

Role of Chartered Accountants in Insurance Sector

In spite of a recent temporary slowdown, insurance remains one of the most potent and promising sectors of the Indian industry. Although, India's ranking in the world insurance market dropped by four places, i.e. from 11th in 2010 to 15th in 2011, a reliable projection says that the Indian insurance sector will reach around \$ 400 billion in premium income by 2020. There is little doubt over the immense potential of the insurance business in India in long-run as indicated by a steadily growing economy, increasing insurance penetration and rising income levels of the middle-class. Currently, only about 5% of India's population invests in insurance, and most of them are in tier-1 and tier-2 cities. A vast majority of the population staying in rural and semi-urban areas is still either unaware or unable to reach to insurance due to constrained distribution channels. As such, experts rightly look at the current period of slowdown as *period of consolidation*, because, if we look at the overall penetration of the life insurance industry, we are not far behind. In non-life category, though we lag behind the Asian or global market, there exists a huge potential. We are probably the 8th or 9th largest market in the world in terms of the total premiums collected when measured against the GDP. So, there has been a significant growth in the last 10 years. As such, if there is a period of consolidation, one should not worry too much.

And, with the Government recently proposing to increase the FDI limit to 49% from the existing 26% in insurance sector, this sector is all set to touch newer heights, tapping new opportunities and investments in times to come. This policy reform will flag-off the next phase of development and send a positive signal to foreign insurers who have been 'waiting-in-the-wings' for the FDI cap to increase before they enter the Indian market. According to the insurance regulator IRDA, the sector presently constitutes around 4.5% of the GDP. Throwing it open to foreign participation can help the sector grow at a peg of 11% to 12% per annum. Earlier, this year's Union Budget had already revised the eligibility conditions for tax exemption under Section 80C and 10 (10D) from the previous sum assured from a multiple of five to ten times.

In this backdrop, there exist vast professional opportunities for chartered accountants in this sector. Chartered accountants, known for analytical ability,

excellent technical skill and meticulous working style are most suited to sort out increasing intricacies in this sector, more so if they are armed with the industry-specific ICAI qualification *Diploma in Insurance & Risk Management* (DIRM). They can fit into any role—be it investment advisor, broker, auditor, loss assessor or financial analyst in treasury management.

Chartered accountants can be very effective as advisers to insurance companies and in operations functions and business process reengineering teams. Their services can be crucial in external support services like statutory audit, internal/concurrent audit, IT audit, process audit/consultancy and investment audit. Insurance companies have been advised to have two audit firms on joint-audit for their statutory audit. The IRDA has further stipulated guidelines on appointment of auditors based on the experience of the firms/partners. CA firms are engaged to carry out specific purpose audits like audits to check level of compliance with the authority's regulations, e.g. regulations on investment functions of insurance companies, audit of implementation of investment risk management systems and processes, etc.

The ICAI has been very much alive to the role that CAs can play in insurance sector. On recognising the potential of insurance sector immediately after it opened up for the private players, the Institute constituted a specialised committee on insurance to act as an integrated hub for research, dialogue, inputs in policy formulation in emerging context of financial services in general and insurance sector in particular. The President of the Institute is a part-time member of the IRDA. Additionally, the ICAI has its representation in various important committees/groups constituted by the IRDA for development of the sector.

In the last couple of years, there has been a plethora of changes in the insurance sector and it is likely that innovation and adaptability will continue to remain the buzzword for this industry has been moving forward to tap its full potential. And, chartered accountants can play a vital role in the realisation of that goal.

-Editorial Board

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