



INVESTMENTS, ACCOUNTS & MISC PROVISIONS

3.0 INTRODUCTION

After selling the insurance products either directly by insurer or through insurance inter-mediary the insurer gets the amount by way of premium which every Insurance company will invest its funds (collection of premium) as per “THE INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (INVESTMENT AMENDMENT) REGULATIONS, 2001. The different investment pattern has been defined for life, general, and re-insurer in the said regulations and the same is explained in the following paragraphs.

In addition to the investment the insurer has to maintain the accounts properly as the insurer is to pay the amount at the time of claim in case of general insurance and on maturity or death of the insured the amount is to be paid to the insured or their nominee as the case may be. The procedure of accounting the premium and their investment is prescribed in the regulation defined by IRDA in INSURANCE REGULATORY & DEVELOPMENT AUTHORITY (PREPARATION OF FINANCIAL STATEMENTS & AUDITOR’S REPORT OF INSURANCE COMPANIES) REGULATIONS 2000.

3.1 OBJECTIVES

At the end of this chapter you will know:—

- How the premium amount is invested by Insurer
- How the accounts are being maintained by Insurer

- Investment in Rural and social sector.
- Penalty for non compliance of provision of the Act.

3.2 INVESTMENTS

3.2.1 Life Insurance Company:

The life insurance company business has been divided in two parts as follows:—

- **Life Insurance Business**
- **Pension & General Annuity Business**
- **Unit Linked Insurance Business**

The investment pattern of controlled funds of **Life Insurance Business** is as follows:

Investment in Govt. securities	Not less than 25%
Investment in Govt. security or approved securities	Not less than 50% including above security
Infrastructure and Social Sector	Not less than 15%
Investments in approved investments and other than approved investments	Not exceeding 35% and not exceeding 15% in other than approved investments

The investment pattern of **Pension and General Annuity Business**:

Investment in Govt. securities	Not less than 20%
Investment in Govt. security or approved securities	Not less than 40% including above security
Investments in approved investments and as per exposure norms	Not exceeding 60%

Unit Linked Life Insurance Business:

Every insurer shall invest and at all times keep invested his segregated fund of unit linked life Insurance business as per pattern of investment offered to and approved by the policyholders. Unit Linked policies may only be offered where the units are linked to categories of assets which are both marketable and easily realizable. However the total investment in other than approved category of investments shall at no time exceed 25% of the fund.



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3.2.2 General Insurance Company

The investment pattern of total assets general insurance company is as follows:

Investment in Govt. securities	Not less than 20%
Investment in State Govt security and other guaranteed securities	Not less than 30% including above security
Housing and Loans to State Government for Housing and Fire Fighting equipment, being not less than, (Subscription to/ purchase of Bonds/ debentures issued by HUDCO, National Housing Bank or House building institutions duly accredited by National Housing Banks, for house building activities, duly guaranteed by Government or carrying current rating of not less than 'AA' by independent, reputed and recognized rating agencies would also qualify for compliance of this regulation.)	Not exceeding 5%
Infrastructure and Social Sector	Not less than 10%
Investments in approved investments and non approved investments	Not exceeding 55% and not more than 25% in non approved investments

3.2.3 Reinsurance Business

Every reinsurer carrying on reinsurance business in India shall invest and at all times keep invested his total assets in the same manner as set out above, until such time separate regulations in this behalf are made by the Authority.

Approved Securities & Investments:

The meaning of approved securities and investments has been defined under section 27(A) and 27 (B) of Insurance Act 1938. The list is lengthy but the main aim is that the insurance company should invest the funds which are very safe & sound as the fund is public money and the insurer is to pay back the sum insured in case of maturity or if claim arises.

