

Horizons widened for CAs, thanks Insurance

Editorial Team

Amidst this golden phase of transition and sky-rocketing growth graph of insurance industry, only sky is the limit for all the enterprising accountants as the king-size pool of whole new opportunities beckon them. The insurance cake is getting bigger and better and Chartered Accountants can not only have it but eat it too.

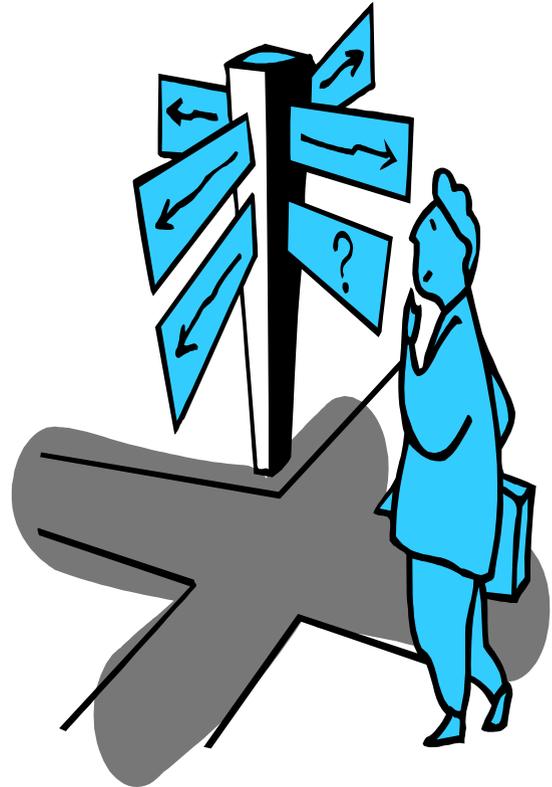
India is indeed shining, at least economically. And the country's insurance industry, which is shining all the more, amply corroborates that, since it has always been correlated with oriented sector.

Even as the term '(India) shining' was sullied in recent political mudslinging, the life insurance industry registered 51 per cent growth this year, significantly adding to the now globally visible glow of our economy. One of the most rapidly developing areas in the financial sector, it is rightly regarded as the next big wave that has hit the Indian market.

Premiums have gone up to Rs 18,710 cr from Rs 12,300 crore last year and the Life Insurance Corporation alone was able to garner Rs 2,332.85 crore by insuring more than 30 lakh individuals. According to the IRDA, the annual average growth in Indian insurance

industry after the sector opened up has been in range of around 25 per cent. IRDA chief CS Rao sees a growth rate of 20-25 per cent per annum, which is considered

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very good in insurance.

Amidst this golden phase of transition and sky-rocketing growth graph of the industry, only sky is the limit for all the enterprising accountants as the king-size pool of whole new opportunities beckon them. The insurance cake is getting bigger and better and Chartered Accountants can not only have but eat it too.

The Chartered Accountants have engaged themselves in the audit of Insurance Companies since long but the horizons of their professional wisdom has vastly

widened recently.

The structure of an insurance company, generally, comprises the Operating Department, Administrative Department and the Finance Department and CAs are of immense help and value in all of them today.

The Finance Department functions in the areas of accounting, financial and management reporting, budgeting and controlling etc and thus renders enormous scope for finance professionals. The new entrants in the insurance sector are likely to call for the services of the CAs for their financial setup requirements.

Besides the traditional fields of Statutory Audit, Internal Audit and Tax Audit, there is a vast scope for Chartered Accountants in other areas of Insurance industry as well.

The functions of an insurer

Servicing

include the provision of the Post-sales services to the insured. Among the services rendered by the insurer is the service of processing and release of claims.

The insurers need to verify the accuracy of the facts presented in relation to the insurance claim and the documents produced in support thereof.

The Chartered Accountants have a significant role to play in this area. The services, which can be provided by the Chartered Accountants include the services as Surveyors and Loss Assessors, Claim Assurers, Claim Negotiators, etc.

The Chartered Accountants have already been engaged in the surveys and loss assessments. The Chartered Accountants engaged in the field visit the place of loss and

General Structure of Insurance Companies

Operating Dept: Performs basic functions like designing of products, marketing, servicing the insured, management of portfolio, etc.

Administrative Dept: Looks after company's day to day affairs. This department usually functions through in-house setup.

Finance Department: It backs company's operations and administration by accounting for the transactions, streamlining flow of funds, materialising management decisions, financial and management reporting, budgeting and controlling etc.



CAs are in demand in all key spheres of Insurance industry

assess the quantum of loss incurred by the insured.

