GUIDANCE NOTE ON INTERNAL AUDIT OF LIFE INSURANCE COMPANIES

The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)

MAY 3, 2022

Published by:

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
CMA Bhawan
12 Sudder Street, Kolkata-700016

Delhi Office
CMA Bhawan
3, Institutional Area, Lodhi Road, New Delhi 110003

Any mistake, error or discrepancy noted may be brought to the notice of the Banking & Insurance Committee which shall be taken care of in the next edition.

This material has been compiled on the existing legal and regulatory requirements. Since these keep changing frequently , the users are advised to refer to the latest changes if any.

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1. Objective of this Guidance Note

Insurance industry is said to be the economic barometer of any country. India, now, being the hub of all economic growth being looked at by the whole world, would need a strong and stable insurance industry.

Unlike the other economies of the world, Indian economy is dominated by life insurance industry with a penetration level of 3.2 per cent of GDP (ratio of premium to GDP) as compared to 1 per cent in non-life segment . In view of the fact that India is aspiring to be a $5 trillion economy by 2024 and its population almost touching 139 crores, it is all the more necessary to monitor and facilitate growth of this industry which has huge potential.

Life insurance industry being highly technical in nature, the internal audit function requires people with technical knowledge. No doubt, internal audit as a function has the responsibility of not only ensuring accuracy of financial aspects of transactions, but also adherence to the business standards and compliance aspects. Interestingly, “Cost” is a significant factor in life insurance industry and hence, internal audit managed by “Cost Accountants” assumes greater significance; when internal audit is done by a CMA, he is, in principle, also responsible for the cost implications of the transaction. For instance, in respect of a death claim payment under a life insurance policy, the internal auditor not only needs to ensure that the payment as approved in the voucher is paid, but also should ensure the accuracy of the components of the calculations. If the policy is a non-participating one, inclusion of bonus element would result in wrong payment. Even in a participating policy, applying a wrong bonus factor would result in discrepancy. It may so happen, that there can be charges, debits, lien created against a policy, which need to be completely recovered at the time of final settlement. Though in the current times, administrative systems of insurance companies have been automated or are in semi-automated condition, it is essential to ensure that systems are designed and functioning as desired, through random checks of the transactions. It is also desirable that 100 per cent of all manual transactions (if any) and computations be checked for accuracy by the internal auditor.

This Guidance Note for internal auditor has been prepared with the perspective at a surface level without going into details of any company specific process, though the general processes are covered and best practices in the industry have been followed. In this document understanding of the technicalities of insurance business is presumed. However, few basic insurance principles have been mentioned at a cursory level, just to emphasise the importance.

There are ample opportunities for expanding the scope of this Guidance Notes to cover details, if such a need is perceived at any future point of time.

2. Life Insurance History

“In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharma Shastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers’ contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

The year 1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. Year 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Presidency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for tough competition from the foreign companies.

In 1914, the Government of India started publishing returns of insurance companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

The Insurance (Amendment) Act of 1950 abolished principal agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize the insurance business.

An Ordinance was issued on 19th January, 1956 nationalising the life insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the insurance sector was reopened to the private sector.

The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce during the 17th century. It came to India as a legacy of British occupation. General insurance in India has its roots in the establishment of Triton Insurance Company Ltd. in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business.

The year 1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st January, 1973. All 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 (check 1971 or 1972 ??) and it commenced business on January 1st 1973.

This millennium has seen insurance business come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it opening up substantially. In 1993, the Government set up a Committee under the Chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The Committee submitted its report in 1994 wherein, among other things, it recommended that the private sector entities be permitted to enter the insurance industry. They recommended that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26 per c ent . The Authority has the power to frame regulations under section 114A of the Insurance Act, 1938 and has from the year 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests. In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002. Today there are 34 general insurance companies including the ECGC and Agriculture Insurance Company of India and 24 life insurance companies operating in the country. The insurance sector is a colossal one and is growing at a rate of 15-20 per cent . Together with banking services, insurance services add about 7 per cent to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development and at the same time strengthening the risk-taking ability of the country."

(Source-: History of insurance in India (irdai.gov.in) As on 19th November 2021.

3. Details of Life Insurance companies and Life Reinsurance Companies in India.

3.1. Life Insurance Companies operating in India.

Sl. No	Name of the Company – Corporate Office Address	Regn. No	Telephone No / Fax No/Web Address
1	**Life Insurance Corporation of India**	512	Tel : 22-22027060 (Chairman)
	Yogakshema, Jeevan Bima Marg		Tel.(EPABX) 022- 66598000
	Post Box No. 19953		Fax:022-22028600
	Mumbai – 400 021		https://www.licindia.in/
2	**HDFC Life Insurance Co. Ltd**	101	Tel : 022-67516666

Sl. No	Name of the Company – Corporate Office Address	Regn. No	Telephone No / Fax No/Web Address
	13th Floor, Lodha Excelus, Apollo Mills Compound, N.M. Joshi Road, Mahalaxmi, Mumbai 400 011, Maharashtra		Fax: 022-6751 6550
			https://www.hdfclife.com/
3	**Max Life Insurance Co. Ltd.**	104	Tel : 0124-4121500
	3rd, 11th, 12th Floors, DLF Square Building,		Fax: 0124-6659811
	Jacaranda Marg, DLF City, Phase – II,		https://www.maxlifeinsurance.com/
	Gurgaon – 122002, Haryana		
4	**ICICI Prudential Life Insurance Co. Ltd,**	105	Tel : (022) 40391992
	ICICI Prulife Towers		Fax no.: (022) 66622031
	1089, Appasaheb Marathe Marg, Prabhadevi,Mumbai – 400 025		https://www.iciciprulife.com/
5	**Kotak Mahindra Life Insurance Co. Ltd.**	107	Tel:022- 66057652/6605777
	7th Floor, Kotak Infiniti, Building No.21, Infinity Park, Off Western Express Highway,		Fax: 022 6742 5650
	General AK Vaidya Marg, Malad (East),		https://insurance.kotak.com/
	Mumba – 400 097		
6	**Aditya Birla SunLife Insurance Co. Ltd.**	109	Tel: 022-43569000
	One India Bulls Centre,		Fax:022-56783377
	Tower 1, 16th Floor, Jupiter Mill Compound,		https://lifeinsurance.adityabirlacapital.com
	841, Senapati Bapat Marg, Elphinstone Road,		
	Mumbai-400013.		
7	**TATA AIA Life Insurance Co. Ltd.**	110	Tel :022-66479000
	14th Floor, Tower A, Peninsula Business Park		Fax : 022-66550711
	Lower Parel, Senapati Bapat Marg,		http://tataaia.com/
	Mumbai – 400013		
8	**SBI Life Insurance Co. Ltd.** "Natraj", M.V. Road & Western Express Highway Junction, Andheri (East), Mumbai 400069	111	Tel : 022-61910000
			Fax: 022 61910012 https://www.sbilife.co.in/
9	**Exide Life Insurance Co. Ltd.**	114	Tel:080-67999200
	3rd Floor, JP Techno Park, No. 3/1, Millers Road, Bengaluru, Pin: 560 001, Karnataka		Fax:080-40921768
			https://www.exidelife.in/

Sl. No	Name of the Company – Corporate Office Address	Regn. No	Telephone No / Fax No/Web Address
10	**Bajaj Allianz Life Insurance Co. Ltd.**	116	Tel : 020-66026773
	Bajaj Allianz House, Airport Road,		Fax : 020 -66026789
	Yerawada, Pune – 411 006		https://www.bajajallianzlife.com
11	**PNB MetLife India Insurance Co. Ltd,**	117	Tel : 022-41790000
	Unit No. 101, 1st Floor, Techniplex-1, Techniplex Complex, Veer Savarkar Flyover, Off S V Road Goregaon (West), Maharashtra- 400062.		Fax:022-41790203
			https://www.pnbmetlife.com/
12	**Reliance Nippon Life Insurance Company Limited**, Reliance Centre, Off Western Express Highway, Santacruz East, Mumbai – 4000 055.	121	Tel: 022 3000 2000
			Fax: 022 3000 2222
			http://www.reliancenipponlife.com/
13	**Aviva Life Insurance Company India Ltd.**	122	Tel: 0124-2709000/01
	Aviva Tower, Sector Road, Opposite Golf Course, DLF-Phase V, Sector 43, Gurgaon 122003		Fax: 0124-270 9007
			https://www.avivaindia.com/
14	**Sahara India Life Insurance Co. Ltd.**	127	Tel:0522-2329568
	Sahara India Centre,		Fax:0522-2378200
	1, Kapoorthala Complex, Aliganj,		https://www.saharalife.com/
	Lucknow – 226 024		
15	**Shriram Life Insurance Co. Ltd.**	128	Tel:040-23434466-72
	Ramki Selenium,Plot No:31 & 32,Beside Andhra Bank Training Centre, Financial District, Gachibowli, Hyderabad – 500032.		Fax: 040-23434488
			https://shriramlife.com/
16	**Bharti AXA Life Insurance Company Ltd,**	130	Tel: 022 40306397
	Unit no:1904,19th Floor, Parinee Crescenzo, 'G' Block, Bandra Kurla Complex, BKC Road, Behind MCA Ground, Bandra East,		Fax: 022 – 40306347
			https://www.bharti-axalife.com/
	Mumbai - 400051		
17	**Future Generali India Life Insurance Company Limited**, Indiabulls Finance Centre, Tower 3, 6th Floor, Senapati Bapat Marg, Elphonstone (W), Mumbai – 400 013	133	Tel: 022-40976666
			Fax:022-40976600
			https://life.futuregenerali.in/
18	**Ageas Federal Life Insurance Company Limited,** 22nd Floor, A Wing, Marathon Futurex, N. M. Joshi Marg, Lower Parel – East	135	Tel.022 - 2302 9200

Sl. No	Name of the Company – Corporate Office Address	Regn. No	Telephone No / Fax No/Web Address
	Mumbai – 400013		Fax.022 - 2302 9499
			https://www.ageasfederal.com
19	**Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited,**	136	Tel:0124-4535500
	Orchid Business Park, Second Floor, Sohna Road, Sector-48, Gurgaon 122 018, Haryana, India, Phone: +91 124 4535 5794		Fax:0124-4535999
			https://www.canarahsbclife.com/
20	**Aegon Life Insurance Company Limited,**	138	Tel:022 61180100
	Building No. 3, Third Floor, Unit No. 1, Nesco IT Park, Western Express Highway,		Fax:022 61180200
	Goregaon (East), Pincode (Mumbai- 400063)		https://www.aegonlife.com/
21	**Pramerica Life Insurance Co. Ltd.**	140	Tel.0124-4697000
	4th Floor, Tower B, Building No.9		Fax.0124-4697100/200
	DLF Cyber City, Phase-III, Gurgaon 122002		http://www.dhflpramerica.com/
22	**Star Union Dai-Ichi Life Insurance Co. Ltd.**	142	Tel: 022-39546200
	11th Floor, Plot No:34,35 & 38,		Fax:022-39546311
	Vishwaroop IT Park, Sector-30A of IIP, Vashi, Navi Mumbai 400703		https://www.sudlife.in/home
23	**IndiaFirst Life Insurance Company Ltd.,**	143	Tel:022 39418700
	12th and 13th Floor, North [C] wing,		Fax: 022 33259500
	Tower 4, NESCO IT Park, NESCO Centre,		
	Western Express Highway, Goregaon (East),		
	Mumbai – 400 063		
			https://www.indiafirstlife.com/
24	**Edelweiss Tokio Life Insurance Company Limited,**3rd & 4th Floor,	147	Tel: 022-4063 5599
	Tower 3, Wing B, Kohinoor City,Kirol Road, Kurla (West), Mumbai - 400070		Fax: 022-71004133
			https://www.edelweisstokio.in/

3.2. Life Reinsurance Companies operating in India.

Sl.No	Name of The Company	Registration No.	Name Of The Principal Officer /CMD	Name Of The Appointed Actuary	Telephone No./Fax No./E-Mail & Web Address
1	General Insurance		Mr. Devesh Srivastava		Registered and Head office
					"Suraksha",

Sl.No	Name of The Company	Registration No.	Name Of The Principal Officer /CMD	Name Of The Appointed Actuary		Telephone No./Fax No./E-Mail & Web Address
	Corporation of India.	112		GIC Re - NL	Mr. Sateesh Bhat	170, Jamshedji Tata Mumbai - 400 020 India Tel. (Board): +91 22 2286 7000 Fax No: +91 22 2289 9600 Email : mailto:info [at] gicofindia [dot] com
				GIC Re - Life	Mr. Vikas Kumar Sharma	

3.3. Branches of Life Reinsurance Companies operating in India.

List of Foreign Reinsurers Branch, Lloyd's India and Lloyd's India Service Companies in India as on 01-05-2021				
Sr. No.	**Name of the Foreign Reinsurers Branch / Lloyd's India / Lloyd's India Service Company in India.**	**Certificate of Registration (CoR) No.**	**E-mail ID of CEO**	**Office Address / Phone-Fax No./ E-mail & Web address**
1	Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft – India Branch (Munich Re- India Branch)	FRB/001	Hkotak@munichre.com	*Registered office address:* Unit 1101, B Wing, The Capital, Plot no. C-70, G block, Bandra Kurla Complex (BKC), Bandra (East), Mumbai – 400 051, India Telephone number: 022 4032 4000 Fax no: 022 4032 4043 Email id : Hkotak@munichre.com Web address: www.munichre.com/India
2	Swiss Reinsurance Company Ltd, India Branch	FRB/002	Hadi Riachi@swissre.com	*Registered office address:* A 701, 7th Floor, One BKC, Plot No. C-66 G Block, Bandra Kurla Complex, Mumbai 400051, India

				Telephone number: +91 22 6661 2198
				Fax no: +91 22 6661 2122
				Email id : Hadi_Riachi@swissre.com
				Web address: www.swissre.com
3	SCOR SE – India Branch	FRB/003	MKISHORE@scor.com	*Registered office address:* SCOR – SE India Branch, Unit no 907, 908-910, Kanakia Wallstreet, at Village Chakala and Mulgaon, Andheri Kurla Road, Andheri East, Mumbai -400093 India
				Telephone number: 022-6116 3900
				Fax no: 022 6116 3910
				Email id : MKISHORE@scor.com
				Web address: www.scor.com
4	Hannover Rück SE – India Branch	FRB/004	gln.sarma@hannover-re.com	*Registered office address*: B wing, Unit no 604, 6th Floor, Fulcrum, Sahar Road, Andheri(East), Mumbai 400099
				Telephone number: +91 22 6138 0808
				Fax no: +91 22 6138 0810
				Email id : indiabranch@hannover-re.com
				Web address: www.hannover-re.com
5	RGA Life Reinsurance Company of Canada, India Branch	FRB/005	jyoti.punja@rgare.com	*Registered office address:* 302, Akruti Center Point, MIDC Central Road, Andheri (East), Mumbai 400 093, India
				Board +91 22 67092590
				Fax no: +91 22 67092551

				Email id : Web address: www.rgare.com
6	XL Insurance Company SE, India Reinsurance Branch	FRB/007	Joseph.Augustine@axaxl.com	*Registered office address:* 511, A Wing, Level 5, The Capital, G Block, C-70, Bandra Kurla Complex, Mumbai – 400051, India Board : 91-22-40059640 Fax no: 91-22-40059641 Email id :Joseph.Augustine@xlcatlin.com Web address: www.xlcatlin.com
7	General Reinsurance AG – India Branch	FRB/008	Sanjeeb.Kumar@genre.com	*Registered office address:* Units 107-109, Meadows, Sahar Plaza complex, J.B. Nagar, Andheri East, Mumbai – 400059, India Tel. +91 22 6134 4107 Mobile : +91 9167712966 Email id: Sanjeeb.Kumar@genre.com
8	AXA France Vie – India Reinsurance Branch	FRB/009	ankur.nijhawan@axa.in	5th Floor, Office Tower, Select City walk, Plot No. A-3, District Center Saket, New Delhi – 110017 Board No: +91(11) 66232500 Fax No: +91 (11) 66232501 Web Address: www.axa.com
9	Allianz Global Corporate & Specialty SE, India Branch	FRB/010	CB.Murali@allianz.com	Office No.66, 6th Floor, 3 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai – 400051, Maharashtra, India. Board: Fax No.:

				Email ID: CB.Murali@allianz.com Web address:
10	Factory Mutual Insurance Company, India Branch	FRB/011	Sanjeev.Misra@fmglobal.com	Unit 801, 8th Floor, Tower B 'The Millenia', No. 1 & 2 Murphy Road, Ulsoor, Bengaluru, India 560008 Email ID: Sanjeev.Misra@fmglobal.com
Lloyd's India				
11	Lloyd's India Reinsurance Branch	LLOYD'S/001	shankar.garigiparthy@lloyds.com	*Registered office address:* Unit 1, Level 6, 4 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra East, Mumbai – 400 051, India Board : +91 22 6813 3699 Email id :shankar.garigiparthy@lloyds.com Web address: www.lloyds.com
	Service Companies of Lloyd's India			
(i)	Markel Services India Private Limited	LLOYD'S/SC/003	deepika.mathur@markelintl.com	*Registered office address:* Unit 1, Level 6, 4 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra East, Mumbai - 400 051, India Board : +91 22 6813 3699 Email id : deepika.mathur@markelintl.com

4. Structure of Life Insurance Organisations in India

From an internal audit perspective, it is necessary to know about the type of organisation, how it is formed or the basis of it and the components of the structure or the functions and departments therein.

4.1. Nature and Structure of Life Insurance company

(A) Structure from Legal perspective

- From the legal perspective, under the Insurance Act 1938, a life insurance company, is:
    - Section 7A: "Indian insurance company"
    - Section 8: "Insurance company"
    - Section 8A: "Insurance Co-operative Society"

  Details can be had at: the Insurance Act, 1938 (lifeinscouncil.org)

- However, currently all insurance companies in India are incorporated under the provisions of Companies Act.

  Exception: Section 118(c) of the Insurance Act, reads as follows: "(c) if the Central Government so orders in any case, and to such extent or subject to such conditions or modifications as may be specified in the order, to any insurance business carried on by the Central Government or a Government company as defined in Section 617 of the Companies Act, 1956 (1 of 1956);or…";
  It is found that Insurance Departments exist under the State Governments of m Karnataka and Telangana

  - "**Karnataka Government Insurance Department**: The erstwhile princely State of Mysore under the visionary eye of the then Dewan Sir K. Sheshadri Iyer, pioneered and promoted life insurance to ensure 'INSURANCE SECURITY FOR GOVT. SERVANTS' which signalled the establishment of Mysore Government Insurance Department on 20.07.1891. This was later christened as Karnataka Government Insurance Department. The KGID assures adequate financial security for the Govt. Employees on their attaining the age of 55 years and financial benefits to their dependents in the event of untimely death while in service. The scheme which was first started for male Government servants in the year 1891, was extended to female Government servants in the year 1894 and later on to the general public of the then State of Mysore in the year 1915. In the year 1946, the Department entered the field of Motor Insurance. Consequent on the nationalization of life insurance business in India in the year 1956, the public branch of the Department was merged with L.I.C of India, leaving the Department with the Compulsory Life Insurance Scheme for State Government servants only as per section 118(c) of the Insurance Act 1938. Similarly, the general insurance business in India was also nationalized in the year 1973. Thereafter, from 1973 onwards the Department was left with the compulsory motor insurance only for Government vehicles and vehicles in which the State Government have substantial financial interest." (History - Karnataka Government Insurance Department)
  - "**The Telangana State Government Life Insurance Department** is one of the oldest departments in the State. The Scheme was originally started in 1907 by the Nizam of erstwhile State of Hyderabad for the welfare of his employees. A Management Committee used to run the scheme initially in the name of Family Pension Fund. Later the scheme was renamed as Hyderabad State Life Insurance Fund in the year 1913. After formation of Andhra Pradesh State in 1956, the scheme was changed as "Andhra Pradesh Government Life Insurance Fund". The first Managing Committee meeting after formation of Andhra State consisting of 4 members, one Secretary and a President was held on 25-9-1957 and Sri B. Gopala Reddi, the then Honourable Finance Minister was President of the meeting. Due to Reorganization of A.P.State and formation of Telangana as a separate State the "Telangana State Government Life Insurance Fund " was established w.e.f. 02-06-2014. TSGLI Scheme is a social security measure for the welfare of the Government employees and it is mandatory for all Government employees including provincialized Local Body employees. TSGLI Department is under the Administrative Control of Finance Department. The

Department also administers Family Benefit Fund Scheme. The administration of the Group Insurance Scheme for State Government employees was also transferred to this Department w.e.f. 10.03.2011. The Department has the unique honour of being a pioneer State Insurance Department completing more than 100 years of experience. The Department is being run on modern accepted maxims of insurance principles with low premium rate; low expenses of management and high bonus rate to policyholders. The expenditure of the Department comes under non-plan scheme initially and at the end of the year is debited to Insurance Fund. There is no direct contact with the general public."(Telangana State Government and Life Insurance)

(B) Structure from organisational hierarchy perspective:

- From a conceptual background, an organisation may have Divisional/Functional/Matrix structure.
- Life insurance organisation in Indian context belongs to the Matrix form, which is a combination of both Divisional and Functional forms.
- Divisional structure has the following:
  - Corporate/Home Office
  - Controlling Offices generally known as Regional/Zonal/Divisional Offices
  - Branch Offices
- Functionally a life insurance organisation, will have functions which include the following:

  - *Marketing*: Responsible for selling and promoting products including market research.
  - *Actuarial*: For design of life insurance products, filing with the regulators for approvals, as only approved products can be sold, periodic evaluation of product portfolios to ensure economic viability, valuation of liabilities, and solvency margin.
  - *Legal & Compliance:* For drafting of contracts, documents, compliance and managing litigations
  - *Finance & Accounts*: Responsible for financial accounting, reporting and ensuring statutory audit of the financial statement of accounts periodically
  - *Investments:* For managing the investments of both policyholders funds and shareholders' funds
  - *Underwriting & Policy issuance:* Evaluating assumption of risk under a proposal form and issue of policy document where the insurance company decides to accept the risk

- *Policy Servicing:* For managing all customer service needs after issuance of a policy including maturity claims and survival benefit settlements but excluding death claims.

- *Death Claims:* For managing settlement of death benefits to the rightful owners, verifications/investigations to weed out fraudulent claims
- *Systems:* Life insurance is a transaction driven industry and the volume of transactions is huge. Hence systems support is essential for transaction managing, data management, data mining, reporting etc.

- *Personnel/Human Resources:* Life insurance is a technical industry which requires functional specialisation and hence hiring right talent and their retention assume importance.

- *CRM/Process:* Usually a separate unit under Policy servicing, for managing the customer grievances/complaints.

- *Group Insurance:* Group insurance is a separate unit within Underwriting & Policy servicing function. However, death claims under both individual and group insurance are managed by a single death claim handling function.

- *Office administration:* For managing landed properties, which could be part of the investment.

- *Risk management*: Risk management team is headed by a Chief Risk Officer who is responsible for institutionalising the risk management framework across various functions

- *Information security:* The unit is headed by Chief Information Security Officer reporting into the Chief Risk officer. This function is responsible for ensuring that the information assets of the company are protected from unauthorised use or from malware attacks and has gained importance given the increased use of digital technology

- *Fraud control unit:* This is a separate unit which is responsible for putting in place a framework for managing the fraud risk across the organisation. This is headed by an independent person who usually reports either to the Chief Risk Officer or the Chief Compliance Officer

- *Internal audit:* The function of the Internal audit function is to provide an independent assurance to the Audit Committee on the robustness of the controls and systems within the company. The Head of Internal Audit function usually has a reporting line to the Chairperson of the Audit Committee, even though he or she may functionally report to the Managing Director & CEO.

4.2. Forms of Life Insurance Organisations in India:

Now, that we know that life insurance business organisations follow a matrix form of organisational structure, it is necessary to know the intricacies involved therein. For example risk underwriting at operational level is known as "New Business and Underwriting" whereas at controlling/corporate level it is merged with "Actuarial". Functions at each level can be generally classified as under:

- Corporate/Home Office:
  - Marketing
  - Actuarial
  - Legal & Compliance
  - Finance & Accounts
  - Investments
  - Policy Servicing
  - Claims
  - Systems
  - Personnel/Human Resources
  - CRM/Process
  - Group insurance
  - Office Administration
  - Risk Management
  - Information Security
  - Fraud control unit
  - Internal audit
- Controlling Office (ZO/RO/DO)
  - Marketing
  - Actuarial
  - Finance & Accounts
  - Pension & Group Schemes
  - Policy Servicing
  - Legal
  - Claims
  - Systems
  - Personnel & Office Services
- Branch Office
  - Sales
  - New Business & Underwriting
  - Finance & Accounts
  - Policy Servicing
  - Claims
  - Office Administration
  - Systems

4.3. Knowledge Base of Life Insurance in India

The major constraint in Indian insurance industry has been the acute shortage technical skills. This has been stated in IMF 2013 Report, few important lines from which are reproduced thus :

"12. The insurance sector employed 139,000 people in the life sector and 61,000 in the non-life sector at the end of FY10/11. A little over half held some form of relevant vocational or academic qualification. Slightly less than 10 percent had formal insurance related credentials. At the time of the assessment, there were 415 individuals with actuarial qualifications (including 82 IAA accredited Fellows) and approximately 5,700 accountants active in the insurance industry. More than 10,000 surveyors and loss adjusters are also employed in the sector. There is a need to increase the number of insurance professionals significantly due to rapid local growth. India is also a major supplier of skilled personnel to the emerging Middle Eastern markets." [India: Financial Sector Assessment Program--Detailed Assessments Report on IAIS Insurance Core Principles; IMF Country Report 13/265; August 2013, Pages9-10]. It is also important to note that there are no published reports on the current status/improvement in the situation. A simple surmise from these lines is that the role and responsibility of an internal auditor will be higher than as in normal circumstances.

Life insurance being a specialised technical industry, internal audit of a life insurance company would require the domain expertise, global best practices in addition to the knowledge about the financial accounting and reporting Standards.

Following are the important knowledge-share organisations related to insurance industry:

General (Life & Non-Life)

- Insurance Institute of India, Mumbai: Home - Insurance Institute of India ,
- Chartered Insurance Institute, United Kingdom: Home | Chartered Insurance Institute (CII)
- Life Office Management Association, USA: Accelerate Your Success (loma.org)

Underwriting (Life)

- Academy of Life Underwriting :The Academy of Life Underwriting – Education for Underwriters by Underwriters (alu-web.com)

Claims (Life & Health)

- International Claims Association, USA International Claim Association

Actuarial (Life, Non-Life, Pensions)

- Institute of Actuaries of India : Welcome to the Institute of Actuaries of India (actuariesindia.org)
- Institute of Actuaries, United Kingdom: Institute and Faculty of Actuaries |
- Society of Actuaries, USA: MEMBER | SOA

5. Legal and Regulatory Framework of Life Insurance in India

Life insurance industry is a well regulated one. Also life insurance being a financial arrangement of risk management, a policy of insurance/assurance being an evidence of a contract (enforceable in a court of law), it is necessary to be aware of the legal and regulatory framework.

(A) Important Statutes, governing Life Insurance industry in India

- Indian Contract Act, 1872: A1872-09.pdf (legislative.gov.in)
- Married Women's Property Act, 1874: Microsoft Word - A1874-3 (legislative.gov.in)
- Indian Stamp Act,1899: A1899-2.pdf (legislative.gov.in); J&K Stamp Act, 1977
- The Insurance Act, 1938: A1938-04.pdf (legislative.gov.in)
- The Insurance Rules 1939.
- Life Insurance Corporation Act, 1956: A1956-31.pdf (legislative.gov.in)
- Insurance Regulatory and Development Authority of India Act, 1999: The IRDA Act 1999 (irdai.gov.in) and the Regulations passed by IRDAI
- Income Tax Act,1961: Tax Laws & Rules > Acts > Income-tax Act, 1961 (incometaxindia.gov.in)
- Central Goods & Service Tax Act, 2017, Integrated Goods & Service Tax Act, 2017 & State Goods & Service Tax Acts
  Indian Evidence Act,1872: Microsoft Word - A1872-1 (legislative.gov.in)
- The Limitation Act, 1963: A1963-36.pdf (legislative.gov.in)
- The Indian Succession Act, 1925: a1925-39.pdf (indiacode.nic.in)
- The Consumer Protection Act, 1986: ((incorporating the amendments made vide the Consumer Protection (Amendment) Act, 2002 [62 of 2002] which was passed by Rajya (ncdrc.nic.in)
- Transfer of Property Act,1882, Section 131
- Life insurance Memorandum issued by the Reserve Bank of India
- Industrial & Labour laws including Shops & Establishment Act, Profession Tax levied by the States and the Central Labour Acts, including Payment of Gratuity Act, 1872, Minimum Wages Act, 1948, Payment of Wages Act, 1936 etc.

(B) Important Regulations, governing life insurance industry in India (Dates in brackets related to latest amendments.)

1) Insurance Regulatory and Development Authority (Distribution of Surplus) Regulations, 2002
2) Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies), Regulations, 2002
3) Insurance Regulatory and Development Authority (Sharing of Database for Distribution of Insurance Products) Regulations,2010
4) Insurance Regulatory and Development Authority (Sharing of Confidential Information concerning domestic or foreign Entity) Regulations, 2012
5) Insurance Regulatory and Development Authority (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013

6) Insurance Regulatory and Development Authority of India (Inspection and Fee for Supply of Copies of Returns) Regulations, 2015
7) Insurance Regulatory and Development Authority of India (Other Forms of Capital) Regulations, 2015
8) Insurance Regulatory and Development Authority of India (Transfer of Equity Shares of Insurance Companies) Regulations, 2015
9) Insurance Regulatory and Development Authority of India (Issuance of Capital by Indian Insurance Companies Transacting Life Insurance Business) Regulations, 2015
10) Insurance Regulatory and Development Authority (Obligations of Insurers to Rural and Social sectors) Regulations, 2015
11) Insurance Regulatory and Development Authority (Maintenance of Insurance Records) Regulations, 2015
12) Insurance Regulatory and Development Authority (Places of Business) Regulations, 2015
13) Insurance Regulatory and Development Authority (Fee for granting written acknowledgement of receipt of Notice of Assignment or Transfer) Regulations, 2015
14) Insurance Regulatory and Development Authority (Fee for registering cancellation or change of nomination) Regulations 2015
15) Insurance Regulatory and Development Authority (Minimum Limits for Annuities and Other Benefits Regulations), 2015
16) Insurance Regulatory and Development Authority (Acquisition of Surrender & Paid-Up Values) Regulations, 2015
17) Insurance Regulatory and Development Authority (Registration of Corporate Agents) Regulations, 2015
18) Insurance Regulatory and Development Authority of India (Micro Insurance) Regulations, 2015, 19th May, 2015
19) Insurance Regulatory and Development Authority (Appointment of Insurance Agents) Regulations, 2016
20) Insurance Regulatory and Development Authority (Qualification of Actuary) (Repeal) Regulations, 2016
21) Insurance Regulatory and Development Authority (Actuarial Report and Abstract for Life Insurance Business) Regulations, 2016
22) Insurance Regulatory and Development Authority of India (Issuance of E-Insurance Policies) Regulations 2016 (2nd December, 2016)
23) Insurance Regulatory and Development Authority of India (Investment) Regulations, 2016
24) Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers Transacting Life Insurance Business) Regulations, 2016
25) Insurance Regulatory and Development Authority of India (Loans or Temporary Advances to Full Time employees of the Insurers) Regulations, 2016
26) Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margin of Life Insurance Business) Regulations, 2016
27) Insurance Regulatory and Development Authority of India (Insurance Web Aggregators) Regulations, 2017
28) Insurance Regulatory and Development Authority (Outsourcing of Activities by Indian Insurers) Regulations, 2017

29) Insurance Regulatory and Development Authority (Re-Insurance) Regulations, 2018
30) Insurance Regulatory and Development Authority of India (Insurance Brokers) Regulations, 2018
31) Insurance Regulatory and Development Authority (Standard Proposal Form for Life Insurance) (Repeal) Regulations, 2018
32) Insurance Regulatory and Development Authority of India (Registration of Insurance Marketing Firm) Regulations, 2015 (26th July 2019)
33) Insurance Regulatory and Development Authority of India (Insurance Services by Common Public Service Centres) Regulations, 2019
34) Insurance Regulatory and Development Authority of India (Regulatory Sandbox) Regulations, 2019
35) Insurance Regulatory and Development Authority (Unit Linked Insurance Products) Regulations, 2019
36) Insurance Regulatory and Development Authority (Non-Linked Insurance Products) Regulations, 2019
37) Insurance Regulatory and Development Authority (Minimum Information Required for Investigation and Inspection) Regulations 2020
38) Insurance Regulatory and Development Authority of India (Health Insurance) Regulations, 2016 (12th May 2020)
39) Insurance Regulatory and Development Authority of India (Appointed Actuary) Regulations, 2017 (14th May 2020)
40) Insurance Regulatory and Development Authority of India (Third Party Administrators- Health Services) Regulations, 2016 (27th May 2020)
41) Insurance Regulatory and Development Authority of India (Lloyd's India) Regulations, 2016 (02nd June 2020)
42) Insurance Regulatory and Development Authority of India (Registration and Operations of Branch Offices of Foreign Reinsurers other than Lloyd's) Regulations, 2015 (02nd June 2020)
43) Insurance Regulatory and Development Authority (Payment of commission, remuneration and rewards to insurance agents and insurance intermediaries) Regulations 2016 (29th June, 2020)
44) Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000 (Updated up to 8th Amendment) (8th June, 2020)
45) Insurance Regulatory and Development Authority (Insurance Advertisements and Disclosure) Regulations, 2021
46) Insurance Regulatory and Development Authority (Protection of Policyholders) Regulations, 2017

(Source: irda.gov.in)

6. Principles of Life Insurance

Life insurance is a highly technical industry with economic, financial, legal and actuarial implications. Clear understanding of the terms, phrases, legal and regulatory provisions is an imperative necessity for administration as well as compliance. Unlike general insurance which is a contract of indemnity, *life insurance contracts are contracts of guarantee.* Hence in strict sense of usage of the terms, it needs to be mentioned as *life assurance.* Following brief is for an internal auditor from the perspective of principles of life assurance.

6.1. Legal Principles

We have already seen the statutes and regulations related with life insurance industry under para heading 5 earlier. Legal aspects and the principles of life insurance are enumerated hereunder For legal interpretation, the relevant legal provisions need to be referred.