Infrastructure

Infrastructure facility means

- (i) A road, highway, bridge, airport, port, Railways including BOLT, road transport system, a water supply project, irrigation project, industrial parks, water treatment system, solid waste management system, sanitation and sewerage system;
- (ii) Generation or distribution or transmission of power;
- (iii) Telecommunication;
- (iv) Project for housing;
- (v) Any other public facility of a similar nature as may be notified by the Authority in this behalf in the Official Gazette;

Obligation of Rural and Social Sector:—**Rural Sector:—**

- (i) Five percent in the first financial year;
- (i) Seven percent in the second financial year;
- (ii) Ten percent in the third financial year;
- (iii) Twelve percent in the fourth financial year;
- (iv) Fifteen percent in the fifth financial year;

Social Sector:—

- (i) Five thousand lives in the first financial year;
- (ii) Seven thousand five hundred lives in the second financial year;
- (ii) Ten thousand lives in the third financial year;
- (iii) Fifteen thousand lives in the fourth financial year;
- (iv) Twenty thousand lives in the fifth financial year;

3.3 PROCEDURE OF INVESTMENTS

- Every insurer shall constitute an Investment Committee which shall consist of a minimum two non-executive directors of the Insurer, the Principal Officer, Chiefs of Finance and Investment division, and wherever appointed actuary is employed, the Appointed Actuary.



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- The decision taken by the Investment Committee shall be properly recorded and be open to inspection by the officers of the Authority.
- Every insurer shall draw up annually an Investment Policy and place the same before its Board of Directors for its approval.
- The investment policy as approved by the Board will be implemented by the investment committee, which shall keep the Board informed periodically about its activities.
- The Board shall review its investment policy and its implementation on an half-yearly basis or at such short intervals to protect the policyholder's interest.
- The details of the Investment Policy or its review as periodically decided by the Board shall be submitted to the Authority within 30 days of its decision thereto. The Authority may call for further information from time to time from the insurer as it deems necessary and in the interest of policyholders issue such directions to the insurers as it thinks fit.

INTEXT QUESTIONS 3.1

1. List the investment pattern of life insurer.
 2. List the Obligations of Rural & Social Sector.
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3.4 ACCOUNTS

Under Section 4 of the Insurance Act 1938, the IRDA has framed the rules & regulations known as **Insurance Regulatory & Development Authority (Preparation of Financial Statements & Auditor's Report of Insurance Companies) Regulations 2000**.

Life Insurance and General Insurance Business shall prepare the financial statements :—

- a) Balance Sheet.
- b) Revenue Account [Policyholders' Account], life insurance.
- c) Revenue Account [Fire, Marine and Miscellaneous], General Insurance.

- d) Receipts and Payments Account [Cash Flow statement] and,
- e) Profit and Loss Account [Shareholders' Account].

The abovementioned shall be prepared as per the Accounting Standards prescribed by Institute of Chartered Accountants of India.

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3.5 MISCELLANEOUS PROVISION

3.5.1 Insurance Business in Rural or Social Sector:—

Every insurer shall undertake such percentages of life Insurance business and general Insurance business in the rural or social sector, as stated above.

3.5.2 Obligations of Insurer in Respect of Rural or Unorganized Sector / Backward Classes

Every insurer shall discharge the obligations specified - persons residing in the rural sector, workers in the unorganized or informal sector or for economically vulnerable or backward classes of the society and other categories of persons as stated above.

3.5.3 Assignment and Transfer of Insurance Policies (38)

A transfer or assignment of a policy of life Insurance, whether with or without consideration, may be made only by an endorsement upon the policy itself or by a separate instrument, signed in either case by the transferor or by the assignor or his duly authorized agent and attested by at least one witness, specifically setting forth the fact of transfer or assignment.

The transfer or assignment shall be complete and effectual upon the execution of such endorsement or instrument duly attested but except where the transfer or assignment is in favor of the insurer shall not be operative as against an insurer and shall not confer upon the transferee or assignee, or his legal representative, any right to sue for the amount of such policy or the moneys secured thereby until a notice in writing of the transfer or assignment and either the said endorsement or instrument itself or a copy thereof certified to be correct by both transferor and transferee or their duly authorized agents have been delivered to the insurer.