The section 64UM(2) of the Insurance Act provides that no claim in respect of a loss which has occurred in India and requiring to be paid or settled in India for an amount of Rs. 20000/- or more in value on any policy of general insurance, unless otherwise directed by the Authority, be admitted for payment or settled by an insurer unless he has obtained a report, on the loss that has occurred from an approved Surveyor and Loss Assessor.

Chartered Accountant as Surveyor or Loss Assessor

This area includes general functions like conducting inspections, estimating and valuing the subject under loss. Sharp accounting skills make Chartered Accountants perfect for assessing losses. Besides this, they can effectively perform special functions like recommending the applicable depreciation and the basis for determining the depreciation amount, adjusting losses after they are assessed and the like.

As per the decision of the Council taken at its 196th meeting held in December, 1998, a member of the Institute does not have to seek the specific permission of the Council to act as a surveyor and loss assessor as general permission has been granted in this regard.

Some general insurance companies allow the authorised third parties to process the claims and release the payments up to a specified amount on the basis of their assessment. The third party in turn may forward the case with the insurer and get the amount paid to the insured reimbursed. The prac-

tice allows the insurers to salvage the time involved in the processing of small claim cases.

The Chartered Accountants may pursue the practice of receiving the claim documents, verification thereof in light of the facts recorded, releasing the payment as assessed and receive the amount in turn from the insurance company. For the service, the insurance company will allow the service charges as stipulated.

Apart from the above-mentioned services, the Chartered Accountants can engage themselves as negotiators between the insurer and the insured.

Risk Management and Consultancy

The fundamental function of an insurer is to provide a cover against the detriment caused to the insured due to the happening of certain specified and agreed events. Thus, prior to providing such umbrella through a product, the insurer has to assess the risk involved in the transaction.

The insurer has to identify the element of risk prevalent in the concerned industry or a particular unit. The perception of risk requires the study of variables through various methods including the application of scientific and statistical techniques and correlation thereof with the industry or unit under study in light of their basic environmental and infra-structural characteristics. After the identification and categorisation of the risks perceived, the probability of loss-causing events and the severity of the loss has to be assessed.

Insurance has traditionally

Statutory Audit of the Insurance Cos

Section 12 of the Insurance Act, 1938 provides that the financial statements of every insurer are required to be audited annually by an auditor unless they are subject to audit under Indian Companies Act.

Among the public sector insurance companies, Section 25 of the Life Insurance Corporation Act, 1956, dealing with 'Audit' is specific about appointment of auditors by the Corporation with the previous approval of the Central Government. The General Insurance Business (Nationalisation) Act has no specific mention and hence Section 619 of the



The Committee on Insurance has also developed a post-qualification course on Insurance and Risk Management (IRM) to arm the CAs with insurance industry specific knowledge.

Companies Act, 1956 which prescribes appointment of statutory auditors by CAG becomes applicable.

With private insurance companies operating in the market, the appointment of statutory auditors has come within IRDA's ambit. IRDA, vide its circular issued on 15th February, 2001, had suggested that every insurer should have at least two auditors.

A panel of CA firms is maintained by LIC for audit. ICAI members may refer the "Guidance Note on Audit of Companies Carrying on General Insurance Business" and "Guidance Note on Audit of Companies Carrying on Life Insurance Business" for details relating to special features of audit regarding general and life insurance companies.

been perceived as the tool for managing risks. The risk-evaluation, segment-wise or client-wise, often requires industry-specific knowledge. The Chartered Accountants possess the knowledge about the operations of the industries or the units with which they deal in their

normal course of profession.

If the insurers intend to avail out-sourced services for such risk perception and evaluation, the Chartered Accountants may render their services.

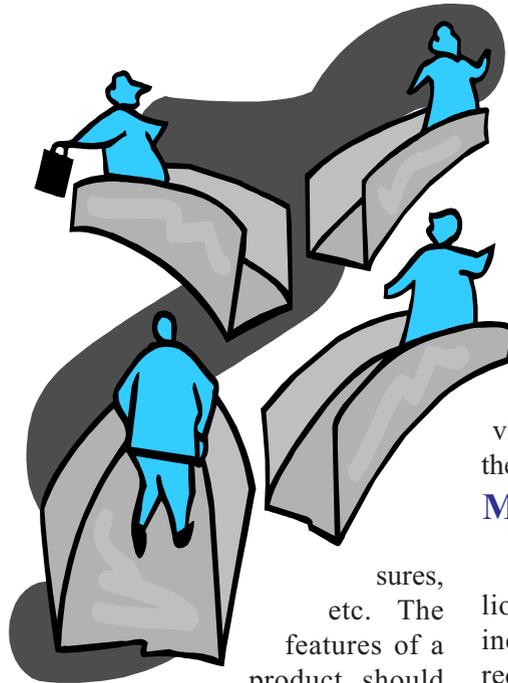
Chartered Accountants can also take up assignments in manag-

ing the risks of their clientele by advising them the right risk management techniques as well as to give them consultancy in areas where they will be needing insurance and such related matters. Additional areas of responsibility are business continuity planning, conducting alternative risk financing feasibility studies and evolving loss minimisation strategies etc.