(A) General provisions under Indian Contract Act,1872

Life insurance contract being a contract between an insurer and the insured, is subject to the following requirements of section2

- ***Offer:*** Under life insurance a proposer will make an application to the insurer asking for a coverage. It may so appear that this is the offer under the contract. In reality this is only an invitation to the insurer to make an offer to cover the risk. On review of the proposal or the application, the insurer will assess the risk and come out with a quote, pricing the risk. In normal circumstances this may sound like a counter offer, but in insurance parlance this is the real offer under the contract. In fact, in general insurance, especially commercial lines of business invitation to offer and offer are best distinguished. For example, if plant and machinery in a factory are proposed to be insured, the owner of the factory first provides the information about the plant and machinery, including its life, current written down value and other relevant information for assessment of risk in the proposal form. This is an invitation to offer. The insurance company then quotes the premium payable for the insurance of plant and machinery after underwriting. This is an offer. In life insurance, other things being normal, since the mortality risk is assessed based on age, the premium quoted is as per standard rates for standard lives and therefore deposit equal to the first premium is paid along with the proposal form for convenience.

- **Acceptance:** The proposer on receipt of the quote from the insurer will accept the offer from the insurer and the acceptance is communicated by making the payment of the required premium.

- **Consideration:** The quantum of premium paid in money terms is the valid consideration for the insurance contract.

- **Capacity:** To enter into an insurance contract the proposer should be:
  (a) of the age of majority as applicable i.e. completion of 18 years
  (b) of sound mind and
  (c) not disqualified under law .

- **Free and genuine Consent** – Consent of the parties should be freely given and should not be under coercion or undue influence**.**

- **Consensus-ad-idem** – identity of mind. This means that both the parties to the contract agree on the same sense.

- **Lawful Object**: Insurance coverage is a lawful object; here the object is to protect the subject matter of insurance. The person seeking insurance should have interest in the economic value of the asset.

(B) Special Principles for Life Insurance

(a) Principle of Uberrimae fidei or the Principle of Utmost Good Faith: This is an important principle in lifeinsurance. Human life of the insured is the subject matter in life insurance and details about the life is known only to the insured. In order to help the insurer to assess the life risk completely and quote a price to cover the risk, the insured should disclose all the information about his life to the insurer.

In a commercial transaction of sale of goods, where goods are offered for sale through public display, a buyer is expected to inspect the product and make sure that the goods satisfy his need and then make a decision to purchase it. Generally, in a sale, a product once bought, will not be taken back or exchanged, unless there is an exchange policy announced by the vendor. This is due to the operation of the principle of "*caveat emptor"* (Let the buyer beware). However, in life insurance this is not applicable because, the insurer who wishes to accept the risk will not be aware about the status of health of the life insured and other factors impacting mortality or morbidity and will predominantly be dependent on the information furnished by the proposer in the proposal form for life insurance cover and the life insurer needs to use his acumen to arrive at a conclusion on the acceptance of the risk or otherwise based on the facts disclosed in the proposal form. The insurer's judgment to accept the risks is solely dependent on the facts disclosed in the proposal form. Therefore, the principle of utmost good faith is very important in life insurance. The failure of the proposer to exercise utmost good faith enables the aggrieved party, the life insurer to repudiate the contract although the obligation is binding on both the parties.

In simple terms utmost good faith in insurance means that each party to a proposed contract is legally obliged to reveal to the other all information which would influence the other party's decision to enter the contract, whether such information is requested or not. Utmost good faith requires each party to tell the other the truth, the whole truth and nothing but the truth about the proposed contract; inevitably the duty of utmost good faith rests more heavily on the proposed insured since he alone knows or should know the great bulk of information vital to consideration of the contract, viz., concerning his personal health, family history and other factors which impact the mortality risk assessment of the life insurer. A material fact has been defined as a fact that would influence the mind of a prudent underwriter in assessing the mortality risk and the decision to accept the risk or decline or to accept the proposal at higher premium.

Duty of disclosure

It is the duty of the proposer to disclose clearly and accurately all material facts relating to the proposed insurance. This duty is a positive and not a negative duty. A material fact is defined as "a fact which would affect the judgment of a prudent underwriter in considering whether he would enter into a contract at all or enter into it at one rate of premium or another. The necessity for the duty of disclosure is clearly stated in the judgment in *Carter v. Boehm* (1766).

Duration of the duty of disclosure

- The duty must be observed throughout the negotiations and continues until they are completed and the contract becomes operative.
- The contract is deemed to be operative when the proposal is accepted by the insurer.
- The duty to disclose arises at the time of reinstatement of a lapsed life insurance policy as well where "Declaration of Good Health" is insisted by the life insurer at the time of reinstatement of a lapsed life insurance policy.

Material Facts include the following

- Facts which tend to render a risk proposed greater than normal
- Facts necessary to explain the exceptional nature of the risk proposed for insurance where without them the insurer would justifiably believe the risk to be normal.
- Facts which appear to suggest some special motive for insurance like gross over insurance.
- Facts which show the proposer himself is in some way abnormal.

Facts which need not be disclosed: Following facts need not be disclosed:

- Facts which lessen the risk proposed for insurance
- Facts which could or should be inferred by the insurer in the light of particulars actually disclosed
- Facts of public knowledge such as existence or facts known to the insurer in the ordinary course of their business
- Matters of law
- Facts possible of discovery
- Facts which can be reasonably concluded are a matter of indifference to the insurer or regarding which he has waived information
- Facts which are superfluous to be disclosed by reason of warranty in the proposed insurance.

Breaches of Utmost Good-faith: Breaches of utmost good-faith are of the following categories:

- *Non-disclosure:* Omission to disclose a material fact inadvertently or because the proposer thought it was immaterial
- *Concealment:* Intentional suppression of a material fact

- *Fraudulent misrepresentation:* sStatements made with the intention of deceiving the insurer and known by the maker to be false or made recklessly with a careless disregard for veracity.
- *Innocent misrepresentation* by way of inaccurate statements which are really believed to be true by the person who makes them.

Result of breach of Utmost Good-faith

Any breach of the duty of utmost good faith renders the policy voidable at the option of the aggrieved party

*Options open to insurance insurer on breach***:** On discovery of a breach, the insurer has the following courses open to him:

- To overlook the breach, if the contract is unaffected
- To repudiate the liability to bring an action for cancellation of the policy
- If the policy has matured, the insurer may make no payment and simply leave the insured to take proceedings which the insurer will defend.

Provisions of Section 45 of the Insurance Act, 1938

The provisions of section 45 of the Insurance Act,1938 are relevant here. It reads thus:

"After the amendment of section 45 of the Insurance Act, 1938 by the Insurance Laws (Amendment) Act 2015, no life insurance policy can be called in question for any reason whatsoever, after the expiry of a period of 3 years from the date of commencement of the policy or the date of reinstatement or the date of addition of rider whichever is earlier…"

Therefore, after the expiry of the aforesaid period of 3 years, a life insurer cannot repudiate a claim or cancel a policy even if there is a wilful non-disclosure or concealment of material facts or breach of utmost good faith on the part of the Policyholder.

(b) Principle of Insurable Interest

'Insurable interest' is necessary in every insurance contract. It is the legal right to insure and means that the insured must be in a legally recognized relation with what is insured whereby he will suffer in a pecuniary sense by the happening of the insured event; it follows that the mere effecting of a policy of insurance carries with it no right to recover thereunder simply because of the happening of the insured event. The insured must have an insurable interest to be able to recover. The necessity for insurable interest in the subject matter of the insurance is one of the principal distinctions between an insurance and a wager. In a wager neither party need to have any interest in the subject of the wager

Essentials of insurable interest are as follows

- There must be property rights, interest, life or limb or potential liability devolving upon the insured capable of being covered

- Such property rights, interest, life, limb or liability must be the subject matter of the insurance
- The insured must bear some relationship recognized by law to the subject matter whereby he benefits by the safety of the property rights, interest, life, limb or freedom from liability and is prejudiced by any loss, damage or injury or creation of liability

Instances in which insurable interest exists

- Self
- Husband and wife
- Part or joint ownership
- -Employer and employee
- Mortgagees and mortgagors
- Administrators, Executors and trustees
- Bailee
- Carriers and innkeepers
- Agents

_***When insurable interest must exist:*** The time when insurable interest must still exist in the different branches of insurance is as follows

- Fire and accident insurance, at that time the contract is effected and at the time of loss
- Marine insurance, at the time of loss
- Life assurance, at the time of completion of the contract and not necessarily at the time of loss

(c) Principle of Proximate Cause (Nearest Cause)

A 'proximate cause' means the active efficient cause that sets in motion a train of events which brings about a result without the intervention of any force started and working actively from a new and independent source. In theory, the doctrine of proximate cause is very straightforward; the loss must arise directly from an insured peril or be the result of a direct chain of events initiated by an insured peril .In practice most claims are quite clearly covered or not covered because the proximate cause is very evident as with many aspects of the law. Determination of the proximate cause is based upon the standards of a reasonable man. Thus a scientist or a theologian might advance different arguments for determining the proximate cause. The legal standards were outlined in *Yorkshire Dale SS Co. v. Minister of War Transport* 1942.

(C) Additional Special Principles for Non-Life Insurance

Even though these principles are not directly relevant here, for life insurance industry, knowledge of these would add value.

(a) Principle of Indemnity

Indemnity restores the insured to the same financial position after a loss as he enjoyed immediately prior to the loss. More simply indemnity may be defined as *an exact financial compensation*. Indemnity cannot apply to every class of insurance.

With virtually all life and personal accident contracts, it is impossible to provide an exact financial compensation in respect of claims, because life, limbs and health cannot be precisely measured in financial terms. Life and personal accident contracts are therefore sometimes termed as 'benefit policies' in the sense that they cannot indemnify, but only pay a certain benefit, if the insured event happens. There is a direct link between indemnity and insurable interest. In the event of a total loss of an insured article, the indemnity payable would be equal to insurable interest at the time of loss. Where there is a measurable insurable interest, therefore, any insurance will be subject to indemnity. Even with those policies which are not normally subject to indemnity, the principle is not entirely overlooked, in the sense that the financial benefits are kept roughly in line with the policyholder's likely financial requirements or commitments. This is achieved by ability to afford the premiums and direct action by Insurers.

(b) Principle of Subrogation

'Subrogation' means the exercise, for one's own benefit, of rights or remedies possessed by another against third parties. If the rights or remedies have already been exercised, subrogation entitles one to the proceeds therefrom. Subrogation rights are acquired by insurers once they have provided their insured with an indemnity and at common law any actions to recover from third parties must be conducted in the name of the insured. Subrogation is a corollary of indemnity, in that an insured who possesses rights under the policy and against the third parties in respect of the same laws, would receive more than indemnity if he retained the proceeds of claims under both headings. Since the common law principle of subrogation provides that such rights are only acquired after an indemnity has been provided, it follows that the principle can only apply where indemnity applies.

(c) Principle of Contribution

'Contribution' is the doctrine which enables an insurer to call upon other insurers similarly [but not necessarily equally] liable to the same insured to share the cost of an indemnity payment. It arises where there is an overlap of insurances so that an insurance is covered more than once in respect of the same laws. Contribution with subrogation is one to the "twin corollaries of indemnity". It is important to understand the difference between 'contribution' and 'subrogation'. Subrogation is concerned with the rights of recovery against third parties or elsewhere in respect of payment of an indemnity and need not involve any other insurance, although it frequently does. 'Contribution' necessarily involves more than one insurance; each being effected by the same insured. Being a corollary of 'indemnity', 'contribution' will only apply where 'indemnity' applies. Thus it will not apply normally to life and personal accident policies. Common law demands that an insurer should not make a profit from a loss by being over compensated. 'Contribution', therefore like 'indemnity' and 'subrogation' has always been accepted as a fundamental legal principle of most insurances. 'Contribution' applies only where the following conditions are fulfilled:

- Two or more policies of indemnity exist

- Each must cover the same peril giving rise to the loss
- Each must protect the same interest of the same insured
- Each must relate to the same subject matter
- Each must have been in force at the relative time

At the time of a claim insurers usually inquire whether any other insurances exist covering the loss. Where other insurances do exist and each policy is subject to a valid claim, contribution will apply so that the respective insurers share the loss rateably.

6.2. Economic Principles

Economic Security: It is necessary to provide oneself, the economic security from losses, which can cause penury, fall in living-styles etc., without depending on State support. Life Insurance as a social and co-operative endeavour helps in achieving this objective.

6.3. Financial Principles

Funds Public Trust: Funds accumulated under life insurance business are held in public trust, which needs to be effectively handled and managed to earn best returns for the stakeholders. Sound and prudent principles of financial management are to be employed.

6.4. Actuarial Principles

6.4.1. Principle of Statistical Regularity and Inertia of large numbers

There are basically three important statistical principles involved in life insurance business. First, the principle of statistical regularity. This principle states that when a sample is chosen at random, it is likely to possess almost the same characteristics and qualities to the universe. There follows a corollary from this. The law of 'Inertia of Large Numbers' states that other things being equal, larger the size of sample more accurate the results are likely to be. Third is assessmentism.

6.4.2. Principle of Assessmentism

This principle states that the insurer will only charge that premium which is required to pay the claims.

In practice, in life insurance, such assessment is not possible due to probability and uncertainty. Hence life insurers perform what is known as Continuous Mortality Investigation (CMI) and Valuation of Assets and Liabilities (ALM) to maintain solvency as required under the law.

6.4.3. Principle of non-discrimination

This is related to risk evaluation process otherwise known as underwriting. In the risk evaluation process the standard processes are to be applied, unbiased.

6.4.4. Principle of Numerical Rating

This is a corollary of non-discrimination principle. In this all factors of risk evaluation will be applied with standard values of debits/credits for each adversity/favourability and net of these debits/credits will decide the Extra Mortality Rating (EMR) or Preferential Rating (PR).

7. Internal audit aspects in Life Insurance

Now that the user is aware about the organisational structure, functional requirements in a life insurance organisation, further information is related to the details on audit (financial) and inspection (process and compliance) required for an internal auditor.

Internal audit of a life Insurance organisation is a highly challenging task. It involves the following perspectives

- Strategic/Policies: Designed, approved by the Board
- Financial: Accounting, reporting, as required under law
- Functional: Keeping in mind the nature and principles of life insurance and best practices
- Legal and Regulatory: Required for Compliance

7.1. Strategic or Policy aspects in Internal Audit:

Life insurance business is basically a transaction oriented one. Since a life insurance contract is a long term contract, there will be large number of transactions in the life time of every policy. In the past, responsibility of internal audit process was a overwhelming one, as internal audit envisages verification of 100 per cent of transactions during the year as every transaction may have huge cost impacts. This necessitated in stipulating stringent control measures, to mitigate losses arising due to arbitrary decision making, errors, omissions and commissions and finally intentional frauds. Hence the standards are to be stringent, conservatist and self-balancing.

From the point of an efficient organisation, every life office may have the following:

- Vision, Mission and Statement of objectives, normally Board approved
- Strategic level policies prepared by functional heads and ratified by the Board;
    - Product Policy
    - Pricing Policy
    - Marketing Policy
    - Promotion/Advertisement Policy
    - Human Resources Policy
    - Policy on Ethics
    - Communication & Public-relations Policy
    - Policy on Organisation’s discipline

- Administrative procedures prepared by functional heads and approved by board;
    - Defined and approved processes
    - Administrative guidelines
    - Clarification process/ Circulars
    - Escalation hierarchy
    - Grievance redressal machinery

7.2. Financial aspects

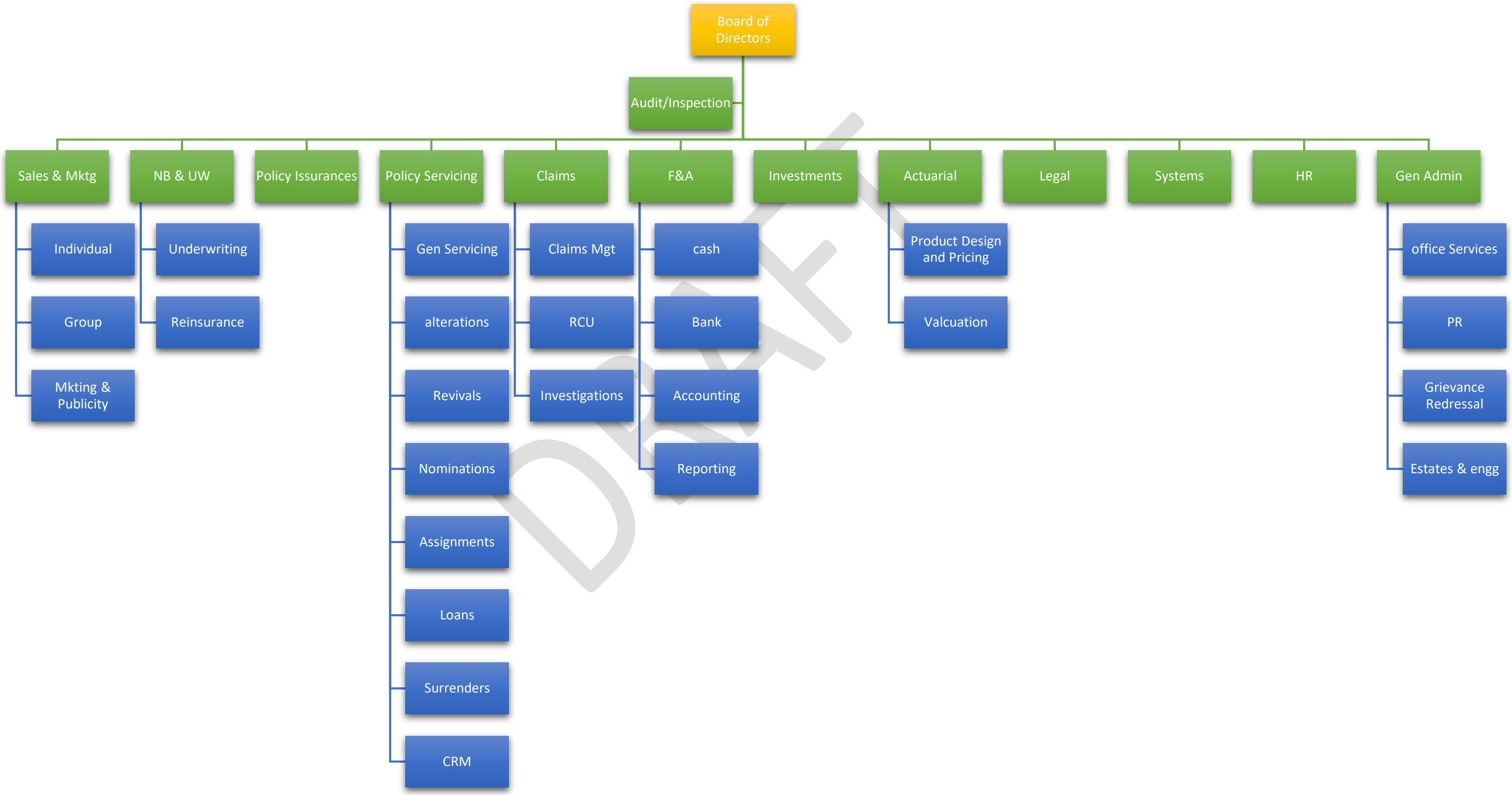
Financial accounting and reporting guidelines are ratified by the Board. Internal audit should ensure complete transparency and accuracy of transactions and fix any deviations and flaws in processes.

7.3. Legal and Regulatory Compliance aspects

Provisions of laws and regulations would require complete adherence and compliance. Non-compliance would normally entail imposition of l fines or in extreme cases, cancellation of business licenses leading to stoppage of business. Hence, internal audit should ensure complete adherence to stipulations to avoid penal provisions for any deviations.

LIFE INSURANCE ORGANISATION

(INDICATIVE FUNCTIONAL STRUCTURE)



8. Internal Audit in Life Insurance Functional Department

8.1.1. General Life Office function

- **General:** At the highest level, as an organisation, a life insurance company has legal responsibilities. Following are the aspects required to be looked into at this level:
    - Overall Organisation
    - Office Administration/Services
    - Estates and Engineering related to office premises, services upkeep etc.

- **Regulatory and Compliance Framework**
  Following are the regulations which have a bearing at an organisational level:
    - Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000 (Updated up to 8th Amendment) 8th June, 2020
    - Insurance Regulatory and Development Authority (Places of Business) Regulations, 2015
    - Insurance Regulatory and Development Authority (Maintenance of Insurance Records) Regulations, 2015
    - Insurance Regulatory and Development Authority (Outsourcing of Activities by Indian Insurers) Regulations, 2017
    - Insurance Regulatory and Development Authority (Qualification of Actuary) (Repeal) Regulations, 2016
    - Insurance Regulatory and Development Authority (Minimum Information Required for Investigation and Inspection) Regulations 2020
    - Insurance Regulatory and Development Authority (Sharing of Database for Distribution of Insurance Products) Regulations,2010
    - Insurance Regulatory and Development Authority (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013
    - Insurance Regulatory and Development Authority of India (Issuance of Capital by Indian Insurance Companies Transacting Life Insurance Business) Regulations, 2015
    - Insurance Regulatory and Development Authority of India (Regulatory Sandbox) Regulations, 2019

- Model Questionnaire which may guide an internal auditor:

Model Questionnaire for Internal Audit of Life Insurance Function: Policy Servicing		
1.Department: General Organisation		
Sl No	Particulars	Remarks:
1.1	Are the provisions of Insurance Regulatory and Development Authority of India (Places of Business) Regulations, 2015 complied with ?	List all deviations
1.2	Are the provisions of IRDAI (Maintenance of Insurance Records) Regulations, 2015 complied with ?	List all deviations
1.3	Are the provisions of Insurance Regulatory and Development Authority of India (Outsourcing of Activities by Indian Insurers) Regulations, 2017 complied with?	List all deviations

1.4	Are the provisions of o IRDAI (Qualification of Actuary) (Repeal) Regulations, 2016 complied with?	List all deviations
1.5	Are the provisions of IRDAI (Minimum Information Required for Investigation and Inspection) Regulations 2020 complied with?	List all deviations
1.6	Are the provisions of IRDAI (Sharing of Database for Distribution of Insurance Products) Regulations,2010 complied with?	List all deviations
1.6	Are the provisions of Insurance Regulatory and Development Authority (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulations, 2013 applicable? If yes, whether these are complied with?	List all deviations
1.7	Are the provisions of Insurance Regulatory and Development Authority of India (Issuance of Capital by Indian Insurance Companies Transacting Life Insurance Business) Regulations, 2015 applicable? If yes, whether these are complied with?	List all deviations
1.8	Are the provisions of Insurance Regulatory and Development Authority of India (Regulatory Sandbox) Regulations, 2019 applicable? If yes whether these are complied with?	List all deviations

8.1.2. Sales Function

- **General Observations:** Sales function is connected with all activities of procuring business. In a life office, this includes procuring proposal forms from customers, who need insurance risk cover. Sales function is a large section in a Life office. Personnel in this section include, office/administrative personnel and marketing or field personnel. Business is procured by the field personnel, also known as "Distribution Channel". There are legal and regulatory provisions for the appointment, training, licensing, renewal, termination, compensation payable to them.

    - **Functional Names:** The sales function, at various levels of the organisation, is known by the following names:
        - Corporate/Home Office: Marketing and Publicity
        - Controlling offices (Regional/Zonal/Divisional): Marketing
        - Branch Office: Sales
    - **Operational Responsibility** of sales function are:
        - Corporate/Home Office: Making policy decisions relating to market research, marketing of products, publicity
        - Controlling offices (Regional/Zonal/Divisional): Decisions relating to recruitment of sales personnel, compensation, licensing of intermediaries
        - Branch: procurement of business
    - **Distribution Channel:** Till liberalisation, the field personnel who sell insurance contracts to policy holders were generally known as agents. But subsequent to liberalisation, the scope has been widened to include:
        - Individual Agents
        - Corporate Agents
            - Banks
            - Others
        - Brokers
        - Direct Sale
        - Online Direct Sale
        - Micro Insurance Agents
        - Common Service Centres
        - Web Aggregators
        - Insurance Marketing Firm
        - Point of Sales
        - Referrals
    - Internal Audit of sales function will cover adherence of approved rules related to the following:
        - **Corporate Office:**
            - Board approved policies are documented and communicated down the organisation.
            - Performance of the functions across the organisation is measured periodically to ensure profitability
            - Audit, inspection and compliance aspects of the functions, across the organisation is monitored and reported
            - Organisational level market-research is done to ascertain the market needs to facilitate product design

- Coordination with all other related functions for interchange of information
- Design and monitor effective MIS for the organisation

- **Controlling Office**
  - Ensure implementation of policies in its jurisdiction
  - Functional performance is measured at its level
  - Monitoring audit, inspection and compliance aspects of the function at level
  - Manage human resources related issues
  - Implementation of approved Management Information System (MIS)
  - Design and implement administrative guidelines at their level which includes issuing clarifications or details on ambiguous areas of corporate guidelines or on areas where the rules are silent
- **Branch Office**
  - Selling of insurance products as per process
  - Managing sales personnel
  - Manage intermediaries, appointment, remuneration and control
  - Scrutiny of proposal forms received at Sales function at Branch Office for minimum requirement of
    - completeness of information
    - business procured by licensed and in-force agency.
  - All proposals and applications received and acknowledged at a life office are the property of life office and shall not be returned or disposed of in any manner otherwise than by specified mode.
  - Track all incomplete applications Sales-Office wise and Agency wise. This is necessary to contain unnecessary cost at office.
  - All proposal forms received at the office for processing are serially numbered. This number block is for each financial year, as issued and monitored by the controlling office.
  - Proposals are entered in a forwarding register in the approved format. This process is generally known as "Registration of Business". Each of these registers will have serial numbers and each sheet of the register shall have serial number. Each of these registers need to be preserved under safe custody for prescribed period as stipulated under "Rules for destruction of office records" for verification by auditors or regulator.

- **Policies/Strategic**
  - Ensure Board approved Marketing policy is in place
  - Ensure Promotion policy is in sync with Regulatory requirements
- **Financial**
  - Adhere to stipulated limits of compensation to intermediaries
  - Comply with provisions relating to premium rebating
- **Regulatory and Compliance Framework: The** internal auditor should ensure compliance of the provisions of the following statutes/ regulations
- Under Insurance Act, 1938
  - Section 2(10) – Right of the agent to receive commission
  - Section 32(B)- Minimum business from rural and social sector

- Section 40 – Restriction on commission -Prohibition of payment by way of commission or otherwise for procuring business.
- Section 40A- Rules for maximum commission
- Section 41- Prohibition of rebates
- Section 42- Rules regarding issuing license or renewal
- Section 43 – Rules for maintenance of agent's records
- Section -44- Provision for payment of commission after termination of his agency

- **Related to Recruitment of Intermediaries**
  - Insurance Regulatory and Development Authority (Appointment of Insurance Agents) Regulations, 2016
  - Insurance Regulatory and Development Authority (Registration of Corporate Agents) Regulations, 2015
  - Insurance Regulatory and Development Authority of India (Micro Insurance) Regulations, 2015, 19th May, 2015
  - Insurance Regulatory and Development Authority of India (Insurance Brokers) Regulations, 2018, 30th Oct 2019
  - Insurance Regulatory and Development Authority of India (Insurance Web Aggregators) Regulations, 2017,30th Oct 2019
  - Insurance Regulatory and Development Authority of India (Third Party Administrators-Health Services) Regulations, 2016, 27th May 2020
  - Insurance Regulatory and Development Authority of India (Registration of Insurance Marketing Firm) Regulations, 2015, 26th July 2019
- **Related to Payment of Compensation**
  - Insurance Regulatory and Development Authority 's (Payment of commission, remuneration and rewards to insurance agents and insurance intermediaries) Regulations 2016,29th June, 2020
- **Related to Sales Operations**
  - Insurance Regulatory and Development Authority (Obligations of Insurers to Rural and Social sectors) Regulations, 2015
  - Insurance Regulatory and Development Authority (Standard Proposal Form for Life Insurance) (Repeal) Regulations, 2018
- **Related to Advertisement and Sales Promotions**
  - Insurance Regulatory and Development Authority (Insurance Advertisements and Disclosure) Regulations, 2021
- **Legal & Compliance requirements:**
  - Insurance Regulatory and Development Authority 's (Payment of commission, remuneration and rewards to insurance agents and insurance intermediaries) Regulations 2016,29th June, 2020

- **Technical Terms in Sales Function:** (For other terms please refer to the glossary at the end)- With indicative meaning for general understanding and not legal definition
  - ***Proposal Form:*** Application for insurance. Applications can be specific for products/class of lives (Adults/Juveniles).
  - ***Intermediary/agent/Broker*** are the authorised persons to sell insurance licensed by the insurer.
  - ***Premium*** is the consideration for the insurance contract, to be paid by insured to the insurer as stipulated/agreed.

- *First Premium (FP)* is the first instalment that comes along with the application for insurance
- ***First Year Premium (FYP):*** All the instalments of premiums due in the first policy anniversary excluding the first premium
- ***Renewal Premium (RP):*** The premiums due during the premium payment period or the policy term as the case may be.
- ***Extra Premium*** is the additional premium payable in addition to the basic premium, towards the cost of extra risks posed by the life. The extra premiums can be any of the following type:
    - *Age Extra:* Towards the risk of mis-statement of age. In life insurance, life is the subject matter and death/survival are the contingencies to be covered, which mainly depend on the age of the assured. Age can be ascertained through a standard age proof. When a standard age proof is not made available, then there is a likelihood of mis-statement (under/over statement) of age, which impacts the assessment of risk. The extra age will be to compensate this Extra Mortality Risk (EMR)
    - *Health Extra* towards the cost of additional risks posed by deficiencies in health of the assured, due to diseases/disorders.
    - *Impairment extra* towards the cost of additional risks posed by the physical impairment in the assured, like loss of limbs/deafness/blindness etc.
    - *Occupational extra* towards the extra risks posed by the occupation of the assured.
    - Avocational extra towards the extra risks posed by the avocation/habits of the assured.
- ***Commission*** is the compensation paid to insurance intermediary by the insurer for procuring the business, for ensuring regular payment of premium through follow-ups. Normally commission is a stipulated percentage of the base premium (extra premiums not considered for commission).
    - *First commission (FC):* on receipt of first premium
    - *First Year Commission (FYC):* On the first year premium
    - *Bonus /Commission:* A compensation for ensuring payment of entire first year's premium.
    - *Renewal commission:* a compensation for ensuring regular payment of renewal premiums.
- ***Life Insurance Products/Plans:*** These are financial arrangements to provide for financial risks, generally offered by the insurers
    - *Whole Life or Whole of Life Insurance:* These are traditional policies of insurance where premiums are payable for life and benefits are payable on death of the assured. Many times, the premiums under this category may cease at age of 80 years and benefit may also be settled at that age.

      Some variants of these policies are:

      -With profits, where the policy participates in bonus sharing

      -Without profits, where no bonuses are payable

-Limited payment plans where premiums are payable for a duration lesser than the policy term

-Single Premium plan where there will be only single payment of premium.

- *Term insurance:* Provides only for death benefit and no survival benefit
- *Pure Endowment:* Provides only for survival benefits and no death benefits
- *Endowment insurance:* Provides both death and maturity benefits whichever is within the policy term,
- *Money Back/Anticipated Endowment:* Provides for periodical payments during the policy term and also benefit on death during the term of policy.
- *Mortgage Endowment:* This is a reducing term cover, which is normally offered in cases of loan covers

- *Convertible Plans:* Here the coverage may be converted from one plan to another. E.g. Convertible whole life assurance can be converted into an Endowment assurance, subject to conditions in the terms of the plan.
- *Joint Life Policy:* Covers more than one life assured under the same policy, normally spouses or two partners.
- *Children's Deferred Assurance:* These are assurances on the lives of children who are minors and policy is proposed by the proposer, who is generally one of the parents (father/mother) or even grandparents in some circumstances. These assurances normally will have a vesting age, which is the age when the risk under the assurance will commence. The period from the date of commencement and vesting date is known as 'deferment period' and there will not be risk coverage under deferment period.
- *Children's Anticipated Assurances:* Popularly known as Children's Money Back plan.
- *Low Cost Endowment:* Generally small sums assured are allowed. Focussed at the lower middle class and poorer sections of the society
- *Double/Triple Cover Endowment:* To provide higher risk cover on death.
- *Marriage/Educational Endowment:* A kind of pure endowment assurance meant for education of children or marriage expenses of daughters.
- *Annuity plans:* Provide periodic benefit payments as arranged under the policy. These are
    - *Immediate annuity:* Where the annuity payment starts immediately on purchase of the policy
    - *Deferred annuity:* Where the annuity benefits will start on vesting, which can be the date of superannuation etc.
- *Rider Benefits:* Additional benefits attached to the base policy, providing for incremental benefits. Some of them are

- *Accidental Death Benefit Rider (ADB):* Provides additional benefit on the death of the assured due to accident.
- *Accidental Permanent Disability Benefit (APDB):* Provides for a benefit on the assured becoming permanently disabled due an accident.
- *Accidental Death or Disability Benefit rider:* Provides for a benefit on death or total disablement of the assured. It is a combo of the above two riders.
- *Term Rider:* Additional benefit on the death of the assured.
- *Critical Illness (Accelerated Death Benefit) Rider:* Also known as dreaded disease cover providing for benefit on contracting of a dreaded disease by the assured. These benefits are like cash advances against the death benefit payable, where the assured has contracted a terminal illness and has less than one year to live. The benefits will help in meeting huge costs involved in the treatment of terminal illnesses.
- *Income Benefit Rider:* In case the insured dies, an income benefit rider will provide a steady flow of income to the nominee to support family members from loss of income arising out of death of the breadwinner in the family.
- *Premium Waiver Benefit (PWB):* This rider provides for waiver of future premiums payable under the policy in case of death of the proposer during the term of policy, where the assured is a minor. In some cases, the PWB rider will waive the premiums payable during the period of disability of the proposer, on policies of proposer's own life. However, wordings in the actual terms and conditions of the product approved by the regulator will prevail.
- *Guaranteed Insurability Rider:* This rider provides for an option to buy an additional insurance coverage in the stated period without having to go for further medical examination. A guaranteed insurability rider is most beneficial when there is significant change in the life conditions of the assured such as marriage of the assured, birth of a child in family etc. This rider may provide an opportunity of renewal of the base policy at the end of its term without medical check-ups.
- *Return of Premium Rider:* Normally under Term plan there will not be any benefit payable if the assured survives the term of the policy. However, if ROP rider is purchased, then in the event of survival of the assured under Term plan, a stipulated portion of premiums paid will be returned.