**Notes****3.5.4 Nomination by Policyholder (39)**

1. The holder of a policy of life Insurance on his own life, may, when affecting the policy or at any time before the policy matures for payment, nominate the person or persons to whom the money secured by the policy shall be paid in the event of his death.
2. Any such nomination in order to be effectual shall, unless it is incorporated in the text of the policy itself, be made by an endorsement on the policy communicated to the insurer and registered by him in the records relating to the policy and any such nomination may at any time before the policy matures for payment be cancelled or changed by an endorsement or a further endorsement or a will, as the case may be, but unless notice in writing of any such cancellation or change has been delivered to the insurer, the insurer shall not be liable for any payment under the policy made bona fide by him to a nominee mentioned in the text of the policy or registered in records of the insurer.
3. The insurer shall furnish to the policyholder a written acknowledgement of having registered a nomination or a cancellation or change thereof, and may charge a fee not exceeding one rupee for registering such cancellation or change.
4. A transfer or assignment of a policy made in accordance with section 38 shall automatically cancel a nomination.
5. Where the policy matures for payment during the lifetime of the person whose life is insured or where the nominee or, if there are more than one nominees, all the nominees die before the policy matures for payment, the amount secured by the policy shall be payable to the policyholder or his heirs or legal representatives or the holder of succession certificate, as the case may be.
6. Where the nominee or if there are more than one nominees, a nominee or nominees survive the person whose life is insured, the amount secured by the policy shall be payable to such survivor or survivors.

3.5.5 Limitation of Expenses of Management in Life Insurance Business – (Section 40B)

Every insurer transacting life Insurance business in India shall furnish to the Authority statements in the prescribed form duly certified by an actuary on the basis of premium currently used by him in regard to new business in respect of mortality, rate of interest, expenses & bonus loading.

No insurer shall spend as expenses of management exceeding the prescribed limits in any calendar year.

The expenses of management include commission payments of all kinds and any amount of expenses capitalized. In case of an insurer having his principal place of business outside India, a proper share of head office expenses which shall not be less than such percentage as may be prescribed of the total premiums (less reinsurances) received during that year in respect of life Insurance business transacted by him in India. But it does not include in the case of an insurer having his principal place of business in India any share of head office expenses in respect of life Insurance business transacted by him outside India.

If in any year the expenses of management exceeds the prescribed limits then it will be contravention of the provision if the excess amount so spent is within such limits as may be fixed in respect of the year by the Authority after consultation with the executive committee of life Insurance council by which the actual expenses incurred may exceed the expenses permissible.

Every statement shall be signed by the chairman and two directors of the company, the principal officer and auditor's certification and duly certifying that all expenses of management in respect of life Insurance business transacted by the insurer in India have been debited in the revenue account as expenses.

If the insurer is carrying on any other class of Insurance business in addition to life Insurance business an auditor's certificate certifying that all charges incurred in respect of his life Insurance business and in respect of his business other than life Insurance business have been fully debited in the respective revenue accounts.



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3.5.6 Limitation of Expenses of Management in General Insurance Business (40C)

No insurer shall in respect of any class of general Insurance business transacted by him in India spend in any calendar year as expenses of management including commission or remuneration for procuring limits and in prescribing any such limits regard shall be had to the size & age of the insurer. If an insurer has spent as such expenses in any year an amount in excess of the amount permissible and the same shall not be contravention of the provision of this section, if the excess amount is within the limit as may be fixed in respect of the year by the Authority after consultation with Executive Committee of the General Insurance council which the actual expenses incurred may exceed the expenses permissible.

Every insurer shall incorporate in the revenue account a certificate signed by the Chairman and two directors & by the principal officer and an auditor certifying that all expenses of management have been fully debited in the revenue account as expenses.

3.5.7 Prohibition of Rebates (41)

No person shall allow rebate on any Insurance policy (life as well as general) to induce any person to take the Insurance policy. The rebate may be allowed in accordance with the published prospectuses or tables of the insurer. If any Insurance agent takes the Insurance policy for himself then it will not be considered as rebate of commission.