New Product and Service Development

Chartered Accountants as professionals can play a vital role in the design and development of new and existing insurance products and services. They can advise on premiums, rebates and the like for products unique to specific industries/ companies and suggest risk-mitigating measures.

On the basis of the risks perceived, the insurer develops a product to cover the stipulated risks. While designing an insurance product, an insurer decides its cost to be charged from the insured in the form of premium, reduction thereof in certain cases like not lodging any claim during the previous covered period(s), suggesting the implementation of risk-mitigating mea-



asures, etc. The features of a product should be flexible enough to provide for the determination of premiums, rebates, additional premiums, etc. depending upon the risk benchmarks as determined.

Chartered Accountants can play a valuable role in developing the features of an insurance product.

They possess adequate knowledge of the financial and technical aspects pertaining to the industry and can apply their skills to yield well-tailored products incorporating the desired features.

They can exploit their financial intuition to quantify the risk ele-

ment and correlate it with the earnings of the company to develop a well-defined premium structure. The Chartered Accountant firms can formulate a model insurance product grounded on the study of an industry and apprise the insurance companies about the development of the same to make them aware of the quality of services, which can be rendered by them to the insurers.

Management of Portfolio

The management of the portfolio of an insurance company includes the assessment of the requirement of funds, identification of various sources of finance, the evaluation of the sources in the light of their cost, availability, timing, etc, reconciling the features of various sources with the needs of the company and selection of appropriate conjunction of sources.

The insurer possesses huge amount of funds, which need proper management. The management of the portfolio of an insurance company requires the identification of investment avenues, evaluation thereof and the selection of the most appropriate mix of alternatives where the funds of the company can be invested.

The Chartered Accountants are well versed with the methods and techniques pertaining to the finance related decision-making including the application of scientific and statistical techniques for the same.

There is invariably a large scope for the utilisation of the services of Chartered Accountants in this field.

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Insurance Litigation

The Chartered Accountants can render their professional expertise in the quantification of claims, both personal injury and business interruption claims. They may also render their services in determining the consideration of liability involving accountants' negligence and for other professional negligence cases. They may also provide their knowledge in rendering assistance of fidelity insurance disputes and insurance accounting disputes.

The Forensic Auditing or Investigative Assignments

The insurance industry is susceptible for fraudulent and inflated claims. The examples of fraudulent claims include auto accidents faked or staged to claim benefits, phony burglaries, thefts, or acts of vandalism reported to insurers. Chartered Accountants with their inherent inquisitive abilities sharpened by their training can provide a lot of value addition to the claim settling techniques. The investigative skills aided by their probing minds and technical assistance can be effectively utilised by insurers by offering investigative assignments to the Chartered Accountants.

Others Avenues

Chartered Accountants can also take up responsibility in the field of Underwriting, Claims management, Commercial risks management, Re-insurance, Third Party Administrators and Insurance marketing. ■

History of Insurance in India



Triton Insurance Co. Ltd. was the first general insurance company to be established in India in 1850, whose shares were mainly held by the British. The first general insurance company to be set up by an Indian was Indian Mercantile Insurance Co. Ltd., which was established in 1907.

There emerged many a player on the Indian scene thereafter.

The general insurance business was nationalised after the promulgation of General Insurance Business (Nationalisation) Act, 1972. The post-nationalisation general insurance business was undertaken by the General Insurance Corporation of India (GIC) and its 4 subsidiaries:

1. **Oriental Insurance Company Limited**
2. **New India Assurance Company Limited;**
3. **National Insurance Company Limited; and**
4. **United India Insurance Company Limited.**

Towards the end of 2000, the relation ceased to exist and the four companies are, at present, operating as independent companies.

The Life Insurance Corporation (LIC) was established on 01.09.1956 and had been the sole corporation to write the life insurance business in India.

The Indian insurance industry saw a new sun when the Insurance Regulatory & Development Authority (IRDA) invited the applications for registration as insurers in August, 2000. With the liberalisation and opening up of the sector to private players, the industry has presented promising prospects for the coming future. The transition has also resulted into introduction of ample opportunities for the professionals including Chartered Accountants.

The Indian life and non-life insurance business accounted for merely 0.42 percent of the world's life and non-life business in 1997. The life insurance industry registered 51 per cent growth in 2003-2004, significantly adding to the now globally visible glow of our economy.