- **Model Internal Audit Questionnaire**

Model Questionnaire for Internal Audit of Life Insurance	
2.Department: Sales Function	Office: CO/ZO/RO/DO

		(Controlling Offices) * *For all compliance violations, internal audit records of Branch Offices as consolidated at controlling office need to be verified.
Sl. No.	Particulars	Remarks:
2.1	Is there a Sales Policy in place?	If not raise a Red Flag
2.2	Is there a Promotion Policy in place?	If not raise a Red Flag
2.3	Is the requirement under minimum business criteria for rural and social sector under section 32(B) Insurance Act,1938 adhered to?	If not raise a red flag
2.4	Are there any instances of contravention of section 40 of the Insurance Act,1938: Prohibition of payment by way of commission or otherwise for procuring business	List all cases
2.5	Are there instances of contravention of section 40A, of the Insurance Act,1938? Limitation of expenditure on commission If commission payment in excess of rates fixed by the Act	List all cases
2.6	Are there instances of contravention of section 41 of the Insurance Act,1938? i.e., prohibition of rebates?	List all cases, specially of dishonour of cheques issued by Agents towards initial deposit or premiums (except for policies on their own lives or of their family members-spouse, children)
2.7	Are there any instances of violations of rules regarding the license/renewal of license of an intermediary, as stipulated under section 42 of the Insurance Act 1938	List all instances
2.8	Are records of insurance intermediaries properly maintained in accordance with Rules as in section 43 of the Insurance Act, 1938	List all deviations
2.9	Are there instances of violations of section 44 of the Insurance Act, 1938- Prohibition of cessation of payments of commission, except for fraud	List all cases Also, in cases of fraud, check if further commission or any emoluments paid, post action for fraud.
2.10	Are the provisions of Regulation 3(g) of Insurance Regulatory and Development Authority of India (Insurance Advertisements and Disclosure) Regulations, 2021 relating to "Unfair or misleading advertisement" complied with.	List all cases of deviations.
2.11	Are the provisions of Regulation 4 of Insurance Regulatory and Development Authority of India (Insurance Advertisements and Disclosure) Regulations, 2021 relating to compliance and control	List all cases of deviations.

	adhered to.?	
2.12	Are the provisions of Regulation 7 of Insurance Regulatory and Development Authority of India (Insurance Advertisements and Disclosure) Regulations, 2021 relating to advertisements by Insurance Agents complied with?	List all cases of deviations
2.13	Are the provisions of Regulation 8 of Insurance Regulatory and Development Authority of India (Insurance Advertisements and Disclosure) Regulations, 2021 relating to advertisements by insurance intermediaries complied with?	List all cases of deviations
2.14	Are the provisions of Regulation 9 of Insurance Regulatory and Development Authority of India (Insurance Advertisements and Disclosure) Regulations, 2021 relating to advertising on the internet or through electronic media complied with ?	List all cases of deviations
2.15	Are the provisions of Regulation 10 of Insurance Regulatory and Development Authority of India (Insurance Advertisements and Disclosure) Regulations, 2021 relating to endorsement and other third-party involvementcomplied with?	List all cases of deviations
2.16	Are the provisions of Regulation 11 of Insurance Regulatory and Development Authority of India (Insurance Advertisements and Disclosure) Regulations, 2021 relating to rating or ranking or awards complied with?	List all cases of deviations
2.17	Any action initiated by the Regulator under the provisions of Regulation 12 of Insurance Regulatory and Development Authority of India (Insurance Advertisements and Disclosure) Regulations, 2021\ relating to orocedure for action against violation of regulatory provisions	Mention the action initiated by the regulator and possible compliance or remedy taken.
2.18	Are the provisions of Regulation 13 of Insurance Regulatory and Development Authority of India (Insurance Advertisements and Disclosure) Regulations, 2021 relating to adherence to advertisement code complied with ?	List all cases of deviations
2.19	Are the provisions of Regulation 14 of Insurance Regulatory and Development Authority of India (Insurance Advertisements and Disclosure) Regulations, 2021 relating to statutory warning complied with?	List all cases of deviations
2.20	Any web aggregator associated with this insurer? If Yes check for Questions from 2.21 to 2.34.	
2.21	Are the provisions of Regulation 10 of Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017 relating to conditions for grant of certificate of registration complied with?	List all cases of deviations

2.22	Are the provisions of Regulation 17 – Chapter IV - of Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017 relating to Board approved policy for comparison and distribution of insurance products complied with?	
2.23	Are the provisions of Regulation 18 – Chapter IV - of Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017 – relating to professional indemnity insurance – applicable? If Yes, whether complied.?	
2.24	Are the provisions of Regulation 19 – Chapter IV - of Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017 relating to change in the name of an Insurance Web Aggregator applicable?, if Yes, whether complied with ?	
2.25	Are the provisions of Regulation 20 – Chapter IV - of Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017 relatinhg to arrangements with insurers for distribution of products applicable?, if Yes, whether complied with?	
2.26	Are the provisions of Regulation 21 – Chapter IV - of Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017 relating to conflict of interest applicable?, if Yes, whether complied with?	
2.27	Are the provisions of Regulation 22 – Chapter IV - of Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017 relating to maintenance of books of account, records, etc. applicable?, if Yes, whether complied with ?	
2.28	Are the provisions of Regulation 23 – Chapter IV - of Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017 relating to disclosures to the authority – applicable?, if Yes, whether complied with?	
2.29	Are the provisions of Regulation 25 – Chapter V - of Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017 relating to the role and responsibilities of the Authorised Verifier applicable?, if Yes, whether complied with ?	
2.30	Are the provisions of Regulation 26 to 29– Chapter VI - of Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017 relating to activities undertaken and functions performed by Insurance Web Aggregators Verifier – applicable?, if Yes, whether complied with ?	
2.31	Are the provisions of Regulation 30– Chapter VII - of	

	Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017 relating to remuneration to the Insurance Web Aggregator applicable?, if Yes, whether compliedwith ?	
2.32	Has any action been Initiated under the provisions of Regulation 34– Chapter X - of Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017 relating to action against the Insurance Web Aggregator?	
2.33	Has any action been Initiated under the provisions of Regulation 36– Chapter X - of Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017	
2.34	Has any action been Initiated under the provisions of Regulation 35– Chapter X - of Insurance Regulatory and Development Authority of India Insurance Web Aggregators Regulations, 2017 relating to action against the Insurer	
2.35	Any insurance marketing firm associated with this Insurer? If Yes check under Questions from 2.36 to 2.46	
2.36	Are the provisions of Regulation 9 of Insurance Regulatory and Development Authority of India (Registration of Insurance Marketing Firm) Regulations, 2015 relating to requirement of professional indemnity insurance for insurance marketing firm complied with?	
2.37	Are the provisions of Regulation 12 of Insurance Regulatory and Development Authority of India (Registration of Insurance Marketing Firm) Regulations, 2015 relating to period of validity of registration of the insurance marketing firm applicable? If Yes, whether complied with ?	
2.38	Has any action been Initiated under the provisions of Regulation 18 of Insurance Regulatory and Development Authority of India (Registration of Insurance Marketing Firm) Regulations, 2015? [Action against a person acting as an insurance marketing firm without a valid registration] if Yes, get details.	
2.39	Are the provisions of Regulation 19 of Insurance Regulatory and Development Authority of India (Registration of Insurance Marketing Firm) Regulations, 2015 relating to remuneration, engagement of sales persons, area of operation applicable to the insurance marketing firms - applicable? If Yes, whether complied with?	
2.40	Are the provisions of Regulation 19 of Insurance Regulatory and Development Authority of India (Registration of Insurance Marketing Firm)	

	Regulations, 2015 relating to duties and obligations of insurance marketing firm applicable? If Yes, whether complied with ?	
2.41	Are there a falling under the Ambit of the provisions of Regulation 21 of Insurance Regulatory and Development Authority of India (Registration of Insurance Marketing Firm) Regulations, 2015 relating to handling of customer grievances and complaints by the insurance marketing firm.	If Yes, List all Cases.
2.42	Are the provisions of Regulation 25 of Insurance Regulatory and Development Authority of India (Registration of Insurance Marketing Firm) Regulations, 2015 relating to change in ownership/ shareholding of insurance marketing firm applicable?	If Yes, List all Cases.
2.43	Are the provisions of Regulation 26 of Insurance Regulatory and Development Authority of India (Registration of Insurance Marketing Firm) Regulations, 2015 relating to maintenance of records complied with?	
2.44	Are the provisions of Regulation 26 of Insurance Regulatory and Development Authority of India (Registration of Insurance Marketing Firm) Regulations, 2015 relating to reports to be submitted to the Authority complied with ?	
2.45	Are the provisions of Regulation Part - I and Part II of Schedule IV of Insurance Regulatory and Development Authority of India (Registration of Insurance Marketing Firm) Regulations, 2015 relating to remuneration payable to the insurance marketing firm –complied with ?	List all Deviations
2.46	Are the provisions of Regulation 1 to 8, PART III of Schedule IV of Insurance Regulatory and Development Authority of India (Registration of Insurance Marketing Firm) Regulations, 2015 relating to area of operation of the insurance marketing firm complied with?	List all Deviations
2.47	Are the provisions of Insurance Regulatory and Development Authority of India 's (Payment of commission, remuneration and rewards to insurance agents and insurance intermediaries) Regulations 2016, as may be applicable complied with ?	
2.48	Are the provisions of Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers Transacting Life Insurance Business) Regulations, 2016, as may be applicable complied with?	
2.49	Are the provisions of Insurance Regulatory and Development Authority of India (Insurance Services by Common Public Service Centres) Regulations, 2019, as may be applicable complied with ?	

2.50	Are the provisions of Insurance Regulatory and Development Authority of India (Manner of Receipt of Premium) Regulations,2002, as may be applicable complied with ?	
2.51	Are the provisions of Insurance Regulatory and Development Authority of India (Unit Linked Insurance Products) Regulations, 2019 as may be applicable complied with?	
2.52	Are the provisions of Insurance Regulatory and Development Authority of India (Non-Linked Insurance Products) Regulations, 2019, as may be applicable complied with ?	
2.53	Are the provisions of Insurance Regulatory and Development Authority of India (Minimum Limits for Annuities and Other Benefits Regulations), 2015, as may be applicable complied with ?	
		Branch Office:
2.54	Is the hierarchy of sales organisation clearly defined and responsibilities assigned?	
2.55	Are sales personnel periodically briefed or trained on processes and products?	
2.56	Is business sourced by licenced intermediaries?	List all exceptions
2.57	Are there cases of business procured by one intermediary transferred to another intermediary?	List all cases
2.58	Are there any instances of complaints of mis-selling or unfair business practice indulged in, by intermediaries, reported? If there are, then are the cases promptly disposed of as per the laid down procedure?	List all cases Risk Control Unit to assess the impact of these cases and advise management for policy making.

- **Illustrations on computations involved in Sales Function (Non-company specific):**

1. <u>Computation of Age</u>

Date of Commencement: 22-09-1991

Date of Birth: 09-02-1958

Solution:

	dd	mm	yyyy
D O C	22	09	1991
D O B	09	02	1958
Difference(Age)	13	07	0033

From the computation

1. Age Nearer Birthday :34 years

2. Age Next Birthday :34 years
3. Age last Birthday :33 years

2. <u>Computation of Instalment of Premium</u>

Calculate the half yearly premium on the basis of the following data disallowing extended permanent disability benefit and giving mode rebate @ 2 per cent on the tabular premium and Rs.1.50 sum assured rebate:

Date of commencement 22.08.2002 for a person born on 30.12.1973
Tabular premium for age nearer birthday

27 years	Rs.33.10
28 years	Rs.33.70
29 years	Rs.34.30
30 years	Rs.35.10

Plan and term	Endowment assurance for 20 years
Health Extra	Rs.3.00%
Occupation extra	Rs.8.00%
Extended permanent disability Benefit (EPDB) premium	Rs.1.50%
Other Rider Premium	Rs.9.00%
Sum Assured	Rs.2,20,000

Solution:

- First Step is to compute the age nearer birthday.

	dd	mm	yyyy
Date of Commencement	22	08	2002
Date of Birth	30	12	1973
Difference (Age)	22	07	0028

Age nearer birthday is 29 years

- Next Step is to compute Instalment premium
  For age nearer birthday of 29 years, the relevant tabular premium applicable is Rs.39.4%0 (per thousand sum assured)

Step No:	***Particulars***	***Base Cover Amount Rs.***	***Rider Cover Amount Rs.***
A	Tabular Premium	34.30	
B	Less: CEIS Rebate		
C	Balance: (A-B)	34.30	
D	Less: Mode Rebate: 2%	00.69	
E	Balance: (C-D)	33.61	
F	Less: Sum Assured Rebate	01.50	
G	Balance: (E-F)	36.88	

H	Add: Rider Tabular Premium %0 (EPDB + Other Rider Premium)		10.50	
I	Balance: (G+H)		47.38	
	Add Extras	Rs.%0		
	Health Extra	3.00		
	Occpn Extra	8.00		
	Imp Extra			
	Total Extra	11.00	11.00	
J	Gross Tabular Premium		58.38	
	'*' by Sum Assured Factor		220	
K	Gross Premium		12843.60	
	'/' by Modal Factor: Hly		2	
L	Instalment Premium		6421.80	

Therefore, Instalment premium is Rs. 6,422.00

3. Business Comparative figures

Business Introduced Last year			Business Introduced Current Year		
No of Proposals	Total Sum Proposed	Total First Premium	No of Proposals	Total Sum Proposed	Total First Premium

8.1.3. New Business and Underwriting

- **General Observation:** All the business registered by Sales Department, in the form of proposal for insurance/application for insurance will be forwarded to the new-business/underwriting department for further processing.
- Underwriting is the process of risk evaluation which will be performed by qualified professionals known as "Underwriters"; the underwriting process will be as per approved standards.
    - **Functions/Responsibilities**

      (a) Corporate/ Home Office
        - Deciding on the underwriting policy of the life office
        - Deciding on the underwriting guidelines
        - Exercising underwriting decision making as per the authorisation matrix in sub-standard cases
        - Collating the valuation data on new-business underwritten
        - Participating in pricing decisions of actuarial department

      (b) Controlling Offices (Regional/Zonal/Divisional Offices)
        - Exercising underwriting decision making as per the authorisation matrix
        - Collating the valuation data on new-business underwritten.

      (c) Branch Office
        - Scrutiny of proposals for completeness and clarity. Ambiguous applications will require clarifications or confirmations.
        - Raising queries for incompleteness/inaccuracy of information

        - Asking for additional information in the form of addendums/questionnaires
        - Subjecting the proposals to underwriting/risk evaluation process
        - Deciding of price/premium for the risk proposed
        - Ensuring receipt of complete required premium
        - Appropriating the first premium
        - Confirming commencement of risk and issue of Policy No
        - Releasing advice for the first commission to agents
    - **Underwriting Administration Methods/Models: The** Internal Auditor shall ensure adherence to the stipulated process under both the following situations:
        - ***Fully automated admin system:***
            - Automated administration platform/system will normally have a module for underwriting function. This admin platform manages the movement of transaction records and maintenance of databases. It is possible that some of the admin platforms have in-built customised underwriting engines. Since these systems are designed by external vendors, it is essential to ensure that functional capability is as desired. Some of the admin platforms may have integrated automated underwriting engines. Even here it is necessary to ensure that rules have been properly set and access to modifications is restricted. It is a common practice to keep reviewing underwriting rules for changes and introducing new rules for new products. Authorities for system modifications need to be strictly adhered.
            - A complete systems integrity check has been performed by the competent authority, duly certified and shared with all decision-making levels of Branch/Division/Region/Zone and HO. Once this is ensured, the Internal Auditor may rely on random test checks and record any deviations observed.

        - **Manual admin-system**
            - This may be a situation where automated admin systems are not implemented or in cases of system failures, where manual mode is enabled for business continuity.

- **Strategic/Policy/Standards Required in underwriting function:** Following are some of the standards required in the efficient administration of the underwriting function in a Life Insurance Organisation
    - Corporate Underwriting policy
    - New business Admin manual/guidelines
    - Underwriting manual/guidelines
    - Ratings/EMR charts
    - Financial Underwriting guidelines/authority matrices
    - Rules relating previous policies for sum under consideration (SUC)
    - Rules for medical examination
    - Rules for special medical reports
    - Rules for appointment and termination of consulting medical professionals and their remuneration
    - Approved underwriting admin guidelines/manual, circulars, Inter-office Memos are in place.
    - Reinsurance guidelines

- Special provisions for Married Women's Property (MWP) Act
- Rules for destruction of records
- All forms of addendums/questionnaires/special reports are standardised, numbered and indexed. This is necessary to avoid any kind of discrimination in risk appraisal.

- **Functional aspects of Internal Audit under automated-system environment in Underwriting**
  - Internal audit aspects at Corporate/ Home Office: Internal Auditor shall ensure
    - A properly documented signoff on automated systems is in place, where the management, underwriters, actuarial personnel, finance and other stakeholders have confirmed on the processes in system. In many cases, the Home Office Underwriting would have built the systems and given access to other offices for system usage. The Internal Auditor can rely on test checks to ensure system efficiencies. Otherwise, the Internal Auditor will have to check 100 per cent of transactions for accuracy.
    - Reinsurance cessions are properly managed, as per treaties; reinsurer's decisions are conveyed to the concerned office (RO/DO/ZO/BO)

  - **Internal audit aspects at Controlling Offices (Regional/Zonal/Divisional Offices)** The Internal Auditor shall ensure:
    - Underwriting decision powers are exercised as per the authority matrices
    - Sum under consideration/sum at risk are properly assessed at their level and then forwarded to CO/HO for reinsurance ceding.

  - **Internal audit aspects at Branch Office:** The Internal Auditor shall ensure compliance of the following.
  - ***Related to Movement of Records/Papers***
    - All proposal papers in process are kept under safe custody of underwriters and no access is available to unauthorised persons.
    - Movement of all underwriting papers, proposal forms are recorded in the movement register, handed over and acknowledgements obtained.
    - All papers underwritten and decisions recorded are handed over to the next process owner in the movement process which is in writing and acknowledgements are obtained.
  - ***Related to Underwriting Guidelines***
    - Latest underwriting guidelines are being applied in underwriting decision making. Preferably version control maintenance is advisable, to go back to see the prevailing rules on the date of decision.
    - A repository of duly indexed underwriting guidelines/manuals/circulars is available for verification in either paper form or soft-form.
    - Underwriters have ensured all underwriting guidelines applicable, including risk rating have been complied with..
    - Approved underwriting authority matrices are followed for risk limits.

  - ***Related to Underwriting process***
    - Under Jet processing/straight-put processing underwriting decisions are accurate. This can be ensured through random sampling of such cases.

- In all cases of sub-standard underwriting/high net-worth cases, where cases are physically underwritten, the following process is adopted:
    - 100 per cent of cases are to be verified under internal audit
    - Underwriters have recorded in writing their observations on underwriting review slips and/or the automated underwriting systems. Adequate attention being given to rating of Extra Mortality Risks (EMR) arising out of health/impairment/ \occupational/avocational factors. Final underwriting decision needs to be clearly recorded in the system.
    - Systems also record the observations of external/empanelled medical professionals in systems and on papers. Any rectification of underwriting errors is done in strict conformity with established rules.

- ***Underwriting Ratings for substandard cases***
    - Approved Rules for rating of extra mortality due to health/impairment/occupation and avocational factors in place.
    - Underwriting decision clauses, with standard wordings, to be applied in decisions need to be defined
- ***Pending/Postponed/Declined Cases***
    - All postponed cases are properly indexed and kept under safe custody.
    - All declined cases are notified and kept under safe custody.
    - Postponed and declined cases are periodically destroyed as per the set procedure
    - Proposals pending for underwriting requirements are kept under safe custody

- ***Medical Examinations/ Special Medical Reports***
    - Approved grid of medical examinations for medical selection of life risks is in place.
    - Validity of medical reports and special reports needs to be defined
- ***Medical fees***
    - Approved rates of fees for routine medical examination or special reports are in place and in practice.
    - Payment of medical fees to the medical examiners in routine medical examinations and to the empanelled diagnostic laboratory is made as per the approved process. These payments are to be made directly to the concerned in a periodical billing. Reimbursements of medical fees to the proponents, should not be routine but exceptional and to be done only after obtaining the receipts for having paid by the proponent.
- ***Reinsurance Administration:***
    - A proper control on the reinsurance ceding is in place which includes referrals under specific treaty arrangements, decisions received on acceptance. Reinsurer's decisions are to be recorded in the automated underwriting system separately, while retaining the decisions and ratings of life office underwriters. This is necessary to ensure adherence to standards, efficiency of underwriters and rating differences.
- ***Underwriting System Controls***

- Underwriters have no access/control to modify any of the system records sent by Sales Function. If errors/inaccuracies are observed, then the same should be advised to Sales Function for rectification.
- Underwriting rules have been properly installed in the admin system and also that there is a version track. This is necessary because life insurance policies are for longer durations and underwriting guidelines may undergo a change periodically. But underwriting rules applicable on the day of underwriting will be applicable for the entire duration of the policy unless the policy is subjected to underwriting again in cases of alterations to policies/Revival of lapsed policies.
- Automated Underwriting System (AUS) gives all necessary MIS reports to be sent to stake holders and all reports are authenticated.

- **Medical Examination and allied tasks**
- ***Medical Examination***
  - All proposals beyond the non-medical limits should be routed through medical selection process. There cannot be any discretionary waiver, as it leads to discrimination, which is not allowed under common law.
  - Medical examination of female proposers needs to be done only by female medical examiners. A female medical examiner should not be permitted to examine a male proposer.
  - A medical examiner should not re-examine the same proposer.
  - There should be a policy on validity of medical and special medical reports
  - A medical examination from an unauthorised medical examiner should never be entertained
  - A medical examination by a medical examiner who is related to the proposer should not be entertained
  - Medical examination reports should never be handed over to the proposer, but to be sent to the insurance company directly.
  - In cases of intermediary's own life, the controlling office should decide which medical examiner should examine the life.
  - Special medical examination should be done only at the empanelled laboratories

- ***Medical Examiners***
  - Medical examiners need to be appointed by the competent authority as per the stipulated process.
  - Limits on medical examination would depend on their experience in medical selection process and not by their professional experience
  - Records and details of medical examiners be kept at the controlling office specified.
  - Scale of medical fees should be as per a pre-determined process.
  - Directory of medical examiners/ or approved path-labs should be issued by controlling office
  - Medical examiners should retain their diary/record of medical examination.

- **Financial Aspects in Underwriting**
  - Financial underwriting of all risks as per the policy-application of scientific principles.
  - Collecting appropriate base/rider/extra premiums required.
  - Refunds of excess premiums/deposits in time.
  - Timely release of first commission on new business.
  - Timely settlement of medical fees/fees for special medical reports.

- **Statutory/Regulatory Aspects of underwriting**
  - There is no specific statute governing the underwriting function in a life Insurance organisation. However, the common law provisions of non-discrimination would be relevant here, in the sense that the underwriter would decide in an unbiased way in risk evaluation and premium related decisions.

- **Regulations issued by IRDAI**
  - including risk rating (Protection of Policyholders' Interests) Regulations, 2017
  - Insurance Regulatory and Development Authority of India (Re-insurance) Regulations, 2018

- **Checklist of specific underwriting guidelines (Best Practices)**

  Following are some of the aspects of industry specific best practices as applicable to underwriting function. The Internal Auditor should check if there are company specific guidelines on these aspects. These guidelines would have been issued by the Corporate/Home Office or by the jurisdictional Controlling Offices Zonal/Regional/Divisional office.

  1. Checklist for submission of proposal forms
  2. Underwriting guidelines /Instructions to Intermediaries
  3. Medical examination and medical reports
  4. Rules for special medical examination and fees applicable
  5. Adverse personal history
  6. Special questionnaires
  7. Evidence of health required for completing insurance applications or proposal forms
  8. Proposal forms/application for insurance including MWP Act Policies
  9. Addendums to proposal forms as applicable in special cases like:
     a. Proposals on the lives of minor lives/non-earning members
     b. Proponent employed in armed services/navy/aviation
     c. Consent for clauses imposed in underwriting
     d. Form for age proof extract
     e. Form for Service Register Extract
     f. Form for extract of previous policy particulars
  10. Other allied forms:
      a) Agent's/Sales Manager's Report
      b) Moral hazard report (MHR) by the visiting official
      c) Declaration for joint life policies
      d) Declaration for nomination in joint life policies
      e) Declaration of health
  11. Rules on previous medical or hospital reports

12. Non-medical underwriting
13. Guidelines on insurance on the lives of physically challenged lives
14. Waiting period for various diseases/disorders
15. Insurance on non-resident Indian lives
16. Guidelines on age proofs: standard and non-standard
17. Product wise underwriting guidelines
18. Guidelines on clauses imposed at underwriting
19. Rules regarding backdating of risk (Date of commencement) and interest if any
20. Guidelines on standard health extra premiums
21. Guidelines on standard occupational extra premiums
22. Guidelines in standard impairment extra premiums
23. Guidelines on standard avocational extra premiums
24. Approval matrix of underwriting limits
25. Guidelines on financial underwriting
26. Insurance on f
27. Insurance on Female lives
28. Insurance on pregnant lives
29. Insurance on Key Persons
30. Partnership insurance
31. Employer-employee insurance
32. Guidelines on underwriting of rider benefits
33. Guidelines on reinsurance cessions
34. Medical underwriting guidelines
    a) Method of charging EMR
    b) Underwriting aspects of build: height weight charts, guidelines on
    c) Ratings for family history
    d) Rating charts for underweight and overweight
    e) Rating charts for blood pressure
    f) Rating charts for sub-standard underwriting
    g) Rating charters for EMR premiums

- **Technical Terms involved in Underwriting**
    - *Underwriting* is a process of risk evaluation and pricing of risks
    - *Underwriter* a technical professional conversant with the underwriting process
    - *Field Underwriter is* one who intermediaries with responsibility for basic scrutiny
    - *Medical Underwriter* is one who assesses medical aspects of life risks
    - *Financial Underwriter* is one who converts assessment of a life risk into financial value and sometimes is specialised in business insurance risks
    - *Standard* is a life risk which confirms to a standard life presumed in pricing
    - *Substandard risks* are those which contribute to occurrence of insured event much earlier than expected/anticipated
    - *Numerical rating methodis* a process of evaluation of life risks, where debits and credits are allotted to each of underwriting factors and then risk is measured in numerical terms
    - *Extra Mortality Rate:* Generally known as EMR, which is a numerical rating which indicates that insured event will happen much earlier

- *Addendum to application* is a document where detailed information can be given in explanation for any given question
- *Questionnaires* are those documents/forms which seek more detailed information related to any hazard
- *Moral Hazard Report:* Generally known as MHR is a report by field personnel/official giving details about the questions on moral hazard related to the proposed insured.
- *Medical examination report,* generally known as MER, a report by the medical attendant of the proposed giving health, impairment related information about the insured
- *Special Reports* are those health reports/ laboratory reports related to the proposed insured
- *Non-Medical, a* category of standard lives who are already selected for good health in recruitments etc., who can be considered without asking for detailed medical examinations, up to a particular limit of assurance

- **Some Common Abbreviations used in Underwriting**
  - PPL: Proposal Form/application form for insurance
  - ACR: Agent's Confidential Report
  - MER: Medical Examination Report
  - SUC: Sum Under Consideration
  - OR: Ordinary Rates
  - AE: Age Extra
  - HE: Health Extra
  - IE: Impairment Extra
  - OE: Occupational Extra
  - AVE: Avocational Extra
  - EMR: Extra Mortality Rating
  - NM: Non-Medical
  - CF: Call for (Requirements)

- **Model Internal Audit Questionnaire**

MODEL QUESTIONNAIRE FOR INTERNAL AUDIT OF LIFE INSURANCE		
3.Department: Underwriting Function		Office: CO/ZO/RO/DO (Controlling Offices) * *For all compliance violations, internal audit records of Branch Offices as consolidated at controlling office needs to be verified.
Sl. No	***Particulars***	***Remarks***
3.1	**Underwriting organisation**	
3.1.1	Is there a Board approved Underwriting Policy in place?	If not raise a Red Flag
3.1.2	Is the organisation hierarchy in underwriting function clearly defined and assigned with roles and responsibilities?	If not assess the potential risk

3.1.3	Is there a process for destruction of old records in underwriting function? Is the same being followed?	
3.2	**Underwriting guidelines**	
3.2.1	Is the underwriting guidelines based on Numerical Rating System? If yes, is there a detailed underwriting administration manual in place?	
3.2.2	Are the risk classes clearly defined?	
3.2.3	Do the underwriting guidelines involve standards on ratings and Extra mortality ratings (EMR)?	
3.2.4	Is there a practice of recording of observations of underwriters on underwriting review slips (if paper records exist) or on underwriting systems if the underwriting process is automated one?	Compare few random cases between review slip noting and system noting
3.2.5	Are there rules relating underwriting criteria like: • Reference to previous policies on the same life • Sum Under Consideration (SUC) • Sum at Risk (SAR)	
3.2.6	Are there clear guidelines on financial underwriting?	
3.2.7	Is there a guideline on deciding on age of the proposed insured?	
3.2.8	Are age proofs categorised as standard and non-standard? If yes, then are there ratings for non-standard age proof.	
3.2.9	Are there guidelines on Under Writing of Female lives? Categorisation of female lives?	
3.2.10	Are there guidelines on underwriting of pregnant female lives?	
3.2.11	Are there guidelines on underwriting of Juvenile lives?	
3.2.12	Are there guidelines on underwriting of impaired lives?	
3.2.13	Are there guidelines on ratings for impairments?	
3.2.14	Are there clearly defined guidelines on waiting periods for health impairments	
3.2.15	Are there guidelines on occupational hazards underwriting ratings?	
3.2.16	Are there guidelines on avocational hazards underwriting ratings?	
3.2.17	Are there clearly defined guidelines on proposals received under MWP Act?	

3.2.18	Is there a standard process for postponement criteria in underwriting decisions?	
3.2.19	Is there a standard process /criteria for declinature?	
3.2.20	Are rates of fees for medical examinations and special medical /pathological reports standardised?	
3.2.21	Is there a standardised process for disbursal of medical fees on medical examination and special path-lab reports?	
3.2.22	Are there restrictions on re-examination of the proposer?	
3.2.23	Is there any restriction on the number of medical examinations to be conducted by any medical examiner?	
3.2.24	Are medical examiners expected to maintain diaries with notes on medical examinations performed?	
3.2.25	Is there an admin process to verify the medical diaries periodically, to ensure diary noting and report noting don't differ	
3.2.26	Is there a standard grid of medical examinations for evaluating medical risk?	
3.2.27	Is there a validity period for medical examination reports?	
3.2.28	Is there a validity period for standard reports?	
3.2.29	Is there a standard process for control on pending proposals?	
3.3	**Underwriting systems**	
3.3.1	Is underwriting process map in place?	If not assess the systemic risks
3.3.2	Is there a manual of all standardised forms, addendums, clauses, questionnaires, reports in place? Are all forms numbered and indexed?	
3.3.3	Is the straight through underwriting processing efficient? Make an assessment on reasonable sample size.	
3.3.4	Is there an approved access control on underwriting systems?	
3.3.5	Are there instances of alterations or modifications to underwriting decisions? Whether these are in order as approved? Are the modifications authenticated on records/systems?	
3.3.6	Is there rules for non-medical underwriting? Are these strictly adhered	

	to?	
3.3.7	Are there instances of waiver from calling medical reports/special medical reports? Are these waivers approved by the competent authority?	
3.3.8	Are there Rules for appointment of medical examiners empanelment, remuneration, termination?	
3.3.9	Is there a underwriting authority matrix/financial powers standing order in underwriting function?	
3.3.10	Does the underwriting system involve authentication by the approving authority on systems?	
3.3.11	Is there a standard process of using standard worded clauses to be used in underwriting decisions?	
3.4	**Reinsurance**	
3.4.1	Are there Board approved and signed reinsurance arrangements in place?	
3.4.2	Is there a control in the underwriting system on retention limits?	List all cases of over retentions observed
3.4.3	Is the control on ceding satisfactory? Are automatic cessions properly ,accurately generated?	
3.4.4	Is there a control on facultative references? Are the cessions in accordance with Fac- Treaties?	
3.4.5	Is there a control on receipt of reinsurance decisions? Decision Turnaround Time (TAT) in accordance with Service Level Agreements (SLAs)s agreed.	
3.4.6	Is there a control on reinsurance premiums paid? Are they paid on gross basis or net of claims basis?	
3.4.7	Are the provisions of Regulation 3 of Insurance Regulatory and Development Authority of India (Re-insurance)Regulations, 2018 relating to re-insurance programme complied with?	
3.4.8	Are the provisions of Regulation 4 of Insurance Regulatory and Development Authority of India (Re-insurance) Regulations, 2018 relating to Cross Border Re-insurer (CBR) complied with ?	
3.4.9	Are the provisions of Regulation 5 of Insurance Regulatory and Development Authority of India (Re-insurance) Regulations, 2018 relating to procedures	

	for re-insurance placements complied with?	
3.4.10	Are the provisions of Regulation 6 of Insurance Regulatory and Development Authority of India (Re-insurance) Regulations, 2018 relating to cession limits complied with?	
3.4.11	Are the provisions of Reglulation 7 of Insurance Regulatory and Development Authority of India (Re-insurance) Regulations, 2018 relating to domestic insurance pools complied with ?	

- **Illustrations on computations in New Business and Underwriting (Non-Company Specific):**

1. Computation of Date of Maturity

Age at entry 26
Plan Endowment Assurance
Term of the policy 26 years
Risk Date (Date of commencement of risk) 26-03-1980
Mode of payment of premium Quarterly

Solution:

Mode	Quarterly		
Risk Date (Date of Commencement of risk)	**dd**	**mm**	**yyyy**
	26	03	1980
Plus: Term of the policy	00	00	0026
Date of Maturity	**26**	**03**	**2006**

2. Computation of Due Date of Last Premium due

Age at entry 37
Plan Endowment Assurance
Term of the policy 18 years
Risk Date (Date of commencement of risk) 01-07-2006
Mode of payment of premium Half Yearly

Solution:

Mode	Half Yearly		
Risk Date (Date of commencement of risk)	**dd**	**mm**	**yyyy**
	01	07	2006
Plus: Term of the policy	00	00	0018
Date of Maturity	**01**	**07**	**2024**
Date of Last Premium due	**01**	**01**	**2024**

3. Computation of due date of vesting

Date of Commencement:	21-11-2011
Date of Birth:	16-09-1997
Plan	Children’s Deferred Assurance
Vesting age:	18 years

Solution:

Date of Birth:	16-09-1997
Vesting age	00-00-0018
Date of attaining age 18	16-09-2015
DOC	21-11-2011
Date of Vesting	21-11-2015

4. <u>Computation of Build ratings</u>

“Body Mass Index” (BMI). BMI is a measure of weight adjusted for height, calculated as weight in kilograms divided by the square of height in meters (kg/m^2).

