9.1	18 13.3	9 7.4	30 30.0
12 Count Expected Count	0 .1	13 9.1	16 13.3	1 7.4	30 30.0
13 Count	0	9	19	2	30

Expected Count	.1	9.1	13.3	7.4	30.0
14 Count	0	8	15	7	30
Expected Count	.1	9.1	13.3	7.4	30.0
Total Count	2	125	182	101	410
Expected Count	2.0	125.0	182.0	101.0	410.0

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	118.175a	39	.000
Likelihood Ratio	114.049	39	.000
Linear-by-Linear Association	.014	1	.906
N of Valid Cases	410		

a. 15 cells (26.8%) have expected count less than 5. The minimum expected count is .10.

The Pearson Chi-Square test give a value of 118.175

The Chi square tables give a value of 65.476

at degrees of freedom of 12

This means that the null hypothesis is rejected

Interpretation : The IFRS implementation has an impact upon the working of the insurance industry.

This hypothesis proves that the organization that is implementing IFRS have to undergo serious or significant changes in the way the organization works and they way in which the financial reporting is done in an organization.

Findings

· Ifrs requires an organisation to put in more internal process controls
· The implementation of IFRS would result in the organisation bringing in more resources.
· That IFRS implementation requires to be done by a conversion team in an organisation
· That the company's employees who deal with financial data requires more clarity regarding the financial data of the organization.
·IFRS would result in an impact on the accounting data of the organistaion
· The training program is essential in implementing IFRS in an organisation
· Training cost may result in a huge financial expense for the organization
· Regulators have to make significant changes to the norms of the working of the industry.
· Cev method difference have a sinificant impact on the books of accounts of the organisation
· The fair value method the accounting of the insurance contracts even more complex
· The internal management reporting would improve after IFRS is implemented in an organisation
· The unbundling concept is a complex method and the presentation of accounts would be affected by this concept

Conclusion

From the study conducted it is evident that the organization has to go through tough times while implementing IFRS because integrating the present system with the IFRS standards is not an easy job. The companies would find it hard when the IFRS implementation takes a toll on the financial resources of the company. This is because the implementation of IFRS would incur costs such as auditing costs, training costs, additional resources and a lot of changes would be required in the IT infrastructure and the HR policies of a company.

But the fact that the insurance companies have to keep in mind is the benefits that arise out of the implementation of IFRS. Better financial information for shareholders, better financial information for regulators, enhanced comparability, improved transparency of results, increased ability to secure cross-border listing, better management of global operations, decreased cost of capital etc can be some of the benefits of implementing IFRS. These benefits would increase the image of the company among the investors and the company may get more investors for their financial instruments.

So for arriving at the best results, the company should make an adequate plan for implementing IFRS in it. This plan should cover each and every aspect related to the implementation which includes the financial, training etc. When the company implements IFRS by using a systematic plan , it would be able to decrease the complexities involved and also could derive the benefits of the single global accounting standard.

ANNEXURE

THE QUESTIONNAIRE USED FOR DATA COLLECTION

IFRS implementation in Insurance industry

Respected Sir/Madam
I request you to fill this questionnaire based on IFRS which would help me in completing my disssertation project.

The response is collected on a scale in which 1= strongly disagree, 2= disagree, 3=neutral, 4=agree, 5= strongly agree

When do you think IFRS would be implemented in Insurance industry in India?

- 2011
- 2012
- 2013

Do you think the implementation of IFRS would have a positive impact on key performance indicators?

	1	2	3	4	5	
strongly disagree	○	○	○	○	○	strongly agree

Is IFRS better than existing IAS

	1	2	3	4	5	
strongly disagee	○	○	○	○	○	strongly agree

"Implementation of IFRS would increase the complexity of financial report"-do you agree to this statement?

	1	2	3	4	5	
strongly disagree	○	○	○	○	○	strongly agree

Do you think that an "IFRS conversion project team" is required for implementation in an organisation?

	1	2	3	4	5	
strongly disagree	○	○	○	○	○	strongly agree

IFRS requires additional resources, as compared to present accounting practices

	1	2	3	4	5	
strongly disagree	○	○	○	○	○	strongly agree

"IFRS requires the organization to put in more internal process controls"-do you agree

	1	2	3	4	5	
strongly disagree	○	○	○	○	○	strongly agree

A training program is essential for the employees for an organization for implementing IFRS

	1	2	3	4	5	
strongly disagree	○	○	○	○	○	strongly agree

Insurance

Extra efforts in IFRS result in better internal management reporting -Do you agree?

	1	2	3	4	5	
strongly disagree	○	○	○	○	○	strongly agree

If a training program is provided, it would be a huge financial expense for the company-do you agree?

	1	2	3	4	5	
strongly disagree	○	○	○	○	○	strongly agree

Sector specific changes- Insurance industry

This section deals with the accounting changes in the books of accounts of insurance companies

Measurement of insurance liabilities-Is the CEV(Current exit Value) method specified in IFRS better than Gross premium valuation done in Indian Gaap

	1	2	3	4	5	
strongly disagree	○	○	○	○	○	strongly agree

The fair value method used for valuing embedded derivatives is a complex method-do you agree?

	1	2	3	4	5	
strongly disagree	○	○	○	○	○	strongly agree

Insurance

The regulatory authorities have to make significant changes in the norms for the industry

	1	2	3	4	5	
strongly disagree	○	○	○	○	○	strongly agree

"The unbundling concept used in the IFRS would result in significant changes in the presentation of accounts"

	1	2	3	4	5	
strongly disagree	○	○	○	○	○	strongly agree

"The insurers would have to make changes in IT infrastrusture and compensation policies when IFRS is implemented"

	1	2	3	4	5	
strongly disagree	○	○	○	○	○	strongly agree

Respondent Details

Name

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Profession

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