3.5.8 Penalty to be Imposed for Non-compliance of the Various Important Provisions of the Act.

Section 102. If any person, who is required under this Act, or rules or regulations made there under:—

- (a) To furnish any document, statement, account, return or report to the Authority, fails to furnish the same.
- (b) To comply with the directions, fails to comply with such directions.
- (c) To maintain solvency margin, fails to maintain such solvency margin.

- (d) To comply with the directions on the insurance treaties, fails to comply with such directions on the insurance treaties, he shall be liable to a penalty not exceeding five lakh rupees for each such failure and punishable with fine.

Section 103:— If a person makes a statement, or furnishes any document, statement, account, return or report which is false and which he either knows or believes to be false or does not believe to be true:—

- (a) He shall be liable to a penalty not exceeding five lakh rupees for each such failure.
- (b) He shall be punishable with imprisonment which may extend to three years or with fine for each such failure.

3.5.9 Penalty for False Statement in Document of Investment

Section 104:— If a person fails to comply with the provisions of section 27 (investment) or section 27A (investment of Life Insurer) or section 27B (investment of General Insurer) or section 27C (prohibition of investment) or section 27D (Manner of investment), he shall be liable to penalty not exceeding five lakh rupees for each such failure.

3.5.10 Wrongfully Obtaining or Withholding Property.

Section 105:— If any director, managing director, manager or other officer or employees of an insurer wrongfully obtains possession of any property or wrongfully applies to any purpose of the Act, he shall be liable to a penalty not exceeding two lakh rupees for each such failure.

3.5.11 Offences by Companies

Section 105A

- (1) Where any offence under this Act has been committed by a company, every person who, at the time the offence was committed, was in charge of, and was responsible to, the company for the conduct of the business of the company as well as the company shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly.



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- (2) Where any offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

3.5.11 Penalty for Failure to Comply with Section 32B (Insurance Business in Rural or Social sector).

Section 105B:— If an insurer fails to comply with the provisions of section 32B, he shall be liable to a penalty not exceeding five lakh rupees for each such failure and shall be punishable with imprisonment which may extend to three years or with fine for each such failure.

3.5.12 Penalty for Failure to Comply with Section 32C (Obligation of Insurer in respect of rural or unorganized sector):—

105C:— If an insurer fails to comply with the provisions of section 32C, he shall be liable to a penalty not exceeding twenty-five lakh rupees for each such failure and in the case of subsequent and continuing failure, the registration granted to such insurer under section 3 shall be cancelled by the Authority.

3.5.13 No Risk to be Assumed Unless Premium is Received in Advance Section 64VB:—

No insurer shall assume the risk in India unless & until the premium payable is received by him in advance.

In case the premium is tendered by postal money orders or cheques sent by post the risk may be assumed on the date on which the money order is booked or the cheques is posted as the case may be.

Where an Insurance agent collects a premium on a policy of Insurance on behalf of an insurer, he shall deposit with or dispatch by post to the insurer within 24 hours of the collection excluding bank & postal delays.

The agent is not to deduct his commission from the premium amount.

Declaration of Interim Bonus (112)

The insurer who is carrying a business of life Insurance shall be at liberty to declare an interim bonus or bonus to policyholders whose policies mature for payment by reason of death or otherwise.

Surrender Value 113

If any life Insurance policy in which the premium have been paid in full for atleast three consecutive years will acquire guaranteed surrender value. The bonus will also be in addition to the guaranteed surrender value.

INTEXT QUESTIONS 3.2

1. List the Accounting Statements to be prepared by any general insurer.
 2. Meaning of 64 VB.
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3.5 SUMMARY

In this chapter we have explained various important activities of an insurance company whether it is doing the business of life or general or re-insurer. The utilization of premium amount received by insurance companies are very important as this amount belongs to the public (policyholders) to whom the amount is to be paid back as and when claim arises or on maturity. Therefore the insurer will invest such funds to earn maximum return with safety as per the norms prescribed by IRDA so that the public funds are not misused and lost by the insurer so that the insurer does not have any funds to pay the claim or maturity amount.

Similarly the accounts of any insurer are being maintained as the guidelines framed by IRDA related to preparation of financial statements of any insurer. It is to ensure that the public gets true and fair picture of workings of any insurer.