The formula to compute BMI (both under British or Metric systems) is given below:

BMI = kg/m^2

where kg is a person's weight in kilograms and m^2 is their height in metres.

Category	BMI Range
Underweight (Unhealthy)	<18.5
Normal range (Healthy)	18.5 to 22.9
Overweight I (At risk)	23.0 to 24.9
Overweight II (Moderately obese)	25.0 to 29.9
Overweight III (Severely obese)	>30 and above

Example of Computation of Body Mass Index:

Age: 24 years Height 4'-4.5”   Weight 110 Pounds

Solution:

BMI = [Weight in pounds/ (height in feet and inches)*(height in feet and inches)] *703

= [110/52.5*52.5]*703

=28.06 (moderately obese)

BMI under Metric System is =[Weight in kgs/ (height in Meters)*(height in Meters)]

BMI = 49.94/ 1.7796   [1 pound = 0.453592 kg] and [1 inch = 2.54 cms]

= 28.06   (moderately obese)

5. Computation of Estimated Weight

Underwriting of life insurance applications is done on the basis of mortality and morbidity conditions posed by the risk and these conditions are brought out by the current health status of the applicant and the past history. Build is one of the important criteria of the current health status. Build determines if the life proposed is normally built or either underweight or overweight/obese. Build for life insurance purposes includes the following criteria:

Height, weight, abdominal girth, chest measurement(unexpanded) and chest measurement (expanded) for every age and gender are the criteria. Height weight charts are normally made out from the past experience of insurers.

When actual build measurements are given in the application, the underwriter has to put them to test to see if the readings are correctly recorded. For this purpose, "Estimated Weight" is computed. Estimated weight is the weight proportionate to the exact measurements of unexpanded normal chest and abdomen in comparison with standard physical measurements for a given height and age group. Estimated weight computation from the charts is more relevant for major lives i.e. for ages above 18. For Juvenile lives, the standard chart would contain weights standard for the given age and height and also minimum and maximum weights.

Formula for computing Estimated Weight (EW):

EW= Standard Weight +/- 1/2 [(Actual abdomen + unexpanded chest)-Standard girth given in the chart]

Example:

Age 30 years Actual Height 165 CM and Weight 60 Kgs. Chest in cms 85-90 and Abdomen in cms 80

Solution:

- For age 30 and height 165 cms, the standard weight as per chart is 56.9 kgs and girth 156.5 cms
- Actual girth is = 80+85 = 165 cms

EW= Standard Weight +/- 1/2 [(Actual abdomen + unexpanded chest)-Standard girth given in the chart]

= 56.9 +/- 1/2(165-156.5)

=56.9 +4.25

= **61.15** kgs.

Overweight or underweight

After computing the estimated weight, a percentage of variation between the estimated weight and actual weight is computed as under:

Percentage of Variation = [(Estimated Weight - Actual Weight)/Estimated Weight} *100

In the above illustration variation % = [(61.5-60)/61.5] *100 = 2.44% (less than 10%)

Hence it can be said that the actual measurements have been recorded accurately and there is not much of a variation.

8.1.4. Contract/Policy Issuance

- **General Considerations:** Insurance Policy documents are not contracts in law, but are only evidence of contracts. However, these can be produced before courts of law as policies are stamped as per the provisions of Indian Stamp Act.
- **Internal Audit aspects of contract issuance process**
    - ***Formats/Templates***
        - Policy contracts need to be of standard and approved formats.
        - Policy contracts are printed on official stationery or on pre-printed forms.
        - Stock of these stationery or pre-printed forms must be under safe custody.
        - Any wastage/damage to stationery should be documented and need to be approved by competent authority. This is essential to reduce occurrences of fraud.
    - ***Endorsements***
        - Policies are to be endorsed with appropriately worded and approved special clauses as in underwriting decisions.
    - ***Stamping of contracts***
        - Insurance policies are to be stamped according to the provisions of Indian Stamp Act.
        - Specific rates are applicable for assurance contracts and contracts of annuities.
        - These are special insurance adhesive stamps and in many cases, the concerned authorities allow franking of the value of insurance stamps
        - If first premium receipts are issued along with policy documents, then the receipts need to be affixed with receipt stamps, as per the provisions of Indian Stamp Act.
        - Stock of the Insurance stamps and receipt stamps should be held in safe custody.
        - Stock register for policy stamps and receipt stamps be maintained with information on purchases, usages and stock on hand and be periodically verified by a supervisory authority.
        - The stock of stamps on hand should be part of the value of insurance procured to cover loss/theft/fire.
        - Once the stamps are affixed on the insurance policy, the same need to be defaced/cancelled as per the provisions of section 12 of Indian Stamp Act, so that

they are not used again. If they are not defaced/cancelled, then, under the provisions of section 12(2), the document is deemed to be unstamped.

- ***Signing of Policy contracts:***
  - Policy contracts and receipts are to be signed by the authorised officials only, under seal of the insurer
  - Before affixing signatures on policy documents accuracy of contents, clauses, endorsements and stamp values be ensured, using maker checker concept.
- **Despatch of Policy contracts**
  - Despatch of policy documents is to be done through authorised agencies and in approved manner.
  - Records for despatch of records to be held with insurance company as per rules.
- **Undelivered Policy Bonds**
  - Policy documents returned undelivered are to be entered in the specified register to keep track, and the documents should be held under safe custody.
  - Reasons for non delivery to be investigated and efforts to be made to hand over the documents to the concerned policy holder.
  - If the reason for return is "Refused" then the matter needs to be investigated to ensure there is no fraud or mis-selling of insurance.
  - Undelivered policy documents are held in custody for a reasonable period. Thereafter disposed-off in the prescribed manner (infra):
  - If the policy gets lapsed for non-payment of further premiums, it they may be destroyed in the prescribed manner, as per the provisions of destruction of office records.
  - If the policy is in-force and the policy document remains unclaimed, then the same can be cancelled and archieved along with policy records. This will help in tracing policy document in times of claims when policy document is reported lost/untraceable.
- **Consideration not received/Cheques Dishonoured cases**
  - Policies are to be issued only when the premium is realised in full, as required, as for a contract consideration is a must.
  - It may so happen that in some cases, cheques issued for initial premium returned dishonoured, before issue of policies, the application may be cancelled and further processing stopped.
  - If the policy is underwritten, policy number issued, policy bond prepared, then the policy will be cancelled. When fresh payment is received within the proposal validity period, fresh underwriting will be done to process further. If beyond the validity period, fresh application to be called for. If first commission is released the same needs to be recovered. So are the medical fees, if settled to the doctor/laboratory.
  - If policy bond is also prepared, when the cheque is returned dishonoured, the policy bond needs to be cancelled, stamp charges also need to be recovered, when fresh policy needs to be issued on receipt of fresh payment.

- **Statutory and Regulatory Aspects of Contract Issue**

- Insurance Regulatory and Development Authority of India (Protection of Policyholders' Interests) Regulations, 2017

- **Model Internal Audit Questionnaire**

MODEL QUESTIONNAIRE FOR INTERNAL AUDIT OF LIFE INSURANCE		
4.Department: Policy Issuance Function		Office: CO/ZO/RO/DO (Controlling Offices) * *For all compliance violations, internal audit records of Branch Offices as consolidated at controlling office needs to be verified.
Sl. No.	***Particulars***	***Remarks:***
4.1	Are the formats of policy contracts standardised?	
4.2	Are pre-printed forms being used for issuing policy contracts? If yes, is there a reasonable control on the stock of stationery?	
4.3	Is there a satisfactory process of checking accuracy of the contents of policy contracts, before despatch?	
4.4	Are Annexures, clauses verified for accuracy as per underwriting decision?	
4.5	Is a copy of the contract issued, retained in the records of life insurance company?	
4.6	Are the policies stamped with the value of policy stamps, as applicable under Indian Stamp Act,1899	
4.7	Are policy contracts authenticated by appropriate authority through signature, with seals or contracts affixed with the digital signature of the authorised person.	
4.8	Are the policy contracts dispatched as per the approved process and not handed over in person?	
4.9	Wherever contracts are handed over in person, in extremely remote cases, proper care is taken for ensuring the identity before handing over the document?	
4.10	Are dispatch records properly secured for any future verification?	
4.11	Is there a proper control on the contracts returned undelivered?	
4.12	Are reasons reviewed for return analysed to ward off spurious sales?	
4.13	Are the undelivered policy documents retained in control and properly disposed off as per the stipulated process?	
4.14	Are the stock of policy stamps, receipt stamps in proper control (In case of adhesive stamps) and control exercised on franking machine, loading, consumption (if mechanised)?	

8.1.5. Policy Servicing

- **General Considerations:** Since life insurance policies are long term contracts,the policy-holders or insureds will have long term association with the life insurance company for varied kinds of services. Life Insurer is legally bound to provide these services under various provisions of law and also Consumer Protection Act. Following is the synoptic view of the various services provided by a life insurance company and internal audit aspects related.

8.1.5.1. General Servicing aspects

- Life insurance contracts are generally ??? for long term. There would be necessity to provide services to the policyholder to keep the contract updated. The responsibility for giving prompt service to the policyholders devolves on the life insurance company. Many of the servicing aspects like age admissions, address changes, alterations in policies, admission of claims, revivals of lapsed policies are all attended to at the branch office. In some cases involving complexity and coordination between two or more officers the matter will be referred to a higher supervisory or controlling office so that such coordination becomes easy. There are instances where the financial powers to be exercised by officials are beyond that of a branch limit . In such cases the matter will be referred to a controlling office. Keeping the customer data updated is the responsibility of this department. Accountability and proper disposal of queries and grievances, courteous, prompt attending to the queries of policy holders are expected at this function. Following are the normal transactions at this department.
    - Correspondence from policy holders,
    - Queries on their policies, policy conditions,
    - Change of address,
    - Corrections of errors,
    - Submission of documents not submitted earlier etc., not related to alterations to policy terms.
- **Internal Audit Aspects of General Servicing**
    - Ensuring timelines in the disposal of queries
    - Proper grievance redressal process and adherence, responsibilities.
- **Statutory and Regulatory Aspects**
    - Insurance Regulatory and Development Authority of India (Protection of Policyholders' Interests) Regulations, 2017: Adherence to Regulation (6) on outsourcing of activities.
    - Section 2(1)(o) of the Consumer Protection Act- for "Services"

8.1.5.2. Renewal premium accounting

- The most important function of the branch office is collection and accounting of renewal premiums. Premiums are to be paid on or before the due date. Many times, it may so happen that the insured is unable to pay the premium on the specified due date. Contractually, the arrangement immediately ceases. To facilitate prompt payment and continued coverage, the insurer generally allows a time from the due date, which is otherwise known as "grace-period". This grace-period is normally dependent on the mode of premium payment i.e., yearly, half-yearly, quarterly, monthly. In the Indian context this grace period is one month but not less than 30 days for yearly, half-yearly, quarterly and 15 days for monthly premiums. It may also vary from company to company. Details about grace-period are mentioned in the policy contract.

When the days of grace expire on a Sunday or a public holiday the premium should be paid on the following working day to keep the policy in force. The life insurance company will not be responsible for any delay in remittance caused through the post office or otherwise. If the claim occurs during the grace period and before the payment of premium, then the policy will still be valid and the sum-assured is paid after deduction of the said premium, as also unpaid premiums falling due before the next anniversary of the policy.

- **Internal Audit Aspects of General Servicing**
    - Ensuring timelines in the disposal of queries
    - Proper grievance redressal process and adherence of responsibilities.
- **Statutory and Regulatory Aspects**
    - Insurance Regulatory and Development Authority of India (Protection of Policyholders' Interests) Regulations, 2017: Adherence to Regulation (6) on outsourcing of activities.
    - Section 2(1)(o) of the Consumer Protection Act- for "Services"

8.1.5.3. Duplicate Policies

In a real life situation there could be a possibility that a policyholder may report the loss of policy document. The loss or destruction of a policy document does not in any way absolve the liability of the insurer of payment of policy moneys when the claim arises. If the policy is lost or damaged or even destroyed, the claim will be settled on the claimants furnishing the indemnity bond as may be required.

Even during the currency of the policy, a request may be made by the policyholder for issue of a duplicate policy. Many a life insurance company will agree to such a request when the original policy has been destroyed or irrecoverably lost and a declaration to this effect is given by the policyholder to the life insurance company.

A duplicate policy confers on its owner the same rights and privileges as the original policy. On receipt of the request from the policyholder intimating a loss of policy giving the circumstances for the loss,these need to be examined to ensure that the explanation given by the policyholder regarding the loss of policy is reasonably satisfactory. If the circumstances leading to the loss of policy are not given, the same will be called for. If the policyholder's explanation is satisfactory then the life insurance company will intimate the requirements regarding the issue of a duplicate policy as per its administrative procedure.

Many times, the life insurance company will charge a fee for preparation of duplicate policy, stamp value to be affixed and towards the cost of a public notification.

8.1.5.4. Alterations to Life insurance contracts

- Alterations are changes or modifications in the contracts/policies requested by the policy holder during the term of the policy. The change requested may be relating to :
    - Reduction of sum assured
    - Change in mode of premium payment
    - Addition or deletion of rider benefits as may be applicable
    - Change of beneficiaries etc.

  In all cases of alterations where there is a change in the premium, new premium payable consequent upon the alteration should be as per the process approved.

  Certain alterations can be effected by placing an endorsement either on the back of the policy or on a separate sheet of paper, while certain alterations can only be effected by canceling the existing policies and issuing new policies because on alteration, the conditions of the policy would be so changed, that it would be very difficult to incorporate the conditions in the endorsement and also such endorsements could be very lengthy to place it on the policy document.

- Generally sought alterations could be :
    - Change in class or term of policy
    - Reduction of sum assured
    - Change in the mode of payment of premium
    - Alterations in the date of commencement of policy
    - Removal of extra premium or restrictive class
    - Alteration from 'without profit policy' to 'with profit policy'
    - Alteration in name
    - Correction in policies
    - Inclusion of rider benefits

- Some of the special forms of alterations are discussed hereunder.
    - **Splitting up of Policies**: Splitting-up of an existing policy into multiple policies, is not ordinarily allowed. But if a genuine need arises then at the discretion of the life insurance company such splitting up of policy is possible. A policy can be split up into two or more policies provided that the sum-assured under each of the policy, after such splitting is not less than the minimum required sum-assured under the original plan of insurance. Splitting up of policy can be done by endorsing the original policy with respect to reduction in the sum-assured and by issuing a new policy towards the balance of sum assured. The altered premiums are payable from the next renewal date of premium and no difference on the premiums paid in the past should be realized. The policy holder will be required to pay the cost of the process of splitting up of a policy, as may be required under the servicing procedure. It should also be noted that no policy should be split up where a loan has been granted on its security by the life insurance company. Splitting is not allowed where the policy has been assigned in favor of a person other than the life assured.

- **Removal of Extra Premium(s):** If a policy is issued with an extra premium which is removable, such as an extra for health conditions existing at the time of issue, the same may be removed on production of satisfactory evidence of the life assured that the health or medical adverse feature observed by the life insurer has been cured through a proper medical procedure.

- **Substitution of a restrictive clause or endorsement by an extra premium:** Where additional restrictive clause or endorsement has been imposed due to any hazard and if the assured so desires that the policy may be covered by charging an extra premium for the hazard, the same may be considered if the rules of the life insurer so provide. Such alteration should normally be given effect from the next renewal date of the policy. It should also be noted that in all such cases, an appropriately worded endorsement should be placed on the policy as soon after the date from which the premium, including the extra premium is payable and that such premium must be realized before the endorsement can be placed.

- **Consideration amount required for alteration**: Where a policy is to be changed from one class of term of assurance to another, under which the premium payable is higher, a consideration amount is required to be paid by the policyholder to the insured before the alteration can be effected. Where an alteration in the policy is desired and allowed and where the premium payable after the alteration is higher, the interest on the accumulated difference of premium should be charged at the appropriate rate as per the process approved, with the same frequency at which the premium is paid.

- The following types of alterations are not permissible as a rule:
  - Alterations which are subject to lower scale of premiums, barring exceptional cases, as may be approved by the insurance company.
  - Extension of premium paying period.
  - Alteration from 'with profits' plan to 'without profits' plan
  - Alterations whereby the installment premium would come to less than the standard minimum installment premium required under a policy.
  - Alteration from high-risk (double/triple cover) endorsement class to anticipated endowment type
  - Reduction in deferment period under annuity plan

- **Statutory and Regulatory Aspects**
  - Insurance Regulatory and Development Authority of India (Protection of Policyholders' Interests) Regulations, 2017

8.1.5.5. Revival of Lapsed Policies

- **General aspects:** wShen the premium is not paid within the days of grace, the policy lapses, subject, however, to such benefits as may have been acquired by the policy conditions. The policy may however be revived during the lifetime of the life assured but within a period as stipulated in the policy contract, from the date of the first unpaid premium, subject to payment of arrears of premiums with interest and evidence of good health, wherever applicable.

- **I**f a policy lapses, then it results in loss to both the insured and the insurer. The insured loses the valuable protection that the life insurance has granted. The insurer loses in a different way. In fixing the premium rates, it is assumed that every policy will be kept in force for the full term till it goes out of the books of the insurer as claim by death or maturity.
- A level charges are made in the premiums for expenses. The expenses actually incurred are not uniform for each policy year but are substantially larger in the first year of insurance. The result is that even though the first year's premiums contribute only the uniform amount provided in the premiums towards expenses, the insurer actually spends a much larger amount. The excess spent in the first year is recouped in the successive policy years when the renewal premiums are paid. It is thus obvious that in the event of discontinuance of the policy it would not be possible for the insurer to recover the expenses spent in excess. Consequently such a policy proves to be a loss to the insurer. For this reason, every effort is to be made to reduce the incidence of lapses.

  in order to reduce the incidence of lapses it is a prudent practice to send regular premium notices to the policyholders about the premiums that fall due. Premium notices are not sent for policies where the mode of payment of premium is monthly. Sending premium notices is not a legal requirement but a customer centric policy. Non-receipt of notice is no excuse for non-payment of premium in time. Notice is sent as an act of courtesy to remind the policyholders about the premium that falls due. This procedure incidentally helps the life insurance company to conserve the business and to maintain the premium income at the highest possible level.

- **Premium default notice:** Intimations are sent by insurance companies to policyholders to remind them that unless the premium is paid, the valuable protection of insurance would be lost. The procedure helps the insurance company to reduce lapses.
- **T**he first default notice is issued by the insurance company to the policyholders 15 days after the expiry of the days of grace.
- The second default notice is also issued by the insurance company at the end of three months from the date of default. Interest at the stipulated rate per annum will be charged on the premium due.
- The third default notice is issued in the middle of the 6th calendar month reckoned from the month in which the premium fell due. If the mode of payment is quarterly or monthly the subsequent premiums which have fallen due with interest thereon must be paid. The administrative action regarding lapses is taken at the end of six months after the premium falls due. In respect of policies which have acquired neither paid up value nor surrender value, further information is sent to the policyholder after about a year from the due date of the first unpaid premium suggesting revival of the policy.

- **Revival of lapsed policies:** A policy lapses if a premium is not paid within the days of grace. In many cases where premiums have been paid for at least three years on a fault occurring in payment of premium, the policy becomes automatically paid up for a reduced amount. The policy conditions provide for revival of discontinued or lapsed policies.
- When the premium is not paid within the days of grace, the policy lapses, but may be revived during the lifetime of the life assured but within a period of stipulated number of years from the due date of the first unpaid premium and before the date of maturity as mentioned in the policy contract.

- **Non-forfeiture regulations:** Section 45 of the Insurance Act, 1938
    - Knowledge of non-forfeiture regulations is essential for an internal auditor as the provisions of this section are part of the policy contract. In common parlance in insurance, this is also called *"Indisputability Clause".* This section deals with situations under which the insurer will have a right to dispute the contract and when not. The section is reproduced hereunder for ready reference :
    - "*45. Policy not be called in question on ground of misstatement after three years.* — (1) No policy of life insurance shall be called in question on any ground whatsoever after the expiry of three years from the date of the policy, i.e., from the date of issuance of the policy or the date of commencement of risk or the date of revival of the policy or the date of the rider to the policy, whichever is later.

      (2) A policy of life insurance may be called in question at any time within three years from the date of issuance of the policy or the date of commencement of risk or the date of revival of the policy or the date of the rider to the policy, whichever is later, on the ground of fraud:

      PROVIDED that the insurer shall have to communicate in writing to the insured or the legal representatives or nominees or assignees of the insured the grounds and materials on which such decision is based.

      Explanation I. —For the purposes of this sub-section, the expression "fraud" means any of the following acts committed by the insured or by his agent, with intent to deceive the insurer or to induce the insurer to issue a life insurance policy: —

      (a) the suggestion, as a fact of that which is not true and which the insured does not believe to be true;

      (b) the active concealment of a fact by the insured having knowledge or belief of the fact;

      (c) any other act fitted to deceive; and

      (d) any such act or omission as the law specially declares to be fraudulent.

      Explanation II. —Mere silence as to facts likely to affect the assessment of the risk by the insurer is not fraud, unless the circumstances of the case are such that regard being had to them, it is the duty of the insured or his agent keeping silence, to speak, or unless his silence is, in itself, equivalent to speak.

(3) Notwithstanding anything contained in sub-section (2), no insurer shall repudiate a life insurance policy on the ground of fraud if the insured can prove that the misstatement of or suppression of a material fact was true to the best of his knowledge and belief or that there was no deliberate intention to suppress the fact or that such misstatement of or suppression of a material fact are within the knowledge of the insurer:

PROVIDED that in case of fraud, the onus of disproving lies upon the beneficiaries, in case the policyholder is not alive.

Explanation. —A person who solicits and negotiates a contract of insurance shall be deemed for the purpose of the formation of the contract, to be the agent of the insurer.

(4) A policy of life insurance may be called in question at any time within three years from the date of issuance of the policy or the date of commencement of risk or the date of revival of the policy or the date of the rider to the policy, whichever is later, on the ground that any statement of or suppression of a fact material to the expectancy of the life of the insured was incorrectly made in the proposal or other document on the basis of which the policy was issued or revived or rider issued:

PROVIDED that the insurer shall have to communicate in writing to the insured or the legal representatives or nominees or assignees of the insured the grounds and materials on which such decision to repudiate the policy of life insurance is based:

PROVIDED FURTHER that in case of repudiation of the policy on the ground of misstatement or suppression of a material fact, and not on the ground of fraud, the premiums collected on the policy till the date of repudiation shall be paid to the insured or the legal representatives or nominees or assignees of the insured within a period of ninety days from the date of such repudiation.

Explanation. —For the purposes of this sub-section, the misstatement of or suppression of fact shall not be considered material unless it has a direct bearing on the risk undertaken by the insurer, the onus is on the insurer to show that had the insurer been aware of the said fact no life insurance policy would have been issued to the insured.

(5) Nothing in this section shall prevent the insurer from calling for proof of age at any time if he is entitled to do so, and no policy shall be deemed to be called in question merely because the terms of the policy are adjusted on subsequent proof that the age of the life insured was incorrectly stated in the proposal.]"

Due to operation of section 45 and the non-forfeiture regulations, the life insurance policy does not get invalidated due to non-payment of premium, when certain number of premiums have been paid. Due to this section there have sprung a few benefits to policy holders like Automatic Premium Advance (APA), which provides for funding the premiums from the policy reserves, reduced paid up option etc.

- **Internal Audit Aspects of Revivals**
  - No restriction to revive a policy due to an adverse change in the life assured's place of residence.
  - No revival if a criminal case is pending against the assured at the time of revival request. Should wait until the criminal case is disposed-off and either held not guilty of the charge or the punishment is nominal or the assured is acquitted .
  - No revival if the assured is adjudicated insolvent at the date of revival request. Can be considered only when assured is discharged of his insolvency from a competent court
  - Same rules of underwriting as applicable for a fresh application are applicable for revival cases also.

- **Statutory and Regulatory Aspects**
  - Action as per section 45 of the Insurance Act, 1938: Non-forfeiture regulations
  - Insurance Regulatory and Development Authority of India (Protection of Policyholders' Interests) Regulations, 2017 for TAT

8.1.5.6. Nomination under section 39

- **General Considerations: An** Iinteresting part in life insurance is that much of its activities are governed by some or the other provisions of a statute or regulations. Unless the auditor is a specialised one in life insurance, intricacies cannot be known. In view of the fact that many of the internal auditors or even statutory auditors into life insurance may not have the required expertise, an effort has been made in this Guidance Note to provide a brief about the legal provisions based on the best practices in the industry.

  Nomination is a common facility in financial services industry and governed by section 39 of the Insurance Act, 1938. Relevant provisions and explanations are reproduced hereunder for an easy understanding of the legal provisions and to have clarity from compliance perspective.

- **Section 39 of the Insurance Act:** This section reads as under :
  "1. The holder of a policy of life insurance on his own life may, when effecting the policy or at any time policy matures for payment, nominate a person or persons to whom the policy money is secured by the policies, shall be paid in the event of his death:

  PROVIDED that where any nominee is a minor, it shall be lawful for the policyholder to appoint in the prescribed manner any person to receive the moneys secured by the policy in the event of his death during the minority of the nominee.

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 and 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 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 the records of the insurer.

3. The insurer shall furnish the policyholder written acknowledgement of having registered a nomination or the cancellation or change thereof and may charge a fee not exceeding one rupee for registering such cancellations or change.

4. A transfer or assignment of a policy made in accordance with section 38 shall automatically cancel a nomination.

PROVIDED that the assignment of the policy to the insurer who bears risk on the policy at the time of assignment, in consideration of a loan granted by that insurer on the security of the policy within the surrender value, or its reassignment on the payment of the loan shall not cancel a nomination, but shall affect the rights of the nominee only to the extent of insurers interest in the policy.

5. Where the policy matures for payment during the time of the person whose life is insured or where the nominee or if there are more nominees than one 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 a succession certificate as the case may be.

6. Where the nominee or, if there are more nominees than one, a nominee or nominees survive the person whose life is insured, the amount is secured by the policy shall be payable to such survivor or survivors.

7. The provision of this section shall not apply to any policy of life insurance to whom section 6 of Married Women's Property Act,1874 applies or at any time applied.

PROVIDED that where a nomination made whether before or after the commencement of the insurance amendment act 1946 in favour of the wife of the person who has insured his life or of his wife and children or any of them is expressed, whether or not on the face of the policy as being made under this section, the said section 6 shall be deemed to deemed not to apply or not to have applied to the policy."

- **Effects of section 39**

    - Firstly, a nominee is statutorily recognized as a person who can give a valid discharge to the insurance company for payment of policy moneys to him, in case policy moneys become payable due to the death of the policyholder.

    - Secondly, the right of nomination is conferred only on the holder of the policy of life insurance on his own life. He can nominate a person or persons to receive the policy moneys in the event of policy becoming a claim by his death. A person who is a holder of a policy on another person's life does not have the right to effect the nomination under the policy.

    - Thirdly, nomination does not take away from the life assured, the power of disposal of the policy with the result that the policy, notwithstanding the nomination, remains the property of the life assured and the policy lies at its absolute disposal during his lifetime. The nominee does not have any beneficial interest except to receive the policy moneys in the event of policy becoming a claim by reason of assured death.

- **Procedure for effecting Nomination under a Life Insurance Policy.**

    - The proposer may appoint a nominee while submitting a proposal on his life by giving a suitable reply to the appropriate question in the proposal form. However, after the preparation and issue of the policy, nomination can be effected only by an endorsement on the back of the policy itself and such nomination is required to be notified to the insurance company and registered by it in its records. A nomination made on a separate sheet of paper would be invalid.

    - **Notice of nomination:** If it is decided to effect a nomination by an endorsement on the policy it will not be effectual unless and until it has been communicated and registered by the insurer. When such a nomination is made for the first time, the insurance company will register it even if no notice is served,provided the nomination is in order. But for all cancellations, or changes of nominations and for all nominations subsequent to the first, the insurance company insists on a notice of nomination in the light of section 39 of the Insurance Act 1938; otherwise it will not be liable for any payment under the policy which it may have made in good faith. If therefore a policy is received for registration of nomination by endorsement subsequent to the first or of cancellation or change thereof without the formal notice in this behalf, the notice shall be called for from the assured.

    - The notice may be given by the life assured or his duly authorized agent in that behalf. A notice given by an agent of the insurance company or an employee of the insurance company or the nominee himself, would not be sufficient.

- **Change of Nomination**
  A nomination can be cancelled or changed by either an endorsement or by a will. If cancellation or change of a nomination has been made in a will, notice of such cancellation or change could be required from the executors of the will, after the death of the life assured, as the will takes effect only from the date of the death of the life assured and therefore such cancellation or change of nomination can take place only from that date. Once such notice is received, the payment under the policy will not be made except in accordance with the directions contained in the will. Even when a notice of cancellation or change of nomination by will is given by the assured himself, the life insurance company will take a note of it in its books. A notice by the executor will still be necessary. For a nomination to be cancelled by will, there must be a provision in the will showing "*Animus Revocandi*" (intention to revoke) and the cancellation may be either by express words or implied.

- **Several nominees**
  As may be seen from the wordings of section 39, where there is more than one nominee, the policy moneys shall be paid to the survivor or survivors of the nominees. The result is that, a nomination which provides for payment of policy moneys to the nominees in specified shares cannot be considered to be valid because in such a case, in the event of death of any one of the nominees before the policy moneys are paid, it would not be possible to carry out the provisions of the Act, to pay the policy moneys to the surviving nominees.

- Sometimes nomination is made in favour of wife and children as a class. The position in such a case would not be free from doubt as the main purpose of nomination i.e., naming of the specific persons to whom the amount should be paid in the event of death, has not been carried out. Therefore, the best thing is to suggest to the life assured to mention the names of existing wife and children.

- Where it is stipulated that the policy monies should be paid to the nominee "X", failing to him to nominee "Y", failing him to nominee "Z", such nomination is in order as it is in favour of one individual only in the order mentioned.

- **Joint life policies:** Under joint life policies, on lives of two persons, the policy monies are payable to the survivor on the first death. Therefore, the question of nominating a person under section 39 of the Insurance Act would not normally arise. However, a nomination can be effected jointly for the purpose of nominating a person to receive the policy monies in case both the lives assureds die simultaneously in a common calamity where it would be difficult to say which one of them predeceased the other. This nomination cannot be incorporated in the policy at issue thereof in the same simple manner as is done in the case of a single life policy. The life insurance company is prepared to allow this nomination by an endorsement on the policy form itself. The wording is slightly different.

- **Insurable interest:** where under a proposal, the proposer nominates a person who is apparently a stranger, an enquiry will be made from the proposer and the letter in writing will be called for from him which should explain how the insurable interest arises. If the reply is satisfactory the proposal is proceeded with. Otherwise, the circumstances of the case will be gone through carefully to arrive at a decision. Each case will be considered on its own merits.

- **Minor nominees**

    - The assured has the right to appoint a person to receive the policy monies in the event of death of the assured during the minority of the nominee.
    - This appointee will not be considered as the guardian of the minor nominee as defined in Guardian and Wards Act and his powers will be strictly limited to receive the policy monies in the event of assured's death during the minority of the nominee.
    - Such an appointment cannot be made when an assignment has been executed in favour of a minor.
    - It is not necessary for the appointor and the nominee to be father and son and the power given to the life assured, i.e., appointor does not arise from his relationship with the nominee.
    - The appointee should be a major. This appointment is to be made either by a mention in the proposal form (in which case it will be incorporated in the text of the policy itself) or by an endorsement on the policy. The appointment has to be signed by the appointee in evidence of his consent. The appointment must be communicated to the life insurance company to enable it to register the same. The life assured can cancel the appointment or change it by making another endorsement to that effect on the policy and by communicating it to the life insurance company. Further, such appointment can be simultaneous with the nomination or subsequent thereto. Whenever an office of the life insurance company notices that the nominee is a minor, it suggests to the policyholder to effect the appointment of an appointee. Such a suggestion is made either at the time of the dispatch of the policy or while writing to the policyholder in any other connection. The assured has the option to appoint a guardian under the Guardian & Wards Act, if the minor is his own child, or to ask the father of the nominee to appoint a guardian, if the assured is not the parent of the minor. In the case of such appointment the *Testamentary Guardian* would be the minor's guardian in respect of all the properties of the minor in the event of the death of the natural guardian of the minor.
    - The validity of a nomination effected under any of the acts mentioned earlier depends upon the place of payment. Same consideration applies to the validity of the appointment of the appointee. If the holder of a policy takes up residence outside those territories where the enactments governing the nomination or appointment are not applicable and if the policy is required to be transferred to that country, the insurer will agree to the transfer and to the change in the place of payment of policy monies

having regard to exchange control regulations provided the nomination, if any, executed under the policy is cancelled by the policy holder.

- It is provided under Insurance Rules, 1939 framed under the Insurance Act 1938 that the appointment of appointee may be changed or cancelled by endorsements and be communicated to the insurer. Therefore, for cancelling or changing the appointments of appointees, policies have to be endorsed suitably and submitted to the life insurance company for registration.

- **Date of registration of the Nomination**

- In case of a nomination which is incorporated in the policy document, it takes effect from the date of commencement of the policy. In case of nomination by endorsement, the date of receipt of the policy at the office of the life insurance company will be the date of registration of nomination if it is the first nomination in respect of the policy. In case of subsequent nominations or cancellations or changes in the first or subsequent nomination the date of receipt of the policy or notice, whichever is later, will be the date of registration.

- It is not possible for the policyholder to effect nomination in the policy, if the policy has been lodged with the creditor for reason of a loan. However, if the loan has been taken from the life insurance company and if the policy has been lodged with the office of the life insurance company, the office concerned may agree to allow him/her the facility of effecting the nomination if he/she calls personally at the office concerned. The office will not part with the policy but will get the assured to complete all the formalities on the office premises.

- **Death of a nominee before the life assured**

  In case the nominee dies before the life assured, the nomination comes to an end and the assured has the right to make fresh nomination in favour of another person.

  In case the nominee dies after the life assured, but before receiving the policy money's, nomination would be ineffective in the same way as if his/her death occurred before the life assured, because the nominee has the right to receive the policy monies under section 39 of the Insurance Act 1938 and that means he/she can give a valid discharge to the life insurance company but beyond that the nominee has no right or interest in the policy itself. Therefore, if the nominee dies before receiving the payment of the policy monies, the nominee’s estate would not have any right to the monies but policy monies would go to the estate of the assured and consequently legal representation will have to be obtained to the estate of the assured.

  Whenever an intimation is received regarding the death of a nominee or an appointee, the life insurance company calls for a death certificate or an extract from the relevant municipal or other registers. After satisfying that it pertains to the death of the nominee or the appointee, a copy of the certificate is taken and filed in the policy file. A nominee has no right or interest in the policy moneys except the right to receive/ give a valid discharge. A nominee cannot ask for commutation of future instalments payable during the selected P\period, where the sum assured is to be paid by instalments because he/she can give a valid discharge for each instalment if he/she is alive on the date of payment of each instalment. In case of his death before the payment of these instalments, the estate of the assured would be entitled to receive the remaining instalments.

- **Internal Audit Aspects of General Servicing**
- Statutory and Regulatory Aspects
    - Insurance Regulatory and Development Authority of India (Protection of Policyholders' Interests) Regulations, 2017
    - Insurance Regulatory and Development Authority of India (Fee for registering cancellation or change of nomination) Regulations 2015

8.1.5.7. Assignment under section 38

- **General consideration**: In practical daily life assets are acquired for personal use but during the life time of the assets, there can be movement of ownership, title of the assets to others. Though these movements are permanent in nature in most of the cases, which we otherwise can call as 'sale" of assets, in other cases such transfer of title could be as gifts. There are also instances wherein such title transfers are for collateral security of debts; on repayment of debts the title in the property come back to the original owner. Assignments of title in the life insurance policies are governed by section 38 of the Insurance Act 1938.

- **Section 38 Insurance Act 1938** : This section reads thus:
  "1. 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 assigner or his duly authorized agent and attested at least by one witness specially setting forth the fact of transfer or assignment.

  2. A 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 operated as against an insurer and shall not confer upon the transferee or assignee or his legal representative, any rights to sue for the amount of such policy or the moneys secured thereby until a notice in writing of the transfer or the 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.

  PROVIDED that where the insurer maintains one or more places of business in India, such notice shall be delivered only at a place in India mentioned in the policy for the purpose or at his principal place of business in India.

3. The date on which the notice referred to in Sub-Section (2) is delivered to the insurer shall regulate the priority of all claims under a transfer or assignment as between persons interested in the policy; and where there is more than one instrument of transfer or assignment the priority of the claims under such instruments shall be governed by the order in which the notice is referred to in sub-section (2) or delivered.

4.Upon the receipt of the notice referred to in sub-section (2), the insurer shall record the fact of such transfer or assignment together with the date thereof and the name of the transferee or the assignee and shall, on the request of the person by whom the notice was given, or of the transferee or assignee, on payment of a fee not exceeding one rupee, grant return acknowledgement of the receipt of such notice; and, any such acknowledgement shall be conclusive evidence against the insurer that he has duly received the notice to which such acknowledgment relates.

5. Subject to the terms and conditions of the transfer or assignment, the insurer shall, from the date of receipt of notice referred to in sub-section(2) recognize the transferee or assignee named in the notice as the only person entitled to benefits under the policy and such person shall be subject to all liabilities and equities to which the transferor or assignor was subject at the date of transfer or assignment and may institute any proceedings in relation to the policy without obtaining the consent of the transferor or assigner or making him a party to such proceedings.

6. any rights and remedies of an Assignee or transferee of a policy of life insurance under an assignment or transfer effected prior to the commencement of this act shall not be affected by the provisions of this Act.

7. Notwithstanding any law or custom having the force of law to the contrary, an assignment in favor of a person made with a condition that it shall be inoperative or that the interest shall pass to some other person on the happening of a specified event during the lifetime of the person whose life is insured, and an assignment in favor of the survivor or survivors of a number of persons, shall be valid."

- **Summary of the provisions of the Act**

  1. An assignment can be made either by an endorsement on the policy or by a separate deed.

  2. A notice of assignment in writing is necessary to be submitted to the life insurance company along with either the policy document duly endorsed or deed of assignment, or a certified copy thereof.

  3. The priority of claims will go by the date on which the notice of assignment is served on the life insurance company in the above manner, i.e., priority will be determined by the date on which both the notice as well as the policy or deed of assignment are supplied.

  4 The insurer has to record the fact of the transfer or assignment and has to give a written acknowledgement of the receipt of such notice.

  5.As a result of the assignments, all the rights and liabilities under the policy will be transferred to the assignee, subject to any condition contained in the assignment

6. It is possible to make assignments which are conditional. It is also possible to make assignments in favor of survivor or survivors of number of persons.

7.Any person competent to contract and having title to the property or authority to transfer the property, if it is not his own, may assign a policy.

The assignment can be of two kinds
1) Absolute Assignment
2) Conditional Assignment.

An absolute assignment is an assignment where all rights, title and interest of assignor, in the policy passed to the assignee without reversion to the former or his estate in any event. Under such an assignment, the policy vests absolutely in the assignee and forms part of his estate on his death. The assignee can therefore deal with the policy in any way he likes without the consent of the assignor.

A conditional assignment provides that on the happening of a specified event which does not depend on the will of the owner, the assignment shall be either wholly or partially inoperative. An example of conditional assignment is one which reverts to the assured in the event of his surviving the date of maturity or in the event of his being alive on the death of the assignee. It may be seen that in this case, the fulfillment of the condition does not depend on the will of the assignee.

Section 38 of the Insurance Act, 1938 makes it clear that a conditional assignment made after the Act came into force cannot be considered to be absolute notwithstanding the other laws. It is interesting to note that if the policy is transferred to a territory where the Insurance Act 1938 or similar enactment is not in force, any conditional assignment made by a Mohammedan would operate as absolute one in view of the Mohammedan Law.

In case the assignment is a conditional one, the assured can deal with the policy for the purpose of obtaining a loan or surrender value either by getting the policy reassigned in his favor by all assignees if all are majors and competent to contact or by applying jointly with the assignees if all are majors and competent to contract. But in case they are minors or there is some other disability, the assured cannot deal with the policy in any way.

Under the usual type of conditional assignment, the interest in the policy reverts to the policyholder in the event of either of the two contingencies occurring i.e.,

1) the assignee predeceases the policyholder or
2) if the policyholder survives on the date of maturity.

However, it is for the policyholder to retain both or either of the conditions. If the policyholder decides to retain both only then if the assignee predeceases the policyholder, the policyholder cannot deal with the policy unless he obtains legal representation either to the estate of the diseased assignee or limited to the policy monies under the policy. Check this para..not clear

Normally a life insurance company will not agree to the proposer assigning a policy under Children Deferred Assurance Plans during the deferment period.

- **Premium Notice**

Premium notices are periodical reminders sent by l companies to the policy holders as and when premiums fall due under a policy.

Once the policy is absolutely assigned, premium notice, Loan interest notices if any and receipts of premiums or loan interest etc. are sent to the assignee unless the life insurance company is specifically instructed by the assignee or by the assignor otherwise. Therefore, whenever an absolute assignment is registered by the life insurance company, a suitable note is taken for preparing premium and loan interest notices and receipts so that notices and receipts are sent to the assignee.

In cases of absolute assignment, notices are not always necessary to be sent to the assignee. If the assignment is for the purpose of payment of premiums out of the provident fund, notices are to be sent to the assignor. [not clear

If all the conditions laid down in section 38 are satisfied, assignment would be complete and effectual upon proper execution. The only effect of non-serving of notice on the insurer would be that the assignment would not be binding on the insurer. Thus an assignment which is otherwise valid in law would not become invalid because the notice has not been served but it would deprive the assignee or assigner or their legal representatives of the right to sue the insurer for the policy moneys.

Transfer of only a part of actionable claim is void in law. The assignment therefore cannot be made of only a part of money under the policy of life insurance.

Mere deposit of a policy without any assignment in writing does not create any charge and hence a policy document cannot be mortgaged by just depositing it with another person.

- **Essential conditions of assignment**

All assignments have to satisfy the following conditions:
1. The person assigning a policy must have absolute right or interest vesting in him in respect of the policy either in terms of the policy contract or by virtue of previous assignment in his favour.

2. An assignor must be a major and otherwise competent to contract.

3. Assignee must not be subject to legal disqualifications.

4. Assignment must be supported by lawful consideration except in case of voluntary gifts where consideration is natural love and affection between the persons. Where the assignment is made without consideration and is not a gift, it is void. However, inadequacy of consideration is not a ground for making an assignment invalid except when combined with misrepresentation, fraud etc.

5. Assignment must not be opposed to the law for the time being in force. E.g. No assignment can be made in contravention of the Exchange Control Regulations.

6. Assignment must be in writing and must make very clear through the operative part of the endorsement that interest in the policy has been transferred and has become vested in the assignee.

7.The assignor must have affixed his signature to the assignment.

8.The assignor’s signature must be attested by at least one witness.

- **Assignments in favour of Agents of Life Insurance Corporation of India**

  Agents of the Life Insurance Corporation of India are prohibited from becoming assignees under policies on the lives of persons other than their own selves or their near relatives such as wife or minor children or major children if they are members of a joint family. If therefore such an assignment is received along with a notice thereof and if it is otherwise in order, the Life Insurance Corporation of India registers the assignment but will write to the agent to reassign the policy and to make some other arrangement as regards the payment of the consideration if any.

- **Notice of Assignment**

  A written notice of assignment as required by the Insurance Act has to be submitted to the life insurance company along with an assignment in original or a copy thereof certified to be correct by both assignor and assignee for registration of assignment in their books. Until such a notice of assignment is received, assignment will not be operative as against the insurer. Therefore, it is important that such a notice should be submitted promptly.

  If more than one notice is received, priority will be determined according to the date on which the relative notice is delivered to the life insurance company and a situation may arise where two assignments may be executed one on a separate paper and one on the policy document but the notice in respect of earlier assignment on a separate paper is not sent to the life insurance company while due notice is sent to the life insurance company in respect of the latter assignment. Then as far as the life insurance company is concerned the second assignee will have a priority over the first. Therefore, the life insurance company offices exercise great care in noting the correct date of receipt of assignment and notice.

- Submission of such notices is governed by section 131 of the Transfer of Property Act,1882 , which reads thus:

  “Every notice of transfer of an actionable claim shall be in writing signed by the transferor or his agent duly authorized in that behalf or in case the transferor refuses to sign, by the transferee or his agent and shall state the name and address of the transferee “.

  Thus, it can be seen that normally notice should be served by the assignor. Only when the assignor refuses or is unable to do so, the assignee or his agent can serve the notice of assignment on the insurer.

  However, if a lawyer gives a notice stating that he is acting under the instructions from his client, assignor or assignee as the case may be, such notice may be considered as a proper notice.

To decide whether the notice is valid in the light of the above conditions, the office will see that:

1) It is in writing.

2) It sufficiently identifies the assignment in respect of which notice is given.

3) It is dated on the same date or on a date subsequent to the date of execution of the assignment to which it relates.

4) It has been signed by the assignor or assignee or a lawyer acting on behalf of the assignor or the assignee.

In a conditional assignment the condition which would make the assignment inoperative, cannot depend on the will of the assignor. If it is so, the assignment will be void. It shows that even in a conditional assignment, it is not possible for the assignor to make the assignment inoperative or ineffectual at his will. An assignor cannot cancel an assignment whether absolute or conditional.

Therefore, scoring off of an assignment once executed or inserting words 'cancelled' does not have the effect of annulling the assignment. The only way an assignment can be cancelled is by having the policy reassigned in assignor's favour by the assignee or the person claiming title through him.

- **Stamp duty and Assignment**

According to the Indian Stamp Act an assignment executed otherwise than by an endorsement on the policy is required to be duly stamped and if an assignment is executed by an endorsement on the back of the policy itself, the same is exempted from stamp duty. Therefore, if the assignment is executed on a separate sheet of paper, it must be properly stamped. The life insurance company will not refuse to register unstamped or under stamped assignment as the assignment does not become invalid on that account, but it will not take any responsibility as regards the stamp duty. Only it cannot be received in evidence in a court of law until it is properly stamped, with penalty if any. Nevertheless, the life insurance company advises the parties concerned that requirement of the stamp duty should be fulfilled. According to the Stamp Act, an instrument executed by the government is exempt from Stamp Duty. Consequently, assignment of a policy of insurance, executed by Government does not require to be stamped.

An assignment executed on a separate sheet of paper and is pasted on the policy would constitute transfer by a separate deed and would require to be stamped. However, Boards of Revenue of some States have agreed that assignments executed on a separate paper pasted to policies would be treated as part of the policies and would be therefore exempt from stamp duty. Such assignments, if executed in those States, are registered without raising the question of stamp duty. Insurance Act allows the insurer to charge a fee of rupee one for registration of each assignment or reassignment. Many life insurance companies do not charge any such fees. The internal auditor needs to know the company policy in this regard.

Registration of an assignment by the life insurance company is mere recording of the fact of assignment or transfer together with the date thereof and the name of the transferee or the assignee. By registering assignment or nomination, the life insurance company does not accept any responsibility or express any opinion as to its validity or legal effect.

- **Reassignment**

  As the assignee has the right to transfer his rights under the policy, he may reassign his interest in the policy to the previous assignor. Such reassignment would have the effect of cancelling the assignment in favour of the original assignee and after the reassignment is executed, the interest in the policy reverts to the first assignor. Such reassignments are executed and registered in the same manner as assignments.

  In case an assignment or reassignment is executed by any official on behalf of a bank or a commercial institution and is received for registration, reference is to be made to the power of attorney file to find out whether the official concern has been authorized to sign on behalf of the institution, or not.

- **Registration of Doubtful and Ineffective Assignment**

  If the assignment is received for registration and is found that the title of the policy is not clear or that the assignment is defective unless it is on the face of it invalid it will be registered for what it may be worth. A note will be taken in the records as "registered for what it may be worth". At the same time the assignor or assignee are both will be informed about the registration in the above manner and a way would be suggested so that the defect in the assignment is removed or the title is straightened.

- **Death of Assignee**

  When an intimation is received regarding death of the assignee, a note is taken in the records. In case the assignment is conditional and provides for the reversion of the interest in the policy to the assignor, proof of death is required to be furnished to the life insurance company in the form of death certificate or duly certified extract from the municipal register. In case such a certificate is not available, last medical attendance certificate would be required and if this is found in order, a note would be taken of the assignee's death in the policy records.

  If the assignment is absolute, the interest in the policy on the death of the assignee would vest in the estate of the assignee and the person who obtains evidence of title to the estate of the assignee would be entitled to the policy monies. The proof of death is required in the same way as in conditional assignment. However, in this case evidence of title to the estate of the deceased has to be called for.

- **Effect of Assignment on a subsisting Nomination (Sections 38 and 39)**

  As can be seen from section 39 of the Insurance Act an assignment of the policy made in accordance with section 38 of the Act automatically cancels the nomination under a policy subject to the proviso that where a loan is granted by the insurer on the security of the policy, assignment in favour of the insurer in consideration of such a loan or reassignment of the policy on repayment of the loan does not cancel the nomination, but affects the rights of the nominee only to the extent of insurer's interest in the policy.

- **Assignment of a policy on which loan is granted**

  Assignment of a policy on which a loan has been granted on the security of a policy by a life insurance company and the policyholder subsequent to the grant of a loan effects an assignment in favour of another person, the interest of such person will be subject to the life insurance company's prior lien on the policy. In such a case if the assignment is received for registration, it will be examined to see whether it has been stated in the assignment that it is subject to the life insurance company's prior lien or not. If it is not stated so, the assignment will be registered, if otherwise in order, but in the letter advising the assignee about the registration of the assignment, the fact that the assignment is subject to the life insurance companies prior lien in respect of the loan amount will be mentioned. The policy in such a case would always be lodged with the office of the life insurance company and if the policyholder requests, he will be provided facilities to execute assignment by endorsement on the policy document by personally visiting the office of the life insurance company. As stated in the case of nomination under similar circumstances, the policy document will not be allowed to go out of the office of life insurance company.

- **Validity of Assignment in question**

  Whenever an assignment is disputed by any party, the effect of assignment will be explained to him/her and he/she will be told that the life insurance company is bound to recognize the assignee's interest in the policy by virtue of the assignment and that if he/she wants that the life insurance company should not allow the assignee to deal with the policy, he should get a prohibitory order served on the life insurance company restraining it from dealing with the policy.

- **Duplicate policies**

  In case duplicate policy has to be issued and the original policy had been assigned, only those assignments which are actually operative on the date of issue of duplicate policy will be shown on the duplicate policy and while forwarding the duplicate policy, the policyholder is asked to have the assignment executed and thereafter to forward the policy to the life insurance company for registration of assignment together with the notice thereof. He or she would be informed that even if the assignment is not executed, the title and interest of the assignee under the assignment executed under the original policy would remain unaffected and the suggestion for having the assignment executed on the duplicate policy is made with a view to show the effect of assignment on the face of the duplicate policy.

- **Minor Assignees**

  If the assignment is in favour of a minor, in the event of a claim, policy monies cannot be paid to him/her as he/she cannot give a valid discharge. However, if a natural guardian of the minor is alive the policy monies can be paid to him/her. If there is no natural guardian, policies monies can be paid to the testamentary guardian appointed under the Guardian and Wards Act. Therefore, if assignment is in favour of a minor while registering the assignment, appointment of a guardian should be suggested.

- **Internal Audit Aspects of General Servicing**
- Statutory and Regulatory Aspects
  - Insurance Regulatory and Development Authority of India (Protection of Policyholders' Interests) Regulations, 2017
  - Insurance Regulatory and Development Authority of India (Fee for granting written acknowledgement of receipt of Notice of Assignment or Transfer) Regulations, 2015

8.1.5.8. Policy Loans

- **General Considerations:** Life insurance policy may have a provision to secure a loan against the policy. Loans are granted within the surrender value of a policy for such amounts and under such terms and conditions as the life insurance company may fix from time to time and subject to the production of satisfactory title.

- Loans are normally not granted on the following types of policies
  - Immediate annuity and deferred annuity policies
  - Children deffered assurance policies during the deferment.
  - Pure endowment policies for the benefit of children
  - Temporary assurance policies
- Moreover, loans cannot be usually granted in the following cases:
  - Where the assured or the assignee or any one of the assignees is incompetent to contract because of the minority or lunacy or undischarged insolvency
  - Where policies carry conditions or endorsements taking away the right of raising loans from the assured
  - Policies issued under Married Woman's Properties Act 1874 unless the trustees are empowered to raise the loan for the needs of beneficiary ; policies lost or destroyed or where title or assignment is not clear ??
  - Prohibitory or attachment order served on the life insurance company where foreign exchange regulations apply ??
  - If there is a suspicion of fraudulent misrepresentation and the same is being investigated

- **Process:** On receipt of the application, the loan amount is calculated and information is given to the policyholder. The policyholder is asked to provide the documents like policy document deed of assignment if any and declaration regarding further assignment. Where loan amount is advanced to the policyholder, interest is payable at periods specified in the clause. The life insurance company will fix the rate of interest chargeable on the loans issued against the policies. Loans are granted for a minimum period of six months normally from the date of payment even if the repayment is made within that period. Interest for the minimum period of six months will have to be paid. A life insurance company normally does not ask for repayment of loan as long as interest on the loan is paid regularly as specified.

- **Internal Audit Aspects of Loans**
    - Adherence to the approved process
    - Accuracy of computations including bonus accretions
    - Whether the original policy document is endorsed and held in custody.
- Statutory and Regulatory Aspects
    - Insurance Regulatory and Development Authority of India (Protection of Policyholders' Interests) Regulations, 2017

8.1.5.9. Surrenders and Reinstatement

- **General Considerations**
  Whenever a policyholder desires to terminate a life I nsurance policy contract during its currency, before the expiry of the term, the life insurance company offers to pay a cash value available in cancellation of the policy contract. This is known as *surrender value.*

- **Legal Provision:** The policy acquires surrender value by virtue of operation of the provisions of section 113 of the Insurance Act of 1938. This provision is known as guaranteed surrender value provision.
- **Why surrender value is always less:** Life insurance isn't essentially a cooperative enterprise. The premiums paid by the policyholders are pooled together to form a common fund known as life fund. All approved claims and management expenses are paid out of this fund. As such when any of the policyholder decides to opt out he is not entitled for refund of the entire amount paid by him. He is entitled only to a share of the amount leftover. This is the reason why the amount paid as cash value on surrender of a policy contract is lower than the premiums paid.

  Due to high management expenses in early stages after issue of a policy the surrender value will be much lower as compared to the premium paid due to heavy incidence of initial expenses. Hence it is not in the interest of the policyholder to surrender at that stage.

- **Guaranteed Surrender Value and Special Surrender Values (SSV): T**he guaranteed surrender value payable under the policy is as specified in the terms and conditions of the policy itself A life insurance company may allow a liberal surrender value which will be appreciably more at longer durations when compared to the guaranteed surrender values. These are generally known as special surrender values

  when special surrender value is more than the minimum guaranteed surrender value the special surrender value will be paid to the policyholder in total cancellation of the contract. In a few cases where the guaranteed surrender value is more than the special surrender value the guaranteed surrender value which is more will be paid to the policyholder

  No special surrender value is allowed under policies which have not acquired minimum paid up value. In such cases only guaranteed surrender value and cash value of bonus if any calculated on the date of lapse will be paid as surrender value

- **Requirements for obtaining a surrender value**

  An application showing the decision to surrender the policy from the person who is entitled to surrender the policy is to be submitted to the insurance company and get a discharge form in the specific format and form of declaration of new assignment. Both the forms should be signed by the applicant and witnessed.

- **Internal Audit Aspects of General Servicing**
  - Adherence to the stipulated process
  - High surrender applications over and above the anticipated ones.
- **Statutory and Regulatory Aspects**
  - Insurance Regulatory and Development Authority of India (Protection of Policyholders' Interests) Regulations, 2017

8.1.5.10. Settlement of Benefits/Claims

- **General Considerations:** "Claim" is a situation under which the benefits assured under the insurance contract are paid, on the occurrence of contingencies. The Policy Schedule also defines the persons to whom the sum assured is payable. Normally it is payable to the proposer or his assigns or nominees under section 39 of the Insurance Act or proving executors or administrators or other legal representatives, who should take out the representations to his/her estate or limited to the monies payable under the policy from any court of any State or territory of the Union of India.
- **Contingencies in Life Insurance:** Under a contract of life insurance, the sum assured is payable on the happening of either of the two contingencies: (1) death during a selected period. (2) Survival at the end of selected period. In case of life insurance in the form of term insurance, pure endowment without return of premiums etc. only one of the contingencies is insured against, while in case of other assurance policies like endowment assurance the sum assured is payable on the happening of either of these two contingencies. The Policy Schedule of a life insurance contract clearly states the contingency(ies) on the happening of which the sum assured shall become payable.
- **Types of Claims:** The clauses on the which are important are, first "Event on the happening of which the sum assured is payable" and the second is "to whom the sum assured is payable" and the other one n is "the place at which sum assured is payable". The claims arising by assured's death are called "Death claim", while the claims arising on assured surviving till the date of maturity add called "Maturity claim". Therefore, claims are divided into two categories namely death claims and maturity claims. In view of the fact that in case of maturity claims the policyholder will be alive, the procedure for settlement of maturity claims is simpler
- **Death claim:** A death claim will arise on the death of the life assured and when intimation of death is received at the concerned office of the life insurance company. On receipt of the intimation of death, the office will ask the claimant to submit proof of death, proof of age if not admitted earlier and proof of title including the policy document. After these proofs are received and found satisfactory a discharge voucher is forwarded to the claimant and the policy monies are paid on receipt of the discharge voucher duly signed and witnessed from the claimant.
- **Intimation of death:** Death of the policyholder can be intimated to the life insurance company by a letter, or an email from an official email id or by any suitable mode from the

claimant in order to establish the identity of the policyholder. The intimation should contain details like the policy number, life assured's name, date of death of the assured, known cause of death and claimant's relationship with the diseased. If therefore on receipt of the intimation of death it is found that any of these particulars are missing a reference will have to be made to the claimant to obtain the missing information. Intimation of policyholder's death should be received from the person entitled to receive the policy amount, normally the assignee or the nominee under the policy or the nearest legal-heir such as widow of the deceased or son. Sometimes intimation may be received from a third person such as a relative or even an agent or solicitor who apparently is not concerned with the claim.

- **Proof of death**: After receipt of intimation of death and after checking up whether the policies are in force for full sum-assured or have acquired paid up value on or before death claim, forms along with a set of instructions for claimants are issued to the claimant to enable them to prove the death.
- **Forms required in death claim:** It is a prudent practice in the claims settlement process to bundle the required documents as a package as under:
    - **Claimant's statement:** A claimant is required to give his or her replies to questions regarding his or her relation with the deceased, nature of title, place and date of death of life assured, duration of his last illness, immediate cause of death, age of life assured at the time of death, details of other policies on life assured and name/s of doctor or doctors who had been consulted by the life assured during the last three years as well as the names of the doctors who attended upon him during the last illness.
    - **Medical Attendant's Certificate:** A medical attendant's certificate contains replies to a number of questions relating to the assured as well as the circumstances relating to the assured's death, his habits, history of any previous ailments and any other information which the medical attendant may be in a position to give, if he had been attending upon the life assured previously. This form is completed by the medical attendant who attended upon the life assured during his last illness.
    - **Certificate of Death:** Issued by the competent authority like Municipality under their official seal.
    - **Certificate of Burial or cremation:** Certificate of burial or cremation is normally not required if a certified extract of record of deaths maintained by the municipality or panchayat or a certificate of death issued by the municipality or panchayat is produced. In the absence of such a certificate, the form of certificate of burial or cremation has to be completed and signed by a person of known character and responsibility, who was present at the burial or cremation of the body of the deceased. The questions in this form relate to the knowledge of the person regarding the deceased and particulars of burial or cremation including date, time place etc.
    - **Certificate of identity:** In all cases where a municipal death certificate is not submitted, a certificate of identity has also to be obtained by the claimant in addition to the certificate of burial or cremation. In the absence of certificate of death, it has to be completed and signed by the person of known character and responsibility acquainted but not related to the diseased nor to the claimant and who had seen the dead body. This certificate is obtained if the deceased was self-employed or unemployed; if he was in a service at the time of death, a certificate

from the last employer can also be obtained in the respective form. All these documents are called for just to authenticate that the assured under the policy and deceased person under burial/cremation are one and the same.

  - **Employers Certificate:** If the assured was under services of an employer, a certificate under seal can be obtained, with details of the deceased.
  - **Agents Report:** Wherever the details of the insurance agent who sourced and serviced the policy(ies) are available, an agent's report could be called for, who will complete the form after making his own independent enquiries as to the accuracy of the information.
- **Scrutiny of the claim forms:** From the internal audit perspective following are important :
  - Death of the Assured
  - Death being one of the contingencies covered
  - Death being not excluded under suicide clause
  - No suspected concealment of material facts coming under section 45 of the , Insurance Act,1938
- In case of a policy of life insurance before the question of settlement of a claim can be taken up it has to be ascertained and confirmed that the deceased person was the same as the person insured under the policy. The office has to satisfy itself about the identity of the claimant. It has to be verified, that the death of the life assured has really occurred, that it is not a suicide if the claim has risen within one year from the date of the issue of policy, that the cause of death duration of terminal illness and other information are such that the possibility of any wrong information having been given or material information having been concealed at the time of proposing for insurance does not arise. However, if any doubt arises on account of any of the following, an investigation is to be made as per the stipulated process.
- **Early claims:** In case a claim arises within two years after the commencement of the policy and or its last revival, it is considered as an early claim.
- It is true that some of the policyholders may die as a result of accidents even during this period of 2 years. But the probability of one or more of the three factors mentioned earlier being absent is rather high (ie the death of the life assured has really occurred; that death is not a suicide if the claim has arising within one year from the date of issue of the policy; that the cause of death ,duration or terminal illness and other information). Therefore, in case of any early claim suspicion may arise that an attempt to defraud the insurance company might have been made. Therefore before dealing with the claim the office will try to satisfy itself that the death has really occurred, that there is no suicide if the claim has arising during the period of application of suicide clause and that no fraudulent misrepresentation or concealment of material fact has been made by the life assured at the time of entering into the contract. Normally investigations in respect of an early claim will be entrusted to an experienced field officer with a view to get the facts. The nature of inquiry will depend on the cause of the death and duration after last illness. Inquiries will be made from the doctors who had been consulted during the last illness or earlier and from the deceased's family doctor, his relatives, his employer, claimants etc. In case the deceased was in service his leave record will be asked for and scrutinized. After inquiries are completed a decision will be taken by the life insurance company either to admit the claim or to repudiate depending upon the facts and evidence which has come to light. In such cases if it is decided to admit the claim the claimant will be asked to submit the requirements which are not furnished and also the proof of title.

- **Alternate proof of death**: Sometimes death may take place due to sudden heart failure or as a result of accidental drowning at sea while overboard a ship or the assured might have committed suicide or might have been murdered. In such cases, *in lieu* of the last medical attendant's certificate, an alternate proof will be required.eg. a certified copy of the police inquest report or a *panchnama* or a report and verdict of the Coroners Court with the statements made by the witnesses to the police authorities in case of suicide, murder or burns; a letter from the jail authorities, if the assured is hanged or if death takes place there; a letter from the airline company in case of death due to air crash, a certified extract from the ship's logbook if death take place at sea. In case of death due to sudden heart failure, without any medical treatment having been given, a declaration by a person not having any financial interest in the life of the deceased, who was present at the time of death or saw the dead body, made before a magistrate on stamp paper of the appropriate value will be called for. This declaration will be in addition to other forms already mentioned. If necessary certified copies of the post mortem report from the State Government are to be called far.

- **Presumption of death:** In case a person has disappeared he would be presumed to be dead only if if he has not been seen or heard for seven years by those who would have naturally heard from him if he had been alive. In such a case a decree of the court that the assured was presumed to be dead has to be produced by the claimant. The date of submitting the plaint in the court is taken as the date of death except when the civil court fixes the date of death after taking all the facts into consideration.

- **Rival claimants:** Sometimes a claim under the same policy may be made by two or more rival claimants. Action by the office will depend upon the status of the rival claimants and the status of the policy. If the claim is put up by a creditor, then he would be informed by the office about the title, that is whether the policy stands assigned or nominated or is in the assured's own favour. He/she shall also be informed that on receipt of all requirements, payment of policy monies will be made to the assignee, nominee, legal representative and that if he has any valid objection to payment being made to the assignee/nominee/legal representative, he/she should establish his/her claim against him/her in a court of law and in the meantime, serve on the office concerned, a prohibitory order from competent court within stipulated number of days (say 15 days) from the date of such letter. It would be further made clear to him that if no prohibitory order is served on the office concerned within the stipulated, payment of the policy moneys to the assignee/ nominee/legal representative will be proceeded with on receipt of all requirements under the policy without any further reference to him. Under no circumstances the net amount payable shall be intimated to the creditor. if the rival claim is put forth by another relative of the diseased life assured. In case the policy is assigned or nominated, the rival claimant will be informed that if the nomination or assignment is cancelled by an order of the court of law, proper evidence of title to the life assured's estate will be required if the policy does not contain any nomination/assignment. He/she would be informed that such and such person has already intimated to the office the assured's death and the office has issued a set of claim forms to him to be returned duly completed. In proof of death the requirements of the policy and the net amount payable shall be intimated to him and the office will further inquire whether he wants to prove the assured's death independently, in which case a fresh set of claim forms will be issued to him. He will be further asked to establish his claim against the original claimant in a court of law and serve on the life insurance company a court's prohibitory order on the same lines as earlier. The first claimant also should be informed that a rival claim has been put up by such and such a person and that if he has any objection to the payment being made to the rival claimant on his furnishing requirements under the policy including proper evidence of the title to the assured's estate he should serve on the office concerned the courts prohibitory order. However, where the first claimant is an assignee or nominee he will not be called upon to serve a court's prohibitory order.

- **Maturity Claim:** Maturity claims are those claims where the sum-assured becomes payable on account of the life assured having survived the specific term of the policy. In view of the fact that the policyholder is still alive ,the procedures for settlement of maturity claims are simpler.

  In case of maturity claims, the office requires proof of age if not admitted earlier, proof of title in case the title vests in a person other than the person who had effected insurance, original policy or duplicate if issued in lieu thereof along with deed or deeds of assignments if any.

- **Procedure for maturity claims**: In the case of maturity claims the date of maturity is known well in advance. Therefore a few months before the date on which the policy amount is payable, the particulars of the policy would be entered into the payment voucher and the amount will be calculated. It would be carefully examined whether the policy monies are payable to the assured or to any other person. If a policy loan has been granted, then subsisting loan with interest will need to be recovered out of the maturity proceeds. Once all the requirements are received, a discharge form is issued to the claimant and once the discharge form duly signed and witnessed is received then payment will be made.
- **Claimant a lunatic or a minor**: In case the claimant is suffering from any disability so that he is not in a position to give a valid discharge, payment cannot be made to the claimant directly. If he's a lunatic a certificate from the court of law under Indian Lunacy Act appointing a person as the guardian to manage the properties of lunatic shall be called for. However, if the claimant has recovered from the mental disorder he shall be asked to obtain and forward either a certificate from the mental hospital where he was treated or from a civil surgeon to the effect that he has completely recovered from his mental disorder and that he is capable of managing his own affairs.
- In case the claimant is a minor the claimant claim money will become payable to his or her natural or legal guardians failing which the claim would be paid on his or her attaining majority. Where the minor assignee or nominee is a Hindu, the Hindu Minority and Guardianship Act provides that the natural guardian of a Hindu minor in respect of minor's properties shall be the father and failing him the mother. Section 8 of this Act provides that the natural guardian of a Hindu minor has the power to do all acts which are necessary or reasonable and proper for the benefit of the minor in the realization, protection or benefit of minor's estate. But for the exercise of certain powers such as dealing with the estate by way of mortgage or transfer or lease, the consent of the court is required. Accordingly, where the father or mother of a Hindu minor is alive, payment of the claim monies can be made to him or her.