3.6 TERMINAL QUESTION

1. Mention the investment pattern of Life Insurance Company.



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2. Distinguish between assignment and nomination.
3. List the provisions of rural and social sector.

3.7 OBJECTIVE TYPE QUESTIONS

1. One of the following Accounting Statements does not form part of Specified Financial Statements comprising under regulation called IRDA (Preparation of Financial Statements and Auditors Report of Insurance Companies) Regulations 2000. Identity that statement.

- (a) Balance Sheet.
- (b) Revenue Accounts.
- (c) Profit and Loss Account.
- (d) Fund-Flow Statement.

2. Choose the Correct Option

Statement A: Life insurer will invest not less than 25% in Central Government Securities.

Statement B: Life insurer will invest not less than 50% in Central & State Government Securities.

- a. Statement A b. Statement B c. Both d. None

3. Choose the Correct Option

Statement A: General insurer will invest not less than 20% in Central Government Securities.

Statement B: General insurer will invest not less than 30% in Central & State Government Securities.

- a. Statement A b. Statement B c. Both d. None

4. Choose the Correct Option

Statement A: It is not obligatory for Life insurer to invest in rural sector.

Statement B: It is obligatory for General Insurer to invest in rural sector.

- a. Statement A b. Statement B c. Both d. None

5. Choose the Correct Option

Statement A: Nomination is must in all Life insurance products.



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Statement B: Nomination is not compulsory in all Life insurance products.

a. Statement A b. Statement B c. Both d. None

6. Choose the Correct Option.

Statement A: It is a legal requirement to pay the premium in advance in Life insurance only.

Statement B: It is a legal requirement to pay the premium in advance in general Insurance only.

a. Statement A b. Statement B c. Both d. None

7. The life insurance premium should be paid for minimum ____ years.

a. 3 b. 4 c. 5 d. 1

8. Choose the Correct Option

Statement A: IRDA can put limit on the management expenses of the Life insurer only.

Statement B: IRDA can put limit on the management expenses of the General insurer only.

a. Statement A b. Statement B c. Both d. None

9. Choose the Correct Option

Statement A: IRDA can impose fine on insurer if obligation of Rural and Social sector is not fulfilled.

Statement B: IRDA can impose fine on insurer for non compliance of submission of documents.

a. Statement A b. Statement B c. Both d. None

10. Infrastructure facility means

(a) A road, highway, bridge, airport, port, Railways including BOLT, road transport system, a water supply project, irrigation project, industrial parks, water treatment system, solid waste management system, sanitation and sewerage system.

(b) Generation or distribution or transmission of power.

(c) Telecommunication.

(d) All above



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3.8 ANSWERS TO INTEXT QUESTIONS

3.1

1. Life Insurance and General Insurance Business shall prepare the financial statements
 - a) Balance Sheet.
 - b) Revenue Account [Policyholders’ Account], life insurance.
 - c) Revenue Account [Fire, Marine and Miscellaneous], General insurance.
 - d) Receipts and Payments Account [Cash Flow statement] and
 - e) Profit and Loss Account [Shareholders’ Account].

2. No insurer shall assume the risk in India unless & until the premium payable is received by him in advance.

In case the premium is tendered by postal money orders or cheques sent by post the risk may be assumed on the date on which the money order is booked or the cheques is posted as the case may be.

Where an Insurance agent collects a premium on a policy of Insurance on behalf of an insurer, he shall deposit with or dispatch by post to the insurer within 24 hours of the collection excluding bank & postal delays.

The agent is not to deduct his commission from the premium amount.

3.2

1. Fire, Marine and Miscellaneous accounts.
2. The premium received by the insurance company in advance and the risk will start once the premium received by the insurance company.

3.9 ANSWER TO OBJECTIVE TYPE QUESTIONS

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|------|-------|------|------|
| 1. d | 2. c | 3. c | 4. b |
| 5. a | 6. d | 7. a | 8. d |
| 9. c | 10. d | | |