- Where a minor assignee or nominee is a Mohammedan the policy monies can be paid to his or her father, failing him to the father's father, failing him to the executor appointed by the father's will or failing him to the executor appointed by the will of the father's father. In case of non-Hindus other than Mohammedan, policy monies can be paid to the natural guardian of the minor according to law. In all other cases excepting where a person has been appointed to receive policy monies during the minority of nominee payment of policy monies can be made during the minority of an assignee or nominee only if a guardianship certificate in respect of property of the minor assignee or nominee from the competent court of law under the Guardians And Wards Act of 1890 is produced. In case of nomination payment can be made to the appointee of the nominee If the nominee is a minor provided such appointment has been made earlier.

- **Internal Audit Aspects of Claims**

  If claim occurs before the expiry of the grace period, to treat the policy as valid and settle the claim after recovering the premium due

- **Statutory and Regulatory Aspects**
  - Insurance Act, 1938
  - LIC Act 1956
  - Insurance Rules 1939
  - Hindu Minority and Guardianship Act,1956
  - Guardians and Wards Act,1890
  - Insurance Regulatory and Development Authority of India (Protection of Policyholders' Interests) Regulations, 2017

- Model Questionnaire for Internal Audit of Life Insurance

MODEL QUESTIONNAIRE FOR INTERNAL AUDIT OF LIFE INSURANCE FUNCTION: 5. POLICY SERVICING		
5.1.Department: **General Servicing**		
Sl. No	Particulars	Remarks:
5.1.1	Is there a documented, Board approved administrative procedure on General Servicing matters in Policy Servicing, in a readable/referable format? If not raise a red flag.	This is required for audit team member to get conversant with the practices in the organisation.
5.1.2	Is there a documented, approved, latest turnaround timelines for the activities in the department?	Required to eliminate delays in the servicing
5.1.3	Are these turnaround timelines displayed in appropriate and prominent places in the physical or virtual office of the life insurance company?	Required to ensure transparency in operations
5.1.4	Are the servicing activities outsourced? If yes have the provisions in Regulation (6) of Insurance Regulatory and Development Authority of India (Outsourcing of Activities by Indian	If not raise red flag for non-compliance

	Insurers) Regulations, 2017 been complied with?	
5.1.5	Is there a process and compliance in accordance with the regulation (13) of Insurance Regulatory and Development Authority of India (Outsourcing of Activities by Indian Insurers) Regulations, 2017 for Inspection and Audit by the Insurer?	If not raise red flag for non-compliance
5.1.6	Is the processes in Policy Servicing compliant with section 2(1)(o) of Consumer Protection Act Services?	If not raise red flag for non-compliance
5.2.Department: **Renewal Premium Accounting**		
5.2.1	Is there a documented, Board approved administrative procedure on the process of Renewal Premium Accounting in a readable/referable format? If not raise a red flag.	
5.2.2	Is there a guideline on waiving late fees on delayed premium, including the approval process?	Report all exceptions
5.2.3	Once the renewal premium is accounted the first unpaid premium in policy master should be moved to the next one accurately?	Check random cases
5.2.4	In cases of dishonour of cheques for payment of renewal premium, first unpaid premium should be restored to the earlier one, on taking cheque dishonour action. Is the process working as required?	Check random cases
5.2.5	Commission released on payment of renewal premium should be recovered/at least a charge be created in the commission records, on dishonour of cheques of payment of renewal premium .	
5.3.Department: **Duplicate Policies**		
5.3.1	Is there a documented, Board approved administrative procedure on issue of duplicate policies?	
5.3.2	Are there any instances of issue of duplicate policy without a request from the policy holder? - If yes list all cases with reasons. Specifically flag cases where original policy document is lost in the office of life insurance company.	
5.3.3	In all cases of destruction/mutilation/damage to the original policy document, has evidence been provided to the satisfaction of the Life Insurance company.	List all exceptions and reasons recorded.
5.3.4	Does the process recognise possibilities of assignment, mortgaging and any other way the original policy could have been dealt with including indemnity bond duly executed?	
5.3.5	Have all documents been obtained from the	List all exceptions and

	policy holder as per approved procedure including indemnity deed in cases applicable?	reasons recorded.
5.3.6	Are the costs involved in the issue of duplicate policy recovered from the policyholder, before issuing duplicate policy?	List all exceptions and reasons recorded.
5.3.7	Is press notifications issued, wherever applicable as per the procedure and costs borne by the policy holder? It is necessary to have copies of these press advertisements in office records	List all exceptions
5.3.8	Is there a process for ensuring accuracy of the contents of the duplicate policy as that of the original?	
5.3.9	Are the duplicate policies endorsed with the words "Duplicate Policy"	
5.4.Department: **Alterations**		
5.4.1	Is there a board approved, documented procedure in place for alterations to the terms in a policy?	If not raise red flag
5.4.2	In a system driven environment, is there a satisfactory control that these approved changes are incorporated into the system without affecting the system integrity.	If not raise red flag
5.4.3	Is there a satisfactory process of incorporating the alterations on to the policy document by endorsement on the policy?	Do a random sample check
5.4.4	Is there an alteration fee payable on approved alteration(s) to the policy? If yes is there a satisfactory system of accounting the same?	Check with General Ledger
5.5.Department: **Revival/Reinstatement of Lapsed Policies**		
5.5.1	Is there a board approved process for determining lapses and effecting revivals, in place?	If not raise red flag
5.5.2	Is the revival process managed as per approved process and by authorised persons?	Check with the authority matrix
5.5.3	Are revival cases underwritten by the staff in revivals and cases referred to regular underwriting section?	To understand the process control
5.5.4	Wherever cases underwritten by revival section staff, are the staff adequately trained?	To estimate risk
5.5.5	Are medical reports received for revivals, reviewed by medical underwriters?	
5.5.6	Is there a periodical revival campaign to keep lapses at minimum?	
5.5.7	Is there a satisfactory process to ascertain the unpaid premiums and late fee/interest due on unpaid premiums to be collected on revivals?	Check cases in random sample

5.5.8	is there a satisfactory process to send premium default notices on premiums unpaid?	
5.5.9	Is there a satisfactory process for sending lapse notices to policy holders on premiums not paid beyond the grace period?	
5.5.10	is there a satisfactory process for sending revival intimations so that lapsed policies can be revived?	
5.5.11	Once the revival of a policy is approved and premiums due and interest thereon are received and appropriated, then policy status should move to “in force”	
5.5.12	Is there a satisfactory process for releasing commission to agents on policies revived, as applicable under approved process.?	
5.5.13	Is there an APL (automatic premium loan) advancing provision in the policy contracts under approved process?	
5.5.14	If the APL process is on, then is there a satisfactory process to recover the premiums due, by raising a loan against the surrender value on the policy and the policy is kept in force?	
5.5.15	In all cases where such APL process is applied, and the premiums continue to be not paid by policy holder and premiums are funded from the surrender value and such loan with interest accrued thereon exceeds the surrender value, the policy should be treated as surrendered and the status of policy records be changed to "Surrendered"	
5.5.16	Wherever there is a restriction on the number of revivals permitted under policy conditions, is there a process to keep a check so that the number of revivals do not exceed the permitted numbers?	
5.6.Department: Non-Forfeiture Regulations/Paid up/Policy Loans/Surrender		
5.6.1	Does every policy contract contain a provision of section 45 of the Insurance Act 1938 (Non-Forfeiture Regulations)	
5.6.2	Does the policy Terms and Conditions provide for an Automatic Premium Loan (APL)?	
5.6.3	Does the policy contract contain a provision relating to reduced paid up value	
5.6.4	Does the Policy contract contain the provisions of section 113 of the Insurance Act 1938, relating to guaranteed surrender value?	
5.6.5	Does the policy contract contain a provision relating to payment of a benefit other than the	

	GSV, with whatsoever name such benefit may be called, including special surrender value etc?	
5.6.6	Does the company have a board approved procedure for payment of surrender value? If yes, are the rules complied with?`	List all deviations:
5.6.7	Does the procedures contain process related to payment of SV, when Notice of Income Tax Officer is received/a prohibitory or attachment order served by a court?	
5.6.8	Are there provisions for payment of discounted claim (surrender before one year of maturity)? If yes then are they adhered to?	
5.6.9	Are the provisions for reinstatement of surrendered policies applicable? If yes are they adhered to?	
5.6.10	Has any policy loan been granted and paid, in cases where policy is assigned under section 38?	
5.6.11	Are calculations of loan interests and repayments properly done as per the approved procedure?	
5.6.12	Are there any cases of policy loans having been completely paid by the policy holder and policy document still held by the insurer without delivering it to the insured?	List all cases for prompt action.

- Some illustrations of computational aspects involved in the policy servicing section:
- Calculate the paid up amount

Policy No	2
Plan and Term	Endowment assurance with profits- 25 years term
Mode	Yearly
Sum Assured	2,50,000
Risk Date	13-2-1983
Paid up value required as on	13-02-1990

Solution:

Note: Since the premium payment details are not given, it is presumed that the policy coverage is in force till the date of computation.

Particulars	***Date***
Date of Calculation	13-02-1990
Date of Commencement	13-02-1983
Inforce Duration	00-00-0007

In terms of mode of payment of premium, ie. Yearly, Total Inforce duration is 7 years

Paid Up Value = No of premiums paid/no of premiums payable * sum assured

= 07/25 *2,50,000

= Rs. 70,000

- Calculate the Guaranteed Surrender Value (GSV) and Special Surrender Value (SSV) with the given data of a policy and mention which one becomes payable and why

Sum Assured: Rs. 50,000

Plan and Term of the policy: Endowment plan with profits for term 50 years.

Terms of acceptance 2% extra premium +DAB+EPDB

Date of Commencement: 5-4-2006

Mode of Payment Quarterly

Instalment premium Rs.312.50

Due date of last premium paid 5-1-2010

Vested Bonus Nil

Date of Calculation of SV 10-1-2010

SSV Factor for Surrender Duration:14.8%

GSV Factor 30% of total premiums excluding first year and all extra premiums

Solution:

Surrender value is based on the premium which is exclusive of extra premiums. In the given case since the instalment has a component of an extra premium and DAB+EPDB rider premium, it is necessary to compute the instalment excluding this.

Therefore Instalment premium (Qly) : 312.50

When converted annual this will be :312.50*4 = 1250.00 (A)

Extra premium component @2%0 *50 = 100.00 (B)

Extra rider premium for DAB+EPDB @Re1%)= 50.00 (C)

Base Premium = Instalment premium (A) - extra premiums (B+C)

= 1250-(100+50)

= 1100 per annum

Hence for Qly= 1100/4

=275

a) Computation of paid up period:

	dd	mm	yyyy
First Unpaid Premium	05	04	2010
Date of commencement	05	04	2006
No. of years premiums paid	00	00	0004

Total Number of years premium paid is 4 years - or

Total Number of Premiums paid = 4 x4qtrs =16

(A)**Computation of Guaranteed Surrender Value (GSV)**

Guaranteed Surrender Value = 30% *(Total Premiums received - First Year Premium)

= 30% (1100*4 - 1100)

=30% (3300)

=990.00

(B) Computation of Special Surrender Value (SSV)

Paid up value= number of years' premium paid/ no of years' premium payable * Sum Assured

= 4/50 * 50000

= Rs. 4,000

or

Paid up value = No of instalments of premiums paid/ no of instalments of premium payable * Sum assured

= 16/200 *50,000

=Rs. 4,000

SSV = SVF% * Paid Up Value

= 14.80 % * 4000

= Rs.592.00

Conclusion: The governing principle is higher of the two of the values ie. GSV or SSV is normally payable. Hence in the given case Rs.990.00 is payable.

8.1.6. Finance Function

- **Generally**, Finance and Accounts function in a life office, will have the following sections.

i) Accounting/Book Keeping to manage transaction recording
ii) Cash Section to manage collections
iii) Banking Section to manage receipts & payments through bank accounts

- **Responsibilities of Finance function:**
  - At Corporate/Home office:
    a) Minimum collections and payments: normally for exceptional cases, as generally all transactions are at branches
    b) Control on jurisdictional Office: through audit, inspection and compliance
    c) Managing/supporting investments function
    d) Designing policies and procedures
    e) Managing MIS and regulatory reporting

  - **At Controlling offices (Zo/RO/DO)**
    a) Minimum of Collections & Payments: normally for exceptional cases
    b) Control on jurisdictional Office: through audit, inspection and compliance
    c) Supporting investment function: Surplus transfer to HO or Replenishment to Branches
    d) Supporting policies and Procedures through clarifications, circulars etc
  - Branch Offices:
    a) Opening and Closing of Bank accounts as per the corporate policy.
    b) To maintain cash books in respect of all these accounts.
    c) Collections of premiums, other receipts
    d) To draw cheques in respect of payments of vouchers received from the concerned department- Payment of benefits
    e) To exercise controls over unused cheque books, including safe custody.
    f) To reconcile Bank accounts every month.
    g) To ensure prompt accounting of Dishonoured cheques returned by Bankers.
    h) To exercise control on Bank charges.
    i) To maintain liaison with bankers.
    j) To take daily review of Bank Balances and exercise proper management of cash flow as per the guidelines.
    k) To manage the cheques cancellation action as per the guidelines. These are related to cheques issued whose validity has expired but not presented for payment.
    l) Transfers of surpluses for investments
    m) Managing recording of transactions and MIS
    n) Audit, Inspection and Compliance
- Following are the detailed internal audit aspects of finance & Accounts function in a Life Office
  - **Cash function**
    - All receipts are to be received and accounted at the stipulated place or cash counter and under supervision. Anything beyond the this should be strictly forbidden.
    - All receipts at the life office should be handled by experienced tellers/cashiers with fixed responsibility

- There should be supervisory control/ systems should be such that they are self-balancing
- To handle imprest cash related transactions, to draw and supplement imprest balances
- Ensure safety of cash, cheques, stamps etc when they are in the custody of cash department, safety of safe-locker
- Collections are accounted regularly and daily, verified by the supervisory official regularly.
- **Banking Function**
  Internal audit aspects of banking function

i) General

- It is a general practice that all collections are deposited into one account. No payments to outsiders/transactions are made against this account. All payments are necessarily made out of specified accounts. Normally there will be an account for general payments and another account for policy payments. Inter-bank-transfers are periodically done keeping a regular float.
- It is an unwritten principle in insurance that funds shall not be retained in the account wastefully but be invested to earn a return. Hence managing the float balances is a very important supervisory work in insurance finance.

ii) Collections

- Cheques received in payment at cash counter should be scrutinised for accuracy and be accepted only when complete in all respects
- Cheques received at the collection counter for payment, when once receipt is generated should be endorsed in favour of insurer's bank account- meant for receipts.
- All manual receipts needs to be countersigned by a supervisory official and counterfoils retained till closing of books at the end of the day and ensured that all transactions get reflected in the book. However, in automated accounting system countersigning by a supervisory official may not be required.
- While accounting instruments received by mail through remittances received register, the cashier shall make note of disposal with the date, whether in manual or automated format.
- The cashier shall ensure accounting of all instruments received by mail through remittances received register. If there are post-dated cheques, an entry is made in post dated cheques register and entry in RR register should be closed.
- The supervisory official of cash section shall scrutinise the remittances received register to ensure that all Instruments have been properly accounted and no open items exist.

iii) Bank Challans

- All remittances into Insurance companies' bank accounts shall be through specific paying in slip only.

iv) Outstation Cheques

- Care should be taken to follow the approved process in case of outstation cheques.

v) Third Party Cheques

- Care should be taken to follow the approved process in case of third-party cheques.
- Generally, third party cheques shall not be entertained unless the third party is the proposer and the payment is on the life of life assured.

- Third party cheques can be accepted without insisting on a declaration in the following cases:
    - Cheques issued by Karta of HUF of which policy holder is a member.
    - Cheques issued by the partnership firm of which policy holder is a partner.
    - Cheques drawn by marketing intermediaries for payment of premium under policies shall not be accepted unless the policies are of their own.

vi) Short-fall in remittances received by mail

- In respect of remittances received by mail where there is a shortfall the insurer should follow the stipulated process and either waive or create a debit against the policy. Some of the insurers in India use the term "X-charge" for debits and credits created against a policy.

vii) Rounding-off the Premium

- Rounding off should be done as per the stipulated process.

viii) Remittances Received Register

- All Instruments received at the insurance company shall be first received by the Mail Section / General Admin / Office services section. Such mails shall be opened and details of the Instruments be entered in stipulated remittances received register. All such instruments shall have an "Inward Stamp" with the date of receipt at the Life Office. The report of remittances received register along with Instruments shall be handed over under acknowledgement to the teller / cashier at the cash section.
- All unaccounted Instruments shall be kept in safe custody in safe / chest.

ix) Cheque Collection Box

- Every Insurance office shall have a Cheque Collection Box at a prominent place in the office or at such places as approved. The Official responsible shall open the boxes periodically as specified in the company policy.

x) Money Order Register

- All money orders received shall be properly accounted for as per the stipulated process.
- There should be control on authority to receive/acknowledge MOs and the competent authority should verify for disposals.

xi) Post-dated cheques

- No Post-dated cheques shall be accepted at the cash counter.
- Post-dated cheques received through mail earlier entered in remittances received register shall be entered in post-dated cheque register and periodically followed up. All such cheques shall be accounted on the respective dates.

xii) X-charges

- Creation of X-charge (shortfall or excess) against a policy shall be as per the rules specified. Such X-charges created shall be reflected in the Administrative Systems.
- X-charge debit shall be recovered from the next remittance made by the policy holder or from any payment made by the insurance company against the said policy.
- X-charge credit shall be adjusted against the subsequent payment against the said policy.

xiii) Bank Charges

- Separate paying in slips / challans shall be prepared for local and outstation cheques separately.

- Bankers shall not levy any charges on collection of local cheques.

xiv) General aspects relating to Payments

- All payments, cash or cheque shall be duly approved as per the policy.
- All payments shall be made against payment voucher prepared with maker - checker control.
- All paid vouchers shall have affixed with a paid stamp so that the voucher is not again presented for payment.
- All vouchers shall be serially numbered and entered in respective cash payment registers.
- The number block of vouchers shall be for each financial year.
- Every voucher shall have a supporting document and cash payment shall be made only after obtaining signature / discharge.
- Payments by cheques shall be made only through crossed cheques. Open cheques shall never be issued. The only exception is when cheques are issued for drawing imprest cash from bank wherein the crossing will be cancelled and the cheque will be entered in the cash in transit register and such cheques will be handed over to the official under acknowledgement.
- Generally, all payments are to be made by crossed cheques marked "Account Payee Not Negotiable".
- All cheques issued shall have a validity period mentioned.
- All cheques cancelled or mutilated in the issue process shall be attached with the next payment voucher and shall not be retained in the cheque book. This is essential to ensure verification at the time of vouching by the Auditor. When the cheque number skips, the Auditor will verify the next voucher and ensure that the missing numbered cheque is actually cancelled.
- Handing over of cheques shall be made as per the approved process. Wherever cheques are handed over in person, proper identity needs to be established. In all other cases, cheques shall be dispatched through standard mailing process.

xv) Safety of Cash and Cash Keys

- Safety of cash during cash hours is the responsibility of Cashier or Teller. Cashier shall ensure that money is kept under safe custody. Once cash is authenticated, money is kept in safe cash box and Box is handed over to the supervisory official. The responsibility of the cash box rests with the supervisory official. However, cashier also will ensure that the box is safely lodged in the safe / chest and duly locked by the concerned.
- Keys of cashbox / cash counter and safe shall be maintained through key movement register.
- Normally double locking systems are required to be in place for safe / chest where two responsible officials shall ensure that the cash box is kept inside the safe and duly locked by both the keys.

xvi) Stock of Stamps

- Stock of stamps (Receipt / Policy / Postage stamp / Agents Licence fee stamp) shall be in safe custody. Respective stock registers shall be periodically updated. Supervisory official shall verify the stocks periodically and confirm accuracy.
- Wherever Franking Machine facility is available the same may be used as approved for affixing stamps (Receipt / Policy / Postage stamp).

xvii) Cash in Transit

- Cash in Transit register should contain the details of:
- Cash in Transit including movement of cash and cash in safe / chest are to be adequately insured with an Insurer.
- Cash includes bearer cheques.
- Any cash movement from one building to another building of the office.
- Whenever a loss arises, the controlling office should be informed to enable them to make a claim with the insurer.

xviii) Book Keeping

a) List of Books to be maintained.

b) Cheque dishonour process:

- Whenever a cheque is returned by the banker dishonoured, necessary action should be taken as under: .

Reconciliation of bank accounts should be done on monthly basis as per the process and schedule of extraneous debits and credits should be extracted. Bank charges and Interest charged if any should be accounted in the Books

c) Lost Cheques:

- Whenever a cheque is reported to be lost, a communication should be addressed to bankers to stop the payment of the cheque and only after receiving confirmation on the stoppage, a fresh cheque needs to be issued as per the process.
- Where the cheque said to have been lost is expired and the same is confirmed as per the cheque cancellation schedule, there is no need to issue instruction to the bank for stopping the payment.
- In all other cases, necessary indemnity shall be obtained.

xix) Final Accounts or Closing of books

- The final accounts of the life Insurance business shall be as per the process prescribed under Insurance Act and IRDA Act provisions. .
- Provisions for outstanding premiums, expenses and reversals shall be as under :

Particulars	Amount Rs.	Amount Rs.
1.Outstanding Premium		
Outstanding Premiums-First Year…………………Dr Outstanding Premiums- Renewal…………………Dr To First Year Premium To Renewal Premium (Being provisions for Outstanding FYP,RP)		
2. Outstanding Commission		
First year Commission…………………………………Dr Renewal Commission…………………………………..Dr Bonus Commission………………………………………..Dr To Outstanding Commission (FY) To Outstanding Commission (Ren) To Outstanding Bonus Commission (Being provision for outstanding Commission on the Outstanding premium)		
3.Reversal of Outstanding Premium (created Last year)		

First Year Premium……………………………………….Dr Renewal Premium……………………………………….Dr To Outstanding Premiums-First Year To Outstanding Premiums- Renewal (Being provisions for Outstanding FYP,RP created last year now reversed)		
4.Reversal of Outstanding Commission created last year		
Outstanding Commission (FY)………………………..Dr Outstanding Commission (Ren) ……………………..Dr Outstanding Bonus Commission…………………….Dr To First Year Commission To Renewal Commission To Bonus Commission (Being provision for outstanding Commission on the Outstanding premium created last year now reversed)		

xx) Internal Audit: Best Practices for the life office at Branch

a) *Maintenance of Daily Cash Balance Register with details about the following*:

- All collections at the cash section
- Transfers to controlling office as surplus
- Remittances into the bank account: pay in- slip wise
- Unpaid payments: payments not handed over (cash/cheques)
- Unaccounted cheques received through mail: count to match with outstanding in Remittance Received Register
- Denominations of total cash collected
- Denominations of imprest balance
- Stock of stamps etc.
- A declaration by both teller and supervisor for adherence with signature and date
- Copy of this register or information should be sent on daily basis to the controlling office. Any laxity should be red flagged. The Internal Auditor should ensure that this practice is scrupulously followed during the audit period through random checks.

b) Cash section should not have access to copies of paid-in slips.

c) Cash in transit register should be verified by cashier for imprest drawn from bank and remittances sent daily

d) Cash should be placed in safe custody of office with dual responsibility of cashier and supervisor on daily basis.

e) Cash section key and cash box keys should be routed through key movement register.

f) The second key of cash box, safe locker should be under bank locker, beyond the reach of any official. If the keys are lost/damaged, then withdrawal of the keys held at locker be done by the stipulated process and controlling office informed.

xxi) Best Practices for the life office

(1) At controlling offices

a) Should have a quality check visits at periodic intervals to ensure adherence of processes

b) Manage funds transfer/surplus transfer between HO and BO and provide replenishments of funds when required
c) Manage controlling of audit/inspection of jurisdictional offices
d) Control on information interchange through MIS

(2) Best Practices for the life office: At Home Office

a) Design of policies and procedures
b) Manage controlling of audit/inspection of jurisdictional offices
c) Control on information interchange through MIS
d) Managing or supporting investment function
e) Casting up accounts, final accounts managing audit of books etc.
f) Managing regulatory compliance

xxii) Financial statements and auditor's report of insurance companies

The format of the financial statements and auditor's report should be in the form specified as under :.

THE INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (PREPARATION OF FINANCIAL STATEMENTS AND AUDITOR'S REPORT OF INSURANCE COMPANIES) REGULATIONS, 2000.

NOTIFICATION

New Delhi, the 14th August, 2000.

F. No. IRDA/Reg/8/2000. -------
In exercise of the powers conferred by section 114A of the Insurance Act, 1938, (4 of 1938), the Authority, in consultation with the Insurance Advisory Committee, hereby makes the following regulations, namely: -

1. Short title and commencement. ----(1) These regulations may be called the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000.

(2) They shall come into force from the date of their publication in the Official Gazette.

2. Definitions. — (1) In these Regulations, unless the context otherwise requires ---

(a) "Act" means the Insurance Act, 1938 (4 of 1938);
(b) "Authority" means the Insurance Regulatory and Development Authority established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999);
(c) All words and expressions used herein and not defined but defined in the Insurance Act, 1938 (4 of 1938), or in the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), or in the Companies Act, 1956* (1 of 1956), shall have the meanings respectively assigned to them in those Acts
.

3. **Preparation of financial statements, management report and auditor's report.** ----(1) An insurer carrying on life insurance business, after the commencement of these Regulations, shall comply with the requirements of Schedule A.
(2) An insurer carrying on general insurance business, after the commencement of these Regulations, shall comply with the requirements of Schedule B:

Provided that this sub-regulation shall apply, *mutatis mutandis*, to reinsurers, until separate regulations are made.

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*The Act has since been replaced by the Companies Act,2013

(3) The report of the auditors on the financial statements of every insurer and reinsurer shall be in conformity with the requirements of Schedule C, or as near as thereto as the circumstances permit.

(4) The Authority may, from time to time, issue separate guidelines in the matter of appointment, continuance or removal of auditors of an insurer or reinsurer, as the case may be, and such guidelines may include prescriptions regarding qualifications and experience of auditors, their rotation, period of appointment, etc.

SCHEDULE A

(See Regulation 3)

PART I

Accounting principles for preparation of financial statements

1. Applicability of Accounting Standards---Every Balance Sheet, Revenue Account [Policyholders' Account], Receipts and Payments Account [Cash Flow statement] and Profit and Loss Account [Shareholders' Account] of an insurer shall be in conformity with the Accounting Standards (AS) issued by the ICAI, to the extent applicable to insurers carrying on life insurance business, except that:

(i) Accounting Standard 3 (AS 3) – Cash Flow Statements – Cash Flow Statement shall be prepared only under the Direct Method.

(ii) Accounting Standard 17 (AS 17) - Segment Reporting – shall apply irrespective of whether the securities of the insurer are traded publicly or not.

2. Premium---Premium shall be recognised as income when due. For linked business the due date for payment may be taken as the date when the associated units are created.

3. Premium Deficiency---Premium deficiency shall be recognised if the sum of expected claim costs, related expenses and maintenance costs exceeds related unearned premiums.

4. Acquisition Costs---Acquisition costs, if any, shall be expensed in the period in which they are incurred.
Acquisition costs are those costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts. The most essential test is the obligatory relationship between costs and the execution of insurance contracts (i.e., commencement of risk).

5. Claims Cost ---The ultimate cost of claims shall comprise the policy benefit amount and claims settlement costs, wherever applicable.

6. Actuarial Valuation--- Liability for life policies in force----The estimation of liability against life policies in force shall be determined by the appointed actuary of the insurer pursuant to his annual investigation of the life insurance business. Actuarial assumptions are to be disclosed by way of notes to the account.

The liability shall be so calculated that together with future premium payments and investment income, the insurer can meet all future claims (including bonus entitlements to policyholders) and expenses.

7. Procedure to determine the value of investments. ---An insurer shall determine the values of investments in the following manner: -

a)Real Estate – Investment Property-- The value of investment property shall be determined at historical cost, subject to revaluation at least once in every three years. The change in the carrying amount of the investment property shall be taken to Revaluation Reserve.

The insurer shall assess at each balance sheet date whether any impairment of the investment property has occurred.

Gains/ losses arising due to changes in the carrying amount of real estate shall be taken to equity under 'Revaluation Reserve'. The 'Profit on sale of investments' or 'Loss on sale of investments', as the case may be, shall include accumulated changes in the carrying amount previously recognised in equity under the heading 'Revaluation Reserve' in respect of a particular property and being recycled to the relevant Revenue Account or Profit and Loss Account on sale of that property.

The bases for revaluation shall be disclosed in the Notes to Accounts. The Authority may issue directions specifying the amount to be released from the revaluation reserve for declaring bonus to the policyholders. For the removal of doubt, it is clarified that except for the amount that is released to policyholders as per the Authority's direction, no other amount shall be distributed to shareholders out of Revaluation Reserve Account.

An impairment loss shall be recognised as an expense in the Revenue/Profit and Loss Account immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset shall be treated as a revaluation decrease of that asset and if the impairment loss exceeds the corresponding revaluation reserve, such excess shall be recognised as an expense in the Revenue/Profit and Loss Account.

b) Debt Securities--Debt securities, including Government securities and redeemable preference shares, shall be considered as "held to maturity" securities and shall be measured at historical cost subject to amortisation.

c) Equity Securities and Derivative Instruments that are traded in active markets---Listed equity securities and derivative instruments that are traded in active markets shall be measured at fair value on the balance sheet date. For the purpose of calculation of fair value, the lowest of the last quoted closing price at the Stock Exchanges where the securities are listed, shall be taken.

The insurer shall assess on each balance sheet date whether any impairment of listed equity security(ies)/derivative(s) instruments has occurred.
An 'active market' shall mean a market, where the securities traded are homogenous, availability of willing buyers and willing sellers is normal and the prices are publicly available.

Unrealised gains/ losses arising due to changes in the fair value of listed equity shares and derivative instruments shall be taken to equity under the head 'Fair Value Change Account". The 'Profit on sale of investments' or 'Loss on sale of investments', as the case may be, shall include accumulated changes in the fair value previously recognised in equity under the heading 'Fair Value Change Account' in respect of a particular security and being recycled to the relevant Revenue Account or Profit and Loss Account on actual sale of that listed security.

The Authority may issue directions specifying the amount to be released from the Fair Value Change Account for declaring bonus to the policyholders. For the removal of doubt, it is clarified that except for the amount that is released to policyholders as per the Authority's prescription, no other amount shall be distributed to shareholders out of Fair Value Change Account. Also, any debit balance in Fair Value Change Account shall be reduced from profit/free reserves while declaring dividends.

The insurer shall assess, on each balance sheet date, whether any impairment has occurred. An impairment loss shall be recognised as an expense in Revenue/Profit and Loss Account to the extent of the difference between the remeasured fair value of the security/investment and its acquisition cost as reduced by any previous impairment loss recognised as expense in Revenue/Profit and Loss Account. Any reversal of impairment loss, earlier recognised in Revenue/Profit and Loss Account shall be recognised in Revenue/Profit and Loss Account.

Unlisted and other than actively traded Equity Securities and Derivative Instruments ---Unlisted equity securities and derivative instruments and listed equity securities and derivative instruments that are not regularly traded in active markets shall be measured at historical cost. Provision shall be made for diminution in value of such investments. The provision so made shall be reversed in subsequent periods if estimates based on external evidence show an increase in the value of the investment over its carrying amount. The increased carrying amount of the investment due to the reversal of the provision shall not exceed the historical cost.

For the purposes of this regulation, a security shall be considered as being not actively traded, if its trading volume does not exceed ten thousand units in any trading session during the last twelve months.

8. Loans----Loans shall be measured at historical cost subject to impairment provisions.

The insurer shall assess the quality of its loan assets and shall provide for impairment. The impairment provision shall not be less than the aggregate amount of loans which are subject to defaults of the nature mentioned below: -

(i) interest remaining unpaid for over a period of six months; and
(ii) instalment(s) of loan falling due and remaining unpaid during the last six months.

9. Linked Business--The accounting principles used for valuation of investments are to be consistent with principles enumerated above. A separate set of financial statements, for each segregated fund of the linked businesses, shall be annexed.

Segregated funds represent funds maintained in accounts to meet specific investment objectives of policyholders who bear the investment risk. Investment income/ gains and losses generally accrue directly to the policyholders. The assets of each account are segregated and are not subject to claims that arise out of any other business of the insurer.

10. Funds for Future Appropriation---The funds for future appropriation shall be presented separately.

The funds for future appropriation represent all funds, the allocation of which, either to the policyholders or to the shareholders, has not been determined by the end of the financial year.

PART II

Disclosures forming part of Financial Statements

A. The following shall be disclosed by way of notes to the Balance Sheet:

1. Contingent Liabilities:
    - (a) Partly-paid up investments
    - (b) Underwriting commitments outstanding
    - (c) Claims, other than those under policies, not acknowledged as debts
    - (d) Guarantees given by or on behalf of the company
    - (e) Statutory demands/liabilities in dispute, not provided for
    - (f) Reinsurance obligations
    - (g) Others (to be specified).

2. Actuarial assumptions for valuation of liabilities for life policies in force.
3. Encumbrances to assets of the company in and outside India.
4. Commitments made and outstanding for loans, investments and fixed assets.
5. Basis of amortisation of debt securities.
6. Claims settled and remaining outstanding for a period of more than six months on the balance sheet date.
7. Value of contracts in relation to investments, for:
   (a)Purchases where deliveries are pending;
   (b)Sales where payments are overdue.
8. Operating expenses relating to insurance business: basis of allocation of expenditure to various segments of business.
9. Computation of managerial remuneration.
10. Historical costs of those investments valued on fair value basis.
11. Basis of revaluation of investment property.

B. The following accounting policies shall form an integral part of the financial statements:

1. All significant accounting policies in terms of the Accounting Standards issued by the ICAI, and significant principles and policies given in Part I of Accounting Principles. Any other accounting policies, followed by the insurer, shall be stated in the manner required under Accounting Standard AS 1 issued by ICAI.
2. Any departure from the accounting policies shall be separately disclosed with reasons for such departure.

C. The following information shall also be disclosed:

3. Investments made in accordance with any statutory requirement should be disclosed separately together with its amount, nature, security and any special rights in and outside India;
4. Segregation into performing/ non performing investments for purpose of income recognition as per the directions, if any, issued by the Authority;
5. Assets to the extent required to be deposited under local laws or otherwise encumbered in or outside India;
6. Percentage of business sector-wise;
7. A summary of financial statements for the last five years, in the manner as may be prescribed by the

Authority;

8. Bases of allocation of investments and income thereon between Policyholders' Account and Shareholders' Account;
9. Accounting Ratios as may be prescribed by the Authority.

PART III

General instructions for preparation of Financial Statements

1. The corresponding amounts for the immediately preceding financial year for all items shown in the Balance Sheet, Revenue Account, Profit and Loss Account and Receipts and Payments Account shall be given.

2. The figures in the financial statements may be rounded off to the nearest thousands.

3. Interest, dividends and rentals receivable in connection with an investment should be stated at gross amount, the amount of income tax deducted at source should be included under 'advance taxes paid' and taxes deducted at source.

4. (I) For the purposes of financial statements, unless the context otherwise requires -

   (a) the expression 'provision' shall, subject to (II) below, mean any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or retained by way of providing for any known liability or loss of which the amount cannot be determined with substantial accuracy;

   (b) the expression 'reserve' shall not, subject to as aforesaid, include any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability or loss;

   (a) the expression 'capital reserve' shall not include any amount regarded as free for distribution through the profit and loss account; and the expression 'revenue reserve' shall mean any reserve other than a capital reserve;

   (b) The expression "liability" shall include all liabilities in respect of expenditure contracted for and all disputed or contingent liabilities.

   (II) Where:

      (a) any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or

      (b) any amount retained by way of providing for any known liability or loss, is in excess of the amount which in the opinion of the directors is reasonably necessary for the purpose, the excess shall be treated as a reserve and not provision.

5. The company shall make provisions for damages under law suits where the management is of the opinion that the award may go against the insurer.

6. Risks assumed in excess of the statutory provisions, if any, shall be separately disclosed indicating the amount of premiums involved and the amount of risks covered.

7. Any debit balance of the Profit and Loss Account shall be shown as deduction from uncommitted reserves and the balance, if any, shall be shown separately.

PART IV

Contents of Management Report

There shall be attached to the financial statements, a management report containing, *inter alia*, the following duly authenticated by the management:

1. Confirmation regarding the continued validity of the registration granted by the Authority;

2. Certification that all the dues payable to the statutory authorities have been duly paid;

3. Confirmation to the effect that the shareholding pattern and any transfer of shares during the year are in accordance with the statutory or regulatory requirements;

4. Declaration that the management has not directly or indirectly invested outside India the funds of the holders of policies issued in India;

5. Confirmation that the required solvency margins have been maintained;

Certification to the effect that the values of all the assets have been reviewed on the date of the Balance Sheet and that in his (insurer's) belief the assets set forth in the Balance-sheets are shown in the aggregate at amounts not exceeding their realisable or market value under the several headings – " Loans", " Investments", "Agents balances", "Outstanding Premiums", "Interest, Dividends and Rents outstanding", "Interest, Dividends and Rents accruing but not due", "Amounts due from other persons or Bodies carrying on insurance business", " Sundry Debtors", " Bills Receivable", " Cash" and the several items specified under "Other Accounts";

Certification to the effect that no part of the life insurance fund has been directly or indirectly applied in contravention of the provisions of the Insurance Act, 1938 (4 of 1938) relating to the application and investment of the life insurance funds;

Disclosure with regard to the overall risk exposure and strategy adopted to mitigate the same;

9. Operations in other countries, if any, with a separate statement giving the management's estimate of country risk and exposure risk and the hedging strategy adopted;

10. Ageing of claims indicating the trends in average claim settlement time during the preceding five years;

11. Certification to the effect as to how the values, as shown in the balance sheet, of the investments and stocks and shares have been arrived at, and how the market value thereof has been ascertained for the purpose of comparison with the values so shown;

12. Review of asset quality and performance of investment in terms of portfolios, i.e., separately in terms of real estate, loans, investments, etc.

13. A responsibility statement indicating therein that:
    (a) in the preparation of financial statements, the applicable Accounting Standards, principles and policies have been followed along with proper explanations relating to material departures, if any;

(b) the management has adopted accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the operating profit or loss and of the profit or loss of the company for the year;
(c) the management has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the applicable provisions of the Insurance Act 1938 (4 of 1938) / Companies Act, 1956* (1 of 1956), for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
(d) the management has prepared the financial statements on a going concern basis;
(e) the management has ensured that an internal audit system commensurate with the size and nature of the business exists and is operating effectively.

PART V

Preparation of Financial Statements

(1) An insurer shall prepare the Revenue Account [Policyholders' Account], Profit and Loss Account [Shareholders' Account] and the Balance Sheet in Form A-RA, Form A-PL and Form A-BS, as prescribed in this Part, or as near thereto as the circumstances permit.

*Since been replaced by Companies Act,2013

Provided that an insurer shall prepare Revenue Account for the undermentioned businesses separately and to that extent the application of AS 17 shall stand modified: -

a) Participating policies and non-participating policies;

b) Linked, Non-Linked, and Health Insurance;

c) Business within India and Business outside India.

(2) An insurer shall prepare separate Receipts and Payments Account in accordance with the Direct Method prescribed in AS 3 – "Cash Flow Statement" issued by the ICAI.

FORM A-RA

Name of the Insurer:
Registration No. and Date of Registration with the IRDA

REVENUE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20___.

Policyholders' Account (Technical Account)

	Particulars	**Schedule**	**Current Year**	**Previous Year**
			(Rs.'000)	(Rs.'000).
	Premiums earned – net			
	(a) Premium (b) Reinsurance ceded (c) Reinsurance accepted-	**1**		
	Income from Investments			
	(a) Interest, Dividends & Rent – Gross (b) Profit on sale/redemption of investments (c) (Loss on sale/ redemption of investments) (d) Transfer/Gain on revaluation/change in fair value*			
	Other Income (to be specified)			
	TOTAL (A)			
	Commission	**2**		
	Operating Expenses related to Insurance Business	**3**		
	Other Expenses (to be specified)			
	Provisions (other than taxation)			
	(a) For diminution in the value of investments (Net) (b) Others (to be specified)			
	TOTAL (B)			
	Benefits Paid (Net)	**4**		
	Interim Bonuses Paid			
	Change in valuation of liability against life policies in force (a) Gross** (b) (Amount ceded in Reinsurance) (c) Amount accepted in Reinsurance			
	TOTAL (C)			
	SURPLUS/ (DEFICIT) (D) =(A)-(B)-(C)			
	APPROPRIATIONS			
	Transfer to Shareholders' Account			
	Transfer to Other Reserves (to be specified)			
	Transfer to Funds for Future Appropriations			

	TOTAL (D)			

Notes:

***** *Represents the deemed realised gain as per norms specified by the Authority.*

****** represents Mathematical Reserves after allocation of bonus

The total surplus shall be disclosed separately with the following details:

(a) Interim Bonuses Paid:
(b) Allocation of Bonus to policyholders:
(c) Surplus shown in the Revenue Account:
(d) Total Surplus: ((a)+(b)+(c))

FORM A-PL

Name of the Insurer:
Registration No. and Date of Registration with the IRDA

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20___.

Shareholders' Account (Non-technical Account)

	Particulars	Schedule	Current Year	Previous Year
			(Rs.'000).	(Rs.'000).
	Balance brought forward from /transferred to the Policyholders Account (Technical Account)			
	Income from Investments			
	(a) Interest, Dividends & Rent – Gross (b) Profit on sale/redemption of investments (c) (Loss on sale/ redemption of investments)			
	Other Income (To be specified)			
	TOTAL (A)			
	Expense other than those directly related to the insurance business			
	Provisions (Other than taxation)			
	(a) For diminution in the value of investments (Net) (b) Others (to be specified)			
	TOTAL (B)			
	Profit/ (Loss) before tax			
	Provision for Taxation			
	Profit / (Loss) after tax			
	APPROPRIATIONS			
	(a) Brought forward Reserve/Surplus from the Balance Sheet (b) Interim dividends paid during the year (c) Proposed final dividend (d) Dividend distribution on tax (e) Transfer to reserves/ other accounts (to be specified)			
	Profit carried forward to the Balance Sheet			

Notes:

(a) In case of premiums, less reinsurance in respect of any segment of insurance business of total premium earned, the same shall be disclosed separately.
(b) Premium income received from business concluded in and outside India shall be separately disclosed.
(c) Reinsurance premiums whether on business ceded or accepted are to be brought into account gross (i.e. before deducting commissions) under the head reinsurance premiums.
(d) Claims incurred shall comprise claims paid, settlement costs wherever applicable and change in the outstanding provision for claims at the year-end.
(e) Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or Rs.5,00,000 whichever is higher, shall be shown as a separate line item.
(f) Fees and expenses connected with claims shall be included in claims.
(g) Under the sub-head "Others" shall be included items like foreign exchange gains or losses and other items.
(h) Interest, dividends and rentals receivable in connection with an investment should be stated as gross amount, the amount of income tax deducted at source being included under 'advance taxes paid and taxes deducted at source"..
(i) Income from rent shall include only the realised rent. It shall not include any notional rent.

FORM A-BS

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

BALANCE SHEET AS AT 31ST MARCH, 20____.

		Schedule	Current Year	Previous Year
			(Rs.'000).	(Rs.'000).
	SOURCES OF FUNDS			
	SHAREHOLDERS' FUNDS:			
	SHARE CAPITAL	**5**		
	RESERVES AND SURPLUS	**6**		
	CREDIT/[DEBIT] FAIR VALUE CHANGE ACCOUNT			
	Sub-Total			
	BORROWINGS	**7**		
	POLICYHOLDERS' FUNDS:			
	CREDIT/[DEBIT] FAIR VALUE CHANGE ACCOUNT			
	POLICY LIABILITIES			
	INSURANCE RESERVES			
	PROVISION FOR LINKED LIABILITIES			
	Sub-Total			
	FUNDS FOR FUTURE APPROPRIATIONS			
	TOTAL			
	APPLICATION OF FUNDS			
	INVESTMENTS			
	Shareholders'	**8**		
	Policyholders'	**8A**		
	ASSETS HELD TO COVER LINKED LIABILITIES			

	LOANS	**9**		
	FIXED ASSETS	**10**		
	CURRENT ASSETS			
	Cash and Bank Balances	**11**		
	Advances and Other Assets	**12**		
	Sub-Total (A)			
	CURRENT LIABILITIES	**13**		
	PROVISIONS	**14**		
	Sub-Total (B)			
	NET CURRENT ASSETS (C) = (A – B)			
	MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)	**15**		
	DEBIT BALANCE IN PROFIT & LOSS ACCOUNT (Shareholders' Account)			
	TOTAL			

CONTINGENT LIABILITIES

	Particulars	Current Year	Previous Year
		(Rs.'000).	(Rs.'000).
1.	Partly paid-up investments		
2.	Claims, other than against policies, not acknowledged as debts by the company		
3.	Underwriting commitments outstanding		
4.	Guarantees given by or on behalf of the company		
5.	Statutory demands/ liabilities in dispute, not provided for		
6.	Reinsurance obligations		
7.	Others (to be specified)		
	TOTAL		

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE – 1
PREMIUM

	Particulars	Current Year	Previous Year
		(Rs.'000).	(Rs.'000).
1	First year premiums		
2	Renewal Premiums		
3	Single Premiums		
	TOTAL PREMIUM		

	Premium Income from business written :		
1	In India		
2	Outside India		
	Total Premium (Net)		

Notes:

Reinsurance premiums whether on business ceded or accepted are to be brought into account, before deducting commission, under the head of reinsurance premiums.

SCHEDULE- 2
COMMISSION EXPENSES

Particulars	Current Year	Previous Year
	(Rs.'000)	(Rs.'000)
Commission paid		
Direct – First year premiums - Renewal premiums - Single premiums Add: Commission on Re-Insurance Accepted Less: Commission on Re-Insurance Ceded		
Net Commission		

Note:

The profit/ commission, if any, are to be combined with the Re-insurance accepted or Re-insurance ceded figures.

SCHEDULE – 3
OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

	Particulars	Current Year	Previous Year
		(Rs.'000).	(Rs.'000).
1.	Employees' remuneration & welfare benefits		
2.	Travel, conveyance and vehicle running expenses		
3.	Rents, rates & taxes		
4.	Repairs		
5.	Printing & stationery		
6.	Communication expenses		
7.	Legal & professional charges		
8.	Medical fees		
9.	Auditors' fees, expenses etc.		
	a) as Auditor b) as Adviser or in any other capacity, in respect of (i) Taxation matters (ii) Insurance matters (iii) Management services; and c) in any other capacity		
10.	Advertisement and publicity		
11.	Interest & Bank Charges		
12.	Others (to be specified)		

13.	Depreciation		
	TOTAL		

Notes:

a) Items of expenses in excess of one percent of the net premium or Rs.5,00,000 whichever is higher, shall be shown as a separate line item.

b) Under the sub-head "Others", `Operating Expenses (Insurance Business)' shall include items like foreign exchange gains or losses and other items.

SCHEDULE – 4

BENEFITS PAID [NET]

	Particulars	Current Year	Previous Year
		(Rs.'000).	(Rs.'000).
	1. Insurance Claims (a) Claims by Death, (b) Claims by Maturity, (c) Annuities/Pensions in payment, (d) Other benefits, specify		
	2. (Amount ceded in reinsurance) : (a) Claims by Death, (b) Claims by Maturity, (c) Annuities/Pensions in payment, (d) Other benefits, specify		
	3. Amount accepted in reinsurance: (a) Claims by Death, (b) Claims by Maturity, (c) Annuities/Pensions in payment, (d) Other benefits, specify		
	TOTAL		

	Benefits paid to claimants:		
1	In India		
2	Outside India		
	Total Benefits paid (Net)		

Notes: (a) Claims include claims settlement costs, wherever applicable.

(b) The legal and other fees and expenses shall also form part of the claims cost, wherever applicable..

SCHEDULE – 5

SHARE CAPITAL

	Particulars	Current Year	Previous Year
		(Rs.'000).	(Rs.'000).
1.	Authorised Capital		
	Equity Shares of Rs..... each		
2.	Issued Capital		
	Equity Shares of Rs. .....each		
3.	Subscribed Capital		
	Equity Shares of Rs.......each		
4.	Called-up Capital		

	Equity Shares of Rs. .....each		
5.	Less : Calls unpaid		
	Add : Shares forfeited (Amount originally paid up)		
	Less: Par value of Equity Shares bought back		
	Less: Preliminary Expenses Expenses including commission or brokerage on Underwriting or subscription of shares		
	TOTAL		

Notes:

(a) *Particulars of the different classes of capital should be separately stated.*
(b) *The amount capitalised on account of issue of bonus shares should be disclosed.*
(c) *In case any part of the capital is held by a holding company, the same should be separately disclosed.*

SCHEDULE – 5A
PATTERN OF SHAREHOLDING
[As certified by the Management]

Shareholder	Current Year		Previous Year	
	Number of Shares	**% of Holding**	**Number of Shares**	**% of Holding**
Promoters • Indian • Foreign				
Others				
TOTAL				

SCHEDULE – 6

RESERVES AND SURPLUS

	Particulars	Current Year	Previous Year
		(Rs.'000)	(Rs.'000)
1.	Capital Reserve		
2.	Capital Redemption Reserve		
3	Share Premium		
4.	Revaluation Reserve		
5.	General Reserves Less: Debit balance in Profit and Loss Account, if any Less: Amount utilized for Buy-back		
6.	Catastrophe Reserve		
7.	Other Reserves (to be specified)		
8.	Balance of profit in Profit and Loss Account		
	TOTAL		

Note:

Additions to and deductions from the reserves should be disclosed under each of the specified heads.

SCHEDULE - 7

BORROWINGS

	Particulars	Current Year	Previous Year
		(Rs.'000).	(Rs.'000).

1.	Debentures/ Bonds		
2.	Fixed Deposits		
3.	Banks		
4.	Financial Institutions		
5.	Other entities carrying on insurance business		
6.	Others (to be specified)		
	TOTAL		

Notes:

(a) The extent to which the borrowings are secured shall be separately disclosed stating the nature of the security under each sub-head.

(b) Amounts due within 12 months from the date of Balance Sheet should be shown separately

SCHEDULE- 8

INVESTMENTS-SHAREHOLDERS

	Particulars	**Current Year**	**Previous Year**
		(Rs.'000)	(Rs.'000)
	LONG TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Other Investments		
	(a) Shares (aa) Equity (bb) Preference (b) Mutual Funds (c) Derivative Instruments (d) Debentures/ Bonds (e) Other Securities (to be specified) (f) Subsidiaries (g) Investment Properties-Real Estate		

	SHORT TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Other Investments		
	(a) Shares (aa) Equity (bb) Preference (b) Mutual Funds (c) Derivative Instruments (d) Debentures/ Bonds (e) Other Securities (to be specified) (f) Subsidiaries (g) Investment Properties-Real Estate		
	TOTAL		

	INVESTMENTS		
1	In India		
2	Outside India		
	TOTAL		

Note: Refer notes under Schedule 8A

SCHEDULE- 8A
INVESTMENTS-POLICYHOLDERS

	Particulars	Current Year	Previous Year
		(Rs.'000)	(Rs.'000)
	LONG TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	(a) Shares (aa) Equity (bb) Preference (b) Mutual Funds (c) Derivative Instruments (d) Debentures/ Bonds (e) Other Securities (to be specified) (f) Subsidiaries (g) Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	SHORT TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	(a) Shares (aa) Equity (bb) Preference (b) Mutual Funds (c) Derivative Instruments (d) Debentures/ Bonds (e) Other Securities (to be specified) (f) Subsidiaries (g) Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	TOTAL		

	INVESTMENTS		
1	In India		
2	Outside India		
	TOTAL		

Notes (applicable to Schedules 8 and 8A):

(a) Investments in subsidiary/holding companies, joint ventures and associates shall be separately disclosed, at cost.

(i) Holding company and subsidiary shall be construed as defined in the Companies Act, 1956:

(ii) Joint Venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

(iii) Joint control - is the contractually agreed sharing of power to govern the financial and operating policies of an economic activity to obtain benefits from it.

(iv) Associate - is an enterprise in which the company has significant influence and which is neither a subsidiary nor a joint venture of the company.

(v) Significant influence (for the purpose of this schedule) -means participation in the financial and operating policy decisions of a company, but not control of those policies. Significant influence may be exercised in several ways, for example, by representation on the board of directors, participation in the policy making process, material inter-company transactions, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20 percent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence is clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

(b) Aggregate amount of company's investments other than listed equity securities and derivative instruments and also the market value thereof shall be disclosed.

(g) Investments made out of Catastrophe reserve should be shown separately

(h) Debt securities will be considered as "held to maturity" securities and will be measured at historical costs subject to amortisation

(i) 'Investment Property' means a property [land or building or part of a building or both] held to earn rental income or for capital appreciation or for both, rather than for use in services or for administrative purposes.

SCHEDULE - 9
LOANS

	Particulars	Current Year	Previous Year
		(Rs.'000).	(Rs.'000).
1.	SECURITY-WISE CLASSIFICATION		
	Secured		
	(a) On mortgage of property (aa) In India (bb) Outside India		
	(b) On Shares, Bonds, Govt. Securities, etc.		
	(c) Others (to be specified)		
	Unsecured		
	(a) Loans against policies		
	(b) Others (to be specified)		
	TOTAL		
2.	BORROWER-WISE CLASSIFICATION		
	(a) Central and State Governments		
	(b) Banks and Financial Institutions		
	(c) Subsidiaries		
	(d) Companies		
	(e) Loans against policies		
	(f) Others (to be specified)		
	TOTAL		
3.	PERFORMANCE-WISE CLASSIFICATION		
	(a) Loans classified as standard (aa) In India (bb) Outside India (b) Non-standard loans less provisions (aa) In India (bb) Outside India		
	TOTAL		
4.	MATURITY-WISE CLASSIFICATION		
	(a) Short Term		
	(b) Long Term		
	TOTAL		

Notes:

(a) Short-term loans shall include those, which are repayable within 12 months from the date of balance sheet. Long term loans shall be the loans other than short-term loans.
(b) Provisions against non-performing loans shall be shown separately.
(c) The nature of the security in case of all long term secured loans shall be specified in each case. Secured loans for the purposes of this schedule, means loans secured wholly or partly against an asset of the company.
(d) Loans considered doubtful and the amount of provision created against such loans shall be disclosed.

SCHEDULE - 10

FIXED ASSETS

(Rs.'000)

Particulars	**Cost/ Gross Block**				**Depreciation**				**Net Block**	
	Opening	Additions	Deductions	Closing	Upto Last Year	For the Year	On Sales/ Adjustments	To Date	As at year end	Previous Year
Goodwill										
Intangibles (specify)										
Land-Freehold										
Leasehold Property										
Buildings										
Furniture & Fittings										
Information Technology Equipment										
Vehicles										
Office Equipment										
Others (Specify nature)										
TOTAL										
PREVIOUS YEAR										

Note:

Assets included in land, property and building above exclude Investment Properties as defined in note (e) to Schedule 8.

SCHEDULE- 11

CASH AND BANK BALANCES

	Particulars	**Current Year**	**Previous Year**
		(Rs.'000).	(Rs.'000).
1.	Cash (including cheques, drafts and stamps)		
2.	Bank Balances		
	(a) Deposit Accounts (aa) Short-term (due within 12 months of the date of Balance Sheet) (bb) Others (b) Current Accounts (c) Others (to be specified)		
3.	Money at Call and Short Notice		
	(a) With Banks (b) With other Institutions		
4.	Others (to be specified)		
	TOTAL		
	Balances with non-scheduled banks included in 2 and 3 above		
	CASH & BANK BALANCES		
1	In India		

2	Outside India		
	TOTAL		

Note: Bank balance may include remittances in transit. If so, the nature and amount should be separately stated.

SCHEDULE – 12

ADVANCES AND OTHER ASSETS

	Particulars	Current Year	Previous Year
		(Rs.'000)	(Rs.'000)
	ADVANCES		
1.	Reserve deposits with ceding companies		
2.	Advances to ceding companies		
3.	Application money for investments		
4.	Prepayments		
5.	Advances to Officers/ Directors		
6.	Advance tax paid and taxes deducted at source		
7.	Others (to be specified)		
	TOTAL (A)		
	OTHER ASSETS		
1.	Income accrued on investments		
2.	Outstanding Premiums		
3.	Agents' Balances		
4.	Foreign Agencies' Balances		
5.	Due from other entities carrying on insurance business		
6.	Due from subsidiaries/ holding company		
7.	Reinsurance claims/balances receivable		
8.	Deposit with Reserve Bank of India [Pursuant to section 7 of the Insurance Act, 1938]		
9.	Others (to be specified)		
	TOTAL (B)		
	TOTAL (A+B)		

Notes:

(a) *The items under the above heads shall not be shown net of provisions for doubtful amounts. The amount of provision against each head should be shown separately.*

(b) *The term 'officer' should conform to the definition of the word 'officer' under the Companies Act, 1956 .*

SCHEDULE – 13

CURRENT LIABILITIES

	Particulars	Current Year	Previous Year
		(Rs.'000).	(Rs.'000).
1.	Agents' Balances		
2.	Balances due to other insurance companies		
3.	Advances from Treaty Companies		
4.	Deposits held on re-insurance ceded		
5.	Premiums received in advance		
6.	Sundry creditors		
7.	Due to subsidiaries/ holding company		
8	Claims Outstanding		

9	Annuities Due		
10.	Due to Officers/ Directors		
11.	Others (to be specified)		
	TOTAL		

SCHEDULE – 14

PROVISIONS

	Particulars	Current Year	Previous Year
		(Rs.'000).	(Rs.'000).
1.	For taxation (less payments and taxes deducted at source)		
2.	For proposed dividends		
3.	For dividend distribution tax		
4.	Bonus payable to the Policyholders		
5.	Others (to be specified)		
	TOTAL		

SCHEDULE – 15

MISCELLANEOUS EXPENDITURE
(To the extent not written off or adjusted)

	Particulars	Current Year	Previous Year
		(Rs.'000).	(Rs.'000).
1.	Discount Allowed in issue of shares/ debentures		
2.	Others (to be specified)		
	TOTAL		

Notes:

(a) No item shall be included under the head "Miscellaneous Expenditure" and carried forward unless:

1. *some benefit from the expenditure can reasonably be expected to be received in future, and*
2. *the amount of such benefit is reasonably determinable.*

(b) The amount to be carried forward in respect of any item included under the head "Miscellaneous Expenditure" shall not exceed the expected future revenue/other benefits related to the expenditure.

SCHEDULE B

(See Regulation 3)

PART I

Accounting principles for preparation of financial statements

1. Applicability of Accounting Standards---Every Balance Sheet, Receipts and Payments Account [Cash Flow statement] and Profit and Loss Account [Shareholders' Account] of the insurer shall be in conformity with the Accounting Standards (AS) issued by the ICAI, to the extent applicable to the insurers carrying on general insurance business, except that:

(i) Accounting Standard 3 (AS 3) – Cash Flow Statements – Cash Flow Statement shall be prepared only under the Direct Method.

(ii) **Accounting Standard 13 (AS 13) – Accounting for Investments, shall not be applicable.**

(iii) **Accounting Standard 17 (AS 17) - Segment Reporting – shall apply irrespective of whether the securities of the insurer are traded publicly or not.**

2. Premium--Premium shall be recognised as income over the contract period or the period of risk, whichever is appropriate. Unearned premium as well as premium received in advance, both of which represent premium income not relating to the current accounting period, shall be disclosed separately in the financial statements.

A reserve for Unearned Premium, may be created as the amount representing that part of the premium written which is attributable and to be allocated to the succeeding accounting periods.

Premium Received in Advance, which represents premium received prior to the commencement of the risk, shall be shown separately under the head '*Current Liabilities'* in the financial statements.

Unearned premium shall be shown separately under the head *'Current Liabilities'* and appropriate disclosures regarding management's basis of assessment shall be made in the financial statements.

Premium received in advance shall not be included in the unearned premium and shall be shown separately.

Premium revenue recognition is based on the pattern of risk to which the insurer is exposed. An insurer, based on past experience can reliably estimate the pattern of risk for a particular type of insurance business. Most insurers bring premium revenue to account on the basis of the passage of time. This is generally appropriate where the risk of events occurring that give rise to claims is more or less uniform throughout the policy period subject to any regulatory prescription in this regard**.**

For some classes of insurance, it is usual for the premium to be adjusted as a result of events and information that becomes known during or after the policy period, e.g. marine cargo. Further, in some cases, risk pattern may not be evenly spread over the period of insurance because of the very nature of the risk covered e.g. some infrastructure projects involving varying degrees of risk factors. A deposit premium is paid in such cases at the beginning of the policy period and subsequently adjusted. The basis of determination of premium earned shall be adequately justified, preferably supported by external evidence such as by certification from an actuary and/or other technical experts. Adequate disclosure of such basis shall be made.

3. Premium Deficiency--Premium deficiency shall be recognised if the sum of expected claim costs, related expenses and maintenance costs exceeds related unearned premiums.

For contracts exceeding four years, once a premium deficiency has occurred, future changes to the liability shall be based on actuarial/technical evaluation.

4. Acquisition Costs---Acquisition costs, if any, shall be expensed in the period in which they are incurred.
Acquisition costs are those costs that vary with, and are primarily related to, the acquisition of new and renewal insurance contracts. The most essential test is the obligatory relationship between costs and the execution of insurance contracts (i.e. commencement of risk).

5. Claims--The components of the ultimate cost of claims to an insurer comprise the claims under policies and claims settlement costs. Claims under policies comprise the claims made for losses incurred, and those estimated or anticipated under the policies.

A liability for outstanding claims shall be brought to account in respect of both direct business and inward reinsurance business. The liability shall include: -

(a) Future payments in relation to unpaid reported claims;
(b) Claims incurred but not reported (IBNR) including inadequate reserves (sometimes referred to as Claims incurred but not enough reported (IBNER)).

which will result in future cash/asset outgo for settling liabilities against those claims. Change in estimated liability represents the difference between the estimated liability for outstanding claims in respect of claims under policies whether due or intimated at the beginning and at the end of the financial period. *The accounting estimate shall also include claims cost adjusted for estimated salvage value if there is sufficient degree of certainty of its realisation.*

Actuarial Valuation of claim liability – in some cases

Estimate of claims made in respect of contracts exceeding four years shall be recognised on an actuarial basis, subject to regulations that may be prescribed by the Authority. In such cases, certificate from a recognised actuary as to the fairness of liability assessment must be obtained. Actuarial assumptions shall be suitably disclosed by way of Notes to the account.

Necessary provision for unexpired risk shall be made subject to any minimum, statutorily required.

6. Procedure to determine the value of investments.---An insurer shall determine the values of investments in the following manner:-

a) Real Estate – Investment Property-- Investment Property shall be measured at historical cost less accumulated depreciation and impairment loss, residual value being considered zero and no revaluation being permissible.

The insurer shall assess at each balance sheet date whether any impairment of the investment property has occurred.

An impairment loss shall be recognised as an expense in the Revenue/Profit and Loss Account immediately.

Fair value as at the balance sheet date and the basis of its determination shall be disclosed in the financial statements as additional information.

b) Debt Securities--Debt securities including Government securities and redeemable preference shares shall be considered as "held to maturity" securities and shall be measured at historical cost subject to amortisation.

c) Equity Securities and Derivative Instruments that are traded in active markets---Listed equity securities and derivative instruments that are traded in active markets shall be measured at fair value as at the balance sheet date. For the purpose of calculation of fair value, the lowest of the last quoted closing price of the Stock Exchanges where the securities are listed, shall be taken.

The insurer shall assess on each balance sheet date whether any impairment of listed equity security(ties)/ derivative(s) instruments has occurred.

An ‘active market’ shall mean a market, where the securities traded are homogenous, availability of willing buyers and willing sellers is normal and the prices are publicly available.

Unrealised gains/losses arising due to changes in the fair value of listed equity shares and derivative instruments shall be taken to equity under the head ‘Fair Value Change Account’ and on realisation reported in Profit and Loss Account. The ‘Profit on sale of investments’ or ‘Loss on sale of investments’, as the case may be, shall include accumulated changes in the fair value previously recognised in equity under the heading Fair Value Change Account in respect of a particular security and being recycled to Profit and Loss Account on actual sale of that listed security.

For the removal of doubt, it is clarified that balance or any part thereof shall not be available for distribution as dividends. Also, any debit balance in the said Fair Value Change Account shall be reduced from the profits/free reserves while declaring dividends.

The insurer shall assess, at each balance sheet date, whether any impairment has occurred. An impairment loss shall be recognised as an expense in Revenue/Profit and Loss Account to the extent of the difference between the remeasured fair value of the security/ investment and its acquisition cost as reduced by any previous impairment loss recognised as expense in Revenue/Profit and Loss Account. Any reversal of impairment loss, earlier recognised in Revenue/Profit and Loss Account shall be recognised in Revenue/Profit and Loss Account.

d) Unlisted and other than actively traded Equity Securities and Derivative Instruments-- Unlisted equity securities and derivative instruments and listed equity securities and derivative instruments that are not regularly traded in active market will be measured at historical costs. Provision shall be made for diminution in value of such investments. The provision so made shall be reversed in subsequent periods if estimates based on external evidence show an increase in the value of the investment over its carrying amount. The increased carrying amount of the investment due to the reversal of the provision shall not exceed the historical cost.

For the purposes of this regulation, a security shall be considered as being not actively traded, if its trading volume does not exceed ten thousand units in any trading session during the last twelve months.

7. Loans--Loans shall be measured at historical cost subject to impairment provisions.
The insurer shall assess the quality of its loan assets and shall provide for impairment. The impairment provision shall not be less than the aggregate amount of loans which are subject to defaults of the nature mentioned below: -

(i) interest remaining unpaid for over a period of six months; and
(ii) instalment(s) of loan falling due and remaining unpaid during the last six months.

8. **Catastrophe Reserve---Catastrophe reserve shall be created in accordance with norms, if any, prescribed by the Authority. Investment of funds out of catastrophe reserve shall be made in accordance with prescription of the Authority.**
It is clarified that this reserve is towards meeting losses which might arise due to an entirely unexpected set of events and not for any specific known purpose. This reserve is in the nature of an amount set aside for the potential future liability against the insurance policies in force.

PART II

DISCLOSURES FORMING PART OF FINANCIAL STATEMENTS

A. The following shall be disclosed by way of Notes to the Balance Sheet:

1. Contingent Liabilities:
   - (a) Partly-paid up investments
   - (b) Underwriting commitments outstanding
   - (c) Claims, other than those under policies, not acknowledged as debts
   - (d) Guarantees given by or on behalf of the company
   - (e) Statutory demands/liabilities in dispute, not provided for
   - (f) Reinsurance obligations
   - (g) Others (to be specified)

2. Encumbrances to assets of the company in and outside India.
3. Commitments made and outstanding for loans, investments and fixed assets.
4. Claims, less reinsurance, paid to claimants in/outside India.
5. Actuarial assumptions for claim liabilities in the case of policies exceeding four years.
6. Ageing of claims – distinguishing between claims outstanding for more than six months and other claims.
7. Premiums, less reinsurance, written from business in/outside India.
8. Extent of premium income recognised, based on varying risk pattern, category wise, with basis and justification therefore, including whether reliance has been placed on external evidence.
9. Value of contracts in relation to investments, for:
   - (a) Purchases where deliveries are pending;
   - (b) Sales where payments are overdue.
10. Operating expenses relating to insurance business: basis of allocation of expenditure to various classes of business.
11. Historical costs of those investments valued on fair value basis.
12. Computation of managerial remuneration.
13. Basis of amortisation of debt securities.
14. (a) Unrealised gain/losses arising due to changes in the fair value of listed equity shares and derivative instruments are to be taken to equity under the head 'Fair Value Change Account' and on realisation reported in profit and loss Account.

    (b) Pending realisation, the credit balance in the 'Fair Value Change Account' is not available for distribution.
15. Fair value of investment property and the basis therefor.
16. Claims settled and remaining outstanding for a period of more than six months on the balance sheet date.

B. The following accounting policies shall form an integral part of the financial statements

1. All significant accounting policies in terms of the Accounting Standards issued by the ICAI, and significant principles and policies given in Part I of Accounting Principles. Any other accounting

policies followed by the insurer shall be stated in the manner required under Accounting Standard AS 1 issued by ICAI.

2. Any departure from the accounting policies as aforesaid shall be separately disclosed with reasons for such departure.

C. **The following information shall also be disclosed**:

1. Investments made in accordance with any statutory requirement should be disclosed separately together with its amount, nature, security and any special rights in and outside India.

2. Segregation into performing/ non performing investments for purpose of income recognition as per the directions, if any, issued by the Authority.

3. Percentage of business sector-wise.

4. A summary of financial statements for the last five years, in the manner as may be prescribed by the Authority.

5. Accounting Ratios as may be prescribed by the Authority.

6. Basis of allocation of interest, dividends and rent between Revenue Account and Profit and Loss Account.

PART III

GENERAL INSTRUCTIONS FOR PREPARATION OF FINANCIAL STATEMENTS

1) The corresponding amounts for the immediately preceding financial year for all items shown in the Balance Sheet, Revenue Account and Profit and Loss Account should be given.

2) The figures in the financial statements may be rounded off to the nearest thousands.

3) Interest, dividends and rentals receivable in connection with an investment should be stated as gross value, the amount of income tax deducted at source being included under 'advance taxes paid'.

4) Income from rent shall not include any notional rent.

5) (I) For the purposes of financial statements, unless the context otherwise requires -

(a) the expression ‘provision’ shall, subject to Note II below, mean any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or retained by way of providing for any known liability or loss of which the amount cannot be determined with substantial accuracy;

(b) the expression "reserve" shall not, subject to as aforesaid, include any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability;

(c) the expression “capital reserve” shall not include any amount regarded as free for distribution through the profit and loss account; and the expression "revenue reserve" shall mean any reserve other than a capital reserve;

(d) The expression "liability" shall include all liabilities in respect of expenditure contracted for and all disputed or contingent liabilities.

(II) Where:

(a) any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or

(b) any amount retained by way of providing for any known liability is in excess of the amount which in the opinion of the directors is reasonably necessary for the purpose, the excess shall be treated for the purposes of these accounts as a reserve and not as a provision.

6) The company should make provisions for damages under law suits where the management is of the opinion that the award may go against the insurer.

7) Risks assumed in excess of the statutory provisions, if any, shall be separately disclosed indicating the amount of premiums involved and the amount of risks covered. The Auditor shall, however, make an appropriate qualification in this regard in his report.

8) Any debit balance of Profit and Loss Account shall be shown as deduction from uncommitted reserves and the balance if any, shall be shown separately.

PART IV

CONTENTS OF MANAGEMENT REPORT

There shall be attached to the financial statements, a management report containing, *inter alia*, the following duly authenticated by the management:

1. Confirmation regarding the continued validity of the registration granted by the Authority;

2. Certification that all the dues payable to the statutory authorities have been duly paid;

3. Confirmation to the effect that the shareholding pattern and any transfer of shares during the year are in accordance with the statutory or regulatory requirements;

4. Declaration that the management has not directly or indirectly invested outside India the funds of the holders of policies issued in India;

5. Confirmation that the required solvency margins have been maintained;

6. Certification to the effect that the values of all the assets have been reviewed on the date of the Balance Sheet and that in his (insurer's) belief the assets set forth in the Balance-sheets are shown in the aggregate at amounts not exceeding their realisable or market value under the several headings – " Loans", " Investments", "Agents balances", "Outstanding Premiums", "Interest, Dividends and Rents outstanding", "Interest, Dividends and Rents accruing but not due", "Amounts due from other persons or Bodies carrying on insurance business", " Sundry Debtors", " Bills Receivable", " Cash" and the several items specified under "Other Accounts";

7. Certification to the effect that the that no part of the life insurance fund has been directly or indirectly applied in contravention of the provisions of the Insurance Act, 1938 (4 of 1938) relating to the application and investment of the life insurance funds;

8. Disclosure with regard to the overall risk exposure and strategy adopted to mitigate the same;

9. Operations in other countries, if any, with a separate statement giving the management's estimate of country risk and exposure risk and the hedging strategy adopted;

10. Ageing of claims indicating the trends in average claim settlement time during the preceding five years;

11. Certification to the effect as to how the values, as shown in the balance sheet, of the investments and stocks and shares have been arrived at, and how the market value thereof has been ascertained for the purpose of comparison with the values so shown;

12. Review of asset quality and performance of investment in terms of portfolios, i.e., separately in terms of real estate, loans, investments, etc.

13. A responsibility statement indicating therein that:

(i) in the preparation of financial statements, the applicable Accounting Standards, principles and policies have been followed along with proper explanations relating to material departures, if any;

(ii) the management has adopted accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the operating profit or loss and of the profit or loss of the company for the year;

(iii) the management has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the applicable provisions of the Insurance Act, 1938 (4 of 1938) / Companies Act, 1956 (1 of 1956), for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

(iv) the management has prepared the financial statements on a going concern basis;

(v) the management has ensured that an internal audit system commensurate with the size and nature of the business exists and is operating effectively.

PART V

PREPARATION OF FINANCIAL STATEMENTS

(1) **An insurer shall prepare the Revenue Account, Profit and Loss Account [Shareholders' Account] and the Balance Sheet in Form B-RA, Form B-PL, and Form B-BS, or as near thereto as the circumstances permit.**
Provided that an insurer shall prepare Revenue Account separately for fire, marine, and miscellaneous insurance business.

(2) An insurer shall prepare separate Receipts and Payments Account in accordance with the Direct Method prescribed in AS 3 – "Cash Flow Statement" issued by the ICAI.

FORM B-RA

Name of the Insurer:
Registration No. and Date of Registration with the IRDA

REVENUE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20___.

(To be prepared separately fire, marine, and miscellaneous insurance)

	Particulars	Schedule	Current Year	Previous Year
			(Rs.'000)	(Rs.'000)
1.	Premiums earned (Net)	**1**		
2.	Others (to be specified)			
3.	Change in provision for unexpired risk			
4.	Interest, Dividend & Rent – Gross			
	TOTAL (A)			
1.	Claims Incurred (Net)	**2**		
2.	Commission	**3**		
3.	Operating Expenses related to Insurance Business	**4**		
4.	Others – To be specified			
	TOTAL (B)			
	Operating Profit/(Loss) from Fire/Marine/Miscellaneous Business (A - B)			

FORM B-PL

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20___.

	Particulars	Schedule	Current Year	Previous Year
			(Rs.'000)	(Rs.'000)
1.	OPERATING PROFIT/(LOSS)			
	(a) Fire Insurance (b) Marine Insurance (c) Miscellaneous Insurance			
2.	INCOME FROM INVESTMENTS			
	(a) Interest, Dividend & Rent – Gross (b) Profit on sale of investments Less: Loss on sale of investments			
3.	OTHER INCOME (To be specified)			
	TOTAL (A)			
4.	PROVISIONS (Other than taxation)			
	(a) For diminution in the value of investments (b) Others (to be specified)			
5.	OTHER EXPENSES			

	(a) Expenses other than those related to Insurance Business (b) Others (To be specified)			
	TOTAL (B)			
	Profit Before Tax			
	Provision for Taxation			
	Profit After Tax			
	Less: Catastrophe Reserve *****			
	Profit available for appropriation			
	APPROPRIATIONS			
	(a) Interim dividends paid during the year (b) Proposed final dividend (c) Dividend distribution tax (d) Transfer to any Reserves or Other Accounts (to be specified)			
	Balance of profit/ loss brought forward from last year			
	Balance carried forward to Balance Sheet			

***** Cumulative *Shortfall in the Catastrophe appropriation Rs. ----- pending surplus*

FORM B-BL

Name of the Insurer: **Registration No. and Date of Registration with the IRDA**

BALANCE SHEET AS AT 31ST MARCH, 20___.

		Schedule	Current Year	Previous Year
			(Rs.'000)	(Rs.'000)
	SOURCES OF FUNDS			
	SHARE CAPITAL	**5**		
	RESERVES AND SURPLUS	**6**		
	FAIR VALUE CHANGE ACCOUNT			
	BORROWINGS	**7**		
	TOTAL			
	APPLICATION OF FUNDS			
	INVESTMENTS	**8**		
	LOANS	**9**		

	FIXED ASSETS	**10**		
	CURRENT ASSETS			
	Cash and Bank Balances	**11**		
	Advances and Other Assets	**12**		
	Sub-Total (A)			
	CURRENT LIABILITIES	**13**		
	PROVISIONS	**14**		
	Sub-Total (B)			
	NET CURRENT ASSETS (C) = (A - B)			
	MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)	**15**		
	DEBIT BALANCE IN PROFIT AND LOSS ACCOUNT			
	TOTAL			

CONTINGENT LIABILITIES

	Particulars	Current Year	Previous Year
		(Rs.'000).	(Rs.'000).
1.	Partly paid-up investments		
2.	Claims, other than against policies, not acknowledged as debts by the company		
3.	Underwriting commitments outstanding		
4.	Guarantees given by or on behalf of the company		
5.	Statutory demands/ liabilities in dispute, not provided for		
6.	Reinsurance obligations		
7.	Others (to be specified)		
	TOTAL		

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE – 1

PREMIUM EARNED [NET]

	Particulars	Current Year	Previous Year
		(Rs.'000)	(Rs.'000)
	Premium from direct business written Add: Premium on reinsurance accepted Less: Premium on reinsurance ceded		

	Net Premium Adjustment for changes in Unearned Premium Adjustment for changes in premium received in advance		
	Total Premium Earned (Net)		

	Premium Income from business effected :		
	In India		
	Outside India		
	Total Premium Earned (Net)		

Notes:

(a) *In case of premiums less reinsurance, in respect of any segment of insurance business exceeds 10 per cent of total premium earned, the same shall be disclosed separately.*

(b) *Reinsurance premiums whether on business ceded or accepted are to be brought into account, before deducting commission, under the head ~~of~~ reinsurance premiums.*

SCHEDULE – 2

CLAIMS INCURRED [NET]

	Particulars	Current Year	Previous Year
		(Rs.'000)	(Rs.'000)
	Claims paid		
	Direct Add: Re-insurance accepted Less: Re-insurance Ceded Net Claims paid		
	Total Claims Incurred		

	Claims paid to claimants:		
	In India		
	Outside India		
	Total Claims Incurred		

Notes:

a) *Incurred but not reported (IBNR)/ Incurred but not enough reported [IBNER] claims should be included in the amount for claims.*
b) *Claims include claims settlement costs.*
c) *The surveyor's fees, legal and other expenses shall also form part of claims cost.*
d) *Claims cost should be adjusted for estimated salvage value if there is a sufficient certainty of its realisation.*

SCHEDULE- 3
COMMISSION

Particulars	Current Year	Previous Year
	(Rs.’000)	(Rs.’000)
Commission paid		
Direct Add: Re-insurance Accepted Less: Commission on Re- Insurance Ceded		
Net Commission		

Note:

The profit/ commission, if any, are to be combined with the Re-insurance accepted or Re-insurance ceded figures.

SCHEDULE – 4

OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

	Particulars	Current Year	Previous Year
		(Rs.’000)	(Rs.’000)
1.	Employees’ remuneration and welfare benefits		
2.	Managerial remuneration		
3.	Travel, conveyance and vehicle running expenses		
4.	Rents, rates and taxes		
5.	Repairs		
6.	Printing and stationery		
7.	Communication		
8.	Legal and professional charges		
9.	Medical fees		
10.	Auditors' fees, expenses etc.		
	(a) as auditor (b) as adviser or in any other capacity, in respect of (i) Taxation matters (ii) Insurance matters (iii) Management services; and (c) in any other capacity		
11.	Advertisement and publicity		
12.	Interest and Bank Charges		
13.	Others (to be specified)		
14.	Depreciation		
	TOTAL		

Notes:

(a) *Items of expenses in excess of one percent of net premium or Rs.5,00,000 whichever is higher, shall be shown as a separate line item.*

(b) *Under the sub-head "Others", `Operating Expenses (Insurance Business)' shall include items like foreign exchange gains or losses and other items.*

SCHEDULE – 5

SHARE CAPITAL

	Particulars	**Current Year**	**Previous Year**
		(Rs.'000).	(Rs.'000).
1.	Authorised Capital		
	Equity Shares of Rs..... each		
2.	Issued Capital		
	Equity Shares of Rs. .....each		
3.	Subscribed Capital		
	Equity Shares of Rs.......each		
4.	Called-up Capital		
	Equity Shares of Rs. .....each		
5.	Less : Calls unpaid		
	Add : Equity Shares forfeited (Amount originally paid up)		
	Less : Preliminary Expenses Expenses including commission or brokerage on Underwriting or subscription of shares		
	TOTAL		

Notes:

(a) The amount capitalised on account of issue of bonus shares should be disclosed.

(b) In case any part of the capital is held by a holding company, the same should be separately disclosed.

SCHEDULE – 5A

SHARE CAPITAL

PATTERN OF SHAREHOLDING
[As certified by the Management]

Shareholder	**Current Year**		**Previous Year**	
	Number of Shares	**% of Holding**	**Number of Shares**	**% of Holding**
Promoters • Indian • Foreign				
Others				
TOTAL				

SCHEDULE – 6

RESERVES AND SURPLUS

	Particulars	**Current Year**	**Previous Year**
		(Rs.'000)	(Rs.'000)
1.	Capital Reserve		
2.	Capital Redemption Reserve		
3	Share Premium		
4	General Reserves Less: Debit balance in Profit and Loss Account Less: Amount utilized for Buy-back		
5	Catastrophe Reserve		
6	Other Reserves (to be specified)		
7	Balance of Profit in Profit & Loss Account		
	TOTAL		

Note:

Additions to and deductions from the reserves should be disclosed under each of the specified heads.

SCHEDULE - 7
BORROWINGS

	Particulars	Current Year	Previous Year
		(Rs.'000).	(Rs.'000).
1.	Debentures/ Bonds		
2.	Fixed Deposits		
3.	Banks		
4.	Financial Institutions		
5.	Other entities carrying on insurance business		
6.	Others (to be specified)		
	TOTAL		

Notes:

(a) *The extent to which the borrowings are secured shall be separately disclosed stating the nature of the security under each sub-head.*

(b) *Amounts due within 12 months from the date of Balance Sheet should be shown separately*

SCHEDULE- 8
INVESTMENTS

	Particulars	Current Year	Previous Year
		(Rs.'000)	(Rs.'000)
	LONG TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Other Investments		
	(a) Shares (aa) Equity (bb) Preference (b) Mutual Funds (c) Derivative Instruments (d) Debentures/ Bonds (e) Other Securities (to be specified) (f) Subsidiaries (g) Investment Properties-Real Estate		
	SHORT TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Other Investments		
	(a) Shares (aa) Equity (bb) Preference (b) Mutual Funds (c) Derivative Instruments (d) Debentures/ Bonds (e) Other Securities (to be specified) (f) Subsidiaries		

	(g) Investment Properties-Real Estate		
	TOTAL		
	INVESTMENTS		
1	In India		
2	Outside India		
	TOTAL		

Notes:

(a) Investments in subsidiary/holding companies, joint ventures and associates shall be separately disclosed, at cost.

(i) Holding company and subsidiary shall be construed as. Significant influence may be exercised in several ways, for example, by representation on the board of directors, participation in the policy making process, material inter-company transactions, inter-change of managerial defined in the Companies Act, 1956:

(ii) Joint Venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

(iii) Joint control - is the contractually agreed sharing of power to govern the financial and operating policies of an economic activity to obtain benefits from it.

(iv) Associate - is an enterprise in which the company has significant influence and which is neither a subsidiary nor a joint venture of the company.

(v) Significant influence (for the purpose of this Schedule) -means participation in the financial and operating policy decisions of a company, but not necessarily control of those policies personnel or dependence on technical information. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiaries, 20 percent or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence is clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

(b) Aggregate amount of company's investments other than listed equity securities and derivative instruments and also the market value thereof shall be disclosed.

(c) Investments made out of Catastrophe reserve should be shown separately.

(d) Debt securities will be considered as "held to maturity" securities and will be measured at historical cost subject to amortisation.

(e) 'Investment Property' means a property [land or building or part of a building or both] held to earn rental income or for capital appreciation or for both, rather than for use in services or for administrative purposes.

SCHEDULE - 9

LOANS

	Particulars	**Current Year**	**Previous Year**
		(Rs.'000)	(Rs.'000)
1.	SECURITY-WISE CLASSIFICATION		
	Secured		
	(a) On mortgage of property (aa) In India (bb) Outside India		
	(b) On Shares, Bonds, Govt. Securities		
	(c) Others (to be specified)		
	Unsecured		
	TOTAL		
2.	BORROWER-WISE CLASSIFICATION		
	(a) Central and State Governments		
	(b) Banks and Financial Institutions		
	(c) Subsidiaries		
	(d) Industrial Undertakings		

	(e) Others (to be specified)		
	TOTAL		
3.	PERFORMANCE-WISE CLASSIFICATION		
	(a) Loans classified as standard (aa) In India (bb) Outside India (b) Non-performing loans less provisions (aa) In India (bb) Outside India		
	TOTAL		
4.	MATURITY-WISE CLASSIFICATION		
	(a) Short Term		
	(b) Long Term		
	TOTAL		

Notes:

(a) *Short-term loans shall include those, which are repayable within 12 months of the balance sheet date. Long term loans shall be the loans other than short-term loans.*

(b) *Provisions against non-performing loans shall be shown separately.*

(c) *The nature of the security in case of all long term secured loans shall be specified in each case. Secured loans for the purposes of this schedule, means loans secured wholly or partly against an asset of the company.*

(d) *Loans considered doubtful and the amount of provision created against such loans shall be disclosed*

SCHEDULE - 10
FIXED ASSETS

(Rs.'000)

	Particulars	**Cost/ Gross Block Depreciation**				**Net Block**					
		Opening	Additions	Deductions	Closing	Upto Last Year	For The Year	On Sales/ Adjust ments	To Date	As at year end	Previous Year
	Goodwill										
	Intangibles (specify)										
	Land-Freehold										
	Leasehold Property										
	Buildings										
	Furniture & Fittings										
	Information Technology Equipment										
	Vehicles										
	Office Equipment										
	Others (Specify nature)										
	TOTAL										
	PREVIOUS YEAR										

Note:

Assets included in land, building and property above exclude Investment Properties as defined in note (e) to Schedule 8.

SCHEDULE- 11
CASH AND BANK BALANCES

	Particulars	**Current Year**	**Previous Year**
		(Rs.'000)	(Rs.'000)
1.	Cash (including cheques, drafts and stamps)		
2.	Bank Balances		
	(a) Deposit Accounts (aa) Short-term (due within 12 months) (bb) Others (b) Current Accounts (c) Others (to be specified)		
3.	Money at Call and Short Notice		
	(a) With Banks (b) With other Institutions		
4.	Others (to be specified)		
	TOTAL		
	Balances with non-scheduled banks included in 2 and 3 above		

	CASH & BANK BALANCES		
1	In India		
2	Outside India		
	TOTAL		

Notes:

Bank balance may include remittances in transit. If so, the nature and amount should be separately stated.

SCHEDULE – 12

ADVANCES AND OTHER ASSETS

	Particulars	**Current Year**	**Previous Year**
		(Rs.'000)	(Rs.'000)
	ADVANCES		
1.	Reserve deposits with ceding companies		
2.	Advances to ceding companies		
3.	Application money for investments		
4.	Prepayments		
5.	Advances to Officers/ Directors		
6.	Advance tax paid and taxes deducted at source		
7.	Others (to be specified)		
	TOTAL (A)		
	OTHER ASSETS		
1.	Income accrued on investments		
2.	Outstanding Premiums		
3.	Agents' Balances		
4.	Foreign Agencies' Balances		
5.	Due from other Insurance Entities		
6.	Due from subsidiaries/ holding		

7.	Reinsurance claims/balances receivable		
8.	Deposit with Reserve Bank of India [Pursuant to section 7 of Insurance Act, 1938]		
9.	Others (to be specified)		
	TOTAL (B)		
	TOTAL (A+B)		

Notes:

(a) *The items under the above heads shall not be shown net of provision for doubtful amounts. The amount of provision against each head should be shown separately.*

(b) *The term 'officer' should conform to the definition of the word 'officer' given under the Companies Act, 1956.*

SCHEDULE – 13

CURRENT LIABILITIES

	Particulars	Current Year	Previous Year
		(Rs.'000)	(Rs.'000)
1	Reserve for Unearned Premium		
2	Agents' Balances		
3	Balances due to other insurance companies		
4	Advances from Treaty Companies		
5	Deposits held on re-insurance ceded		
6	Premiums received in advance		
7	Sundry creditors		
8	Due to subsidiaries/ holding company		
9	Claims Outstanding		
10	Due to Officers/ Directors		
11	Others (to be specified)		
	TOTAL		

SCHEDULE – 14

PROVISIONS

	Particulars	Current Year	Previous Year
		(Rs.'000)	(Rs.'000)
1	Reserve for Unexpired risk		
2	For taxation (less advance tax paid and taxes deducted at source)		
3	For proposed dividends		
4	For dividend distribution tax		
5	Others (to be specified)		
	TOTAL		

SCHEDULE – 15

MISCELLANEOUS EXPENDITURE
(To the extent not written off or adjusted)

	Particulars	Current Year	Previous Year

		(Rs.'000)	(Rs.'000)
1.	Discount allowed in issue of shares/ debentures		
2.	Others (to be specified)		
	TOTAL		

Notes:

(a) No item shall be included under the head "Miscellaneous Expenditure" and carried forward unless:
1. some benefit from the expenditure can reasonably be expected to be received in future, and
2. the amount of such benefit is reasonably determinable.

(b) The amount to be carried forward in respect of any item included under the head "Miscellaneous Expenditure" shall not exceed the expected future revenue/other benefits related to the expenditure.

SCHEDULE C

(See Regulation 3)

AUDITOR'S REPORT

The report of the auditors on the financial statements of every insurer shall deal with the matters specified herein:

1. (a) That they have obtained all the information and explanations which, to the best of their knowledge and belief were necessary for the purposes of their audit and whether they have found them satisfactory;

(b) Whether proper books of account have been maintained by the insurer so far as appears from an examination of those books;

(c) Whether proper returns, audited or unaudited, from branches and other offices have been received and whether they were adequate for the purpose of audit;

(d) Whether the Balance sheet, Revenue account and Profit and Loss account dealt with by the report and the Receipts and Payments Account are in agreement with the books of account and returns;

(e) Whether the actuarial valuation of liabilities is duly certified by the appointed actuary including to the effect that the assumptions for such valuation are in accordance with the guidelines and norms, if any, issued by the Authority, and/or the Actuarial Society of India in concurrence with the Authority.

2. The Auditors shall express their opinion on:

(a) (i) Whether the balance sheet gives a true and fair view of the insurer's affairs as at the end of the financial year/period;

(ii) Whether the revenue account gives a true and fair view of the surplus or the deficit for the financial year/period;

(iii) Whether the profit and loss account gives a true and fair view of the profit or loss for the financial year/period;

(iv) Whether the receipts and payments account gives a true and fair view of the receipts and payments for the financial year/period;

(b) The financial statements stated at (a) above are prepared in accordance with the requirements of the Insurance Act, 1938 (4 of 1938), the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999) and the Companies Act, 1956 (1 of 1956), to the extent applicable and in the manner so required.

(c) Investments have been valued in accordance with the provisions of the Act and these Regulations.

(d) The accounting policies selected by the insurer are appropriate and are in compliance with the applicable accounting standards and with the accounting principles, as prescribed in these Regulations or any order or direction issued by the Authority in this behalf.

3. The Auditors shall further certify that:

(a) they have reviewed the management report and there is no apparent mistake or material inconsistencies with the financial statements;

(b) the insurer has complied with the terms and conditions of the registration stipulated by the Authority.

4. A certificate signed by the Auditors [which shall be in addition to any other certificate or report which is required by law to be given with respect to the balance sheet] certifying that: –

(a) they have verified the cash balances and the securities relating to the insurer's loans, reversions and life interests (in the case of life insurers) and investments;

(b) to what extent, if any, they have verified the investments and transactions relating to any trusts undertaken by the insurer as trustee; and

(c) no part of the assets of the policyholders' funds has been directly or indirectly applied in contravention of the provisions of the Insurance Act, 1938 (4 of 1938) relating to the application and investments of the policyholders' funds.

N. RANGACHARY, Chairperson"

xxiii) Financial Statistics and Ratios for evaluating efficiency of Life Insurance Business

Sl No	*Particulars*	*Remarks (if any)*
1	New Business	
	(A)No of Policies:	
	1. Individual 2.Group	
	(B)Sum Assured (SA)	
	1.Individual 2.Group	
	(C)Average SA per policy	
	Individual	
2	(A) First Premium(Individual)	
	(B) Other First Year Premium(Individual)	
	(C)First Year Premium(Individual)	
	(Total A + B)	
	(D)First Year Premium (G & S)	
	Total 2C + 2D)	
3.	% increase / decrease of First Year Premium	
	(Individual)(i.e. Item 2C) over previous year.	
4	Average First Premium per 1000 S.A	
	Average First Year Premium per 1000 S.A.	
	(Under Individual Business Only)	
5	(A)Renewal Premium – Individual	
	(B)Renewal Premium (G & S)	
	(C)Renewal Premium (Individual & G & S)	
	(Total 5A + 5B)	
6.	% Increase / Decrease of Renewal Premium	
	(i.e., Item 5A) over that of Previous Year	
7	Conservation Ratio (Individual Assurance)	
	Renewal Premium (Ind.) of the	
	Current Year. (Item 5(A) X 100	
	Total Premium (F.Y. Prem. + R. Prem)	
	Ind. of previous year (Item 2C + 5A)	
8.	(A)Single Premium – Individual	
	(B)Single Premium (G & S)	
	(C)Single Premium (Individual & G & S)	
	(Item No. 8A + 8 B)	
9.	(A)Consideration for Annuities Granted (Ind.)	
	(B)Consideration for Annuities Granted (G & S)	
	(C) Consideration for Annuities Granted (Ind. & G & S)	
	(Item 9A + 9B)	
10.	(A)Total Premium (Item 2E + 5C + 8C + 9C)	
	(B)Percentage Increase over Previous Year	
	(C) Budgeted total premium Income	
	(D) Realisation of total premium to Budgeted premium (%)	

11.	(i)Expenses of Management	
	(a) Commission and other Benefits to Agents	
	(b) Salaries and other benefits to Employees	
	(c) Other expenses of Management	
	(d) Total expenses of Management	
	(ii)Budgeted total expenses of Management	
	(iii)Percentage of Actual Expenses to Budgeted total	
	Expenses of Management	
12.	Renewal Expense Ratio	
	Total Expenses of Management Less:	
	(89.4 % of F.Y.Premium (Ind. & G & S) and 7.5 % of	
	Single Premium & Consideration for	
	Annuities Granted (Ind. & G & S) X 100	
	Total Renewal Premium	
	i.e. Item 11 minus (89.4% of Item 2E and	
	7.5% of Item 8C + 9 C	
	Item 5C	
13.	Overall Expense Ratio	
	Total Expenses of Management (Item 11) X 100	
	Total Premium Income (Item No. 10)	
14.	% of First Year Commission (Including Bonus	
	Commission to Agents) to First Year Premium	
	(Individual)	
15.	% of Renewal Commission to Renewal Premium (Individual)	
16.	Cash and Bank Balances	
17.	(A)Outstanding Deposits	
	(B)% of Outstanding Deposits to Total Premium	
	% of Item 17 (a) to Item No. 2E + 5C.	
	(C)Deposits created during the year	
	(D) Deposits adjusted during the year.	
18.	(A)SSS Collections credited	
	(B)SSS Apprns. Made	
	(C)Balance of SSS Collections	
	(D)% of Outstanding Collections to Total Premium (SSS)	
19.	Claims Initiated	
	(A)Death	
	(B)Maturity	
20.	Claims Outstanding	
	(A)Death	
	(B)Maturity	
21.	Claims settled during the year (including written back)	
	(A)Death	
	(B)Maturity	
22.	% of Outstanding Claims as at the end of the Financial Year to Claims Payable * during the year.	

	(A)Death Claims	
	(B)Maturity Claims	
	(*) Claims payable (Claims outstanding at the beginning of the year plus claims intimated during the year)	
23.	Outstanding Premium	
	(A)First Year Premium	
	(B)Renewal Premium	
24.	(A)% of Outstanding F.Y. Premium to F.Y. Premium	
	(% of Item No. 23A to Item No. 2C)	
	(B)% of Outstanding Renewal Premium to Renewal Premium (% of Item No.23 B to Item No. 5A)	
	(C)% of Total Outstanding Premium to Total Premium (% of Item No: 23A & B to Item No. 2C and 5A)	
25.	(A)Outstanding F.Y. Commission (Ind.)	
	(B)% of Outstanding F.Y. Commission to First Year Commission (Ind.)	
26.	(A)Outstanding F.Y. Commission (Ind.)	
	(B)% of Outstanding F.Y. Commission to First Year Commission (Ind.)	
27.	Outstanding Commission (G & S)	
28.	(A)Outstanding Incentive Bonus to Class II	
	(B)% of Outstanding R.C. to R. Commission (Ind)	
	(C) % of 28A to 28 B	
29.	Percentage of Interest on Policy Loans to mean balance of outstanding loans (i.e., aggregate of Loan Balance at the beginning and end of the year divided by 2)	
30.	(1) Surplus Funds transferred during the year	
	(2) Percentage Increase over the previous year.	
31.	Other Accounting Ratios:	
	(A) Average medical fees per thousand medical sum assured (Ind.)	
	(B)Average policy stamps per thousand sum assured (Ind.)	
	(C) Cost of Printing and Stationery per in-force Policy.	
	(D) Cost of Postage, Telegram & M.O. Commission per In-force Policy	
	(E)Cost of Telephone Charges per In-force Policy.	
	(F)Percentage of closing Stock to Expenditure on Printer & Stationery.	

xxiv) Computation of a few important Ratios

(a) ***Renewal Expense Ratio :*** Renewal expense ratio is an indicator of the efficiency of an insurance company. RER is the proportion of the renewal premium income spent by the insurer on payment of commission and expenses of management in each year during the period since the last investigation, after allowing for the cost of the new business of the year 7 ½ % on single premium including consideration for annuities granted and 7 ½% seven and a half percent for each year of the maximum premiums paying, Not exceeding 90% in all of first years premium falling due in the year after deduction of those unpaid under policies allowed to lapse in the year. Detailed working is given below. section 40B of the Insurance Act of 1938 read with rule 17D of insurance rules place a ceiling on FYER and RER.

Note: Where maximum premium paying period includes a fraction of a year, such fraction will be ignored and in the case of whole life policy with premium payable throughout the duration of the policy, the maximum premium paying period shall be assumed to be 12 years.

Renewal Expense Ratio (RER) is limited to 15% by the Insurance Act. If actuals are less than the limit prescribed it shows that the company is efficient in controlling the expenditure. The RER is sensitive to the size of policy and premium per policy if the average size is high and consequently premium on policy also high then RER is bound to come down because per policy expenses other than variable expenses like commission, medical fees, policy stamps and field staff salary is more or less constant.

WORKING:

(1) Renewal Expense Ratio:

Total expenses of management …………………….. A

Less: Expenses allowable as per rule 25B, that is aggregate of the following …B:

- 7.5 per cent of single premium and consideration for annuities granted
- 15 per cent of the first year premium of two years duration
- 22.5 per cent of first year premium of three years duration
- 30 per cent of first year premium of four years duration
- 37.5 per cent of first year premium of five years duration
- 45 per cent of first year premium of six years duration
- 52.5 per cent of first year premium of seven year duration
- 60 per cent of first year premium of eight years duration
- 67.5 per cent of first year premium of nine years duration
- 75 per cent of first year premium of 10 years duration
- 82.5 per cent of the first year premium of 11 years duration
- 90 per cent of first year premium of 12 years and over

Renewal Expense (balance of A-B)

Renewal Premium Income - D

Renewal Expense Ratio equals (C/Dx100) ?

(2) **Overall Expense Ratio:**

- First year premium …….M
- Renewal premium ………N
- Single premium…………..O

- Consideration for annuities granted…… P
- Total Premium Income ….Q (M+N+O+P)

Overall Expense Ratio= (A/Q x100) ?

Where 'A' = Total expenses of management

(3) **Yield on Mean Life Insurance Fund**

This is the rate of interest realized on the average life insurance fund. Higher rate of interest realized means prudent investment portfolio management despite restrictions placed on the pattern of investment under section 27 of the Insurance Act of 1938. Lower yield should be a cause for concern as this is one of the factors taken into the account in fixing the premium rate.

Yield is calculated as under (illustration):

- Interest, dividends and rent realized during the year Rs. 11,23,877 ..[A]
- The life insurance fund at the beginning of the year Rs.87,07,488…]B]
- Life insurance fund at the end of the year Rs.1,05,30,309..[C]
- Mean life insurance fund (B+C)/2…………………………….Rs. 96,18,899 [D]

Yield on mean life insurance fund= (A/D X100) = 11.68% ?

(4) Net Lapse Ratio:

Net lapse ratio [on the basis of number of policies]. This is the ratio of net lapses during the year [lapses less revivals] to the mean life insurance business in force

Computation of Net Lapse Ratio(illustration):

- Number of policies lapsed [net of revival] 1,000 …[A]
- Policies in force at the beginning of the year 15,000…]B]
- Policies in force at the end of the year 20,000 [C]
- Mean policies in force (B+C)/2 17,500 [D]

Net lapse ratio [A/D X100] = 5.71% ?

xxv) Accounting Standards applicable for Life Insurance Business in India

- Rule 4 of the Companies (Indian Accounting Standards) (Amendment) Rules, 2016 further states that "The Banking Companies and Insurance Companies shall apply the Ind AS as notified by the Reserve Bank of India (RBI) and Insurance Regulatory Development Authority (IRDA) respectively".

- The Insurance Regulatory and Development Authority (Preparation of Financial Statements And Auditor's Report of Insurance Companies) Regulations, 2000, vide Schedule A , Part I , stipulates:

    - Accounting Standard 3 (AS 3) – Cash Flow Statements – Cash Flow Statement shall be prepared only under the Direct Method.
    - Accounting Standard 17 (AS 17) - Segment Reporting – shall apply irrespective of whether the securities of the insurer are traded publicly or not.
- Implementation of Ind AS in the Insurance Sector: Ref. No:IRDA/F&A/CIR/ACTS/146/06/2017 - Date:28-06-2017

  The Authority, in order to prepare the insurance industry for implementation of Ind AS and to provide suitable guidelines wherever required, had constituted an Implementation Group vide Order reference no. IRDA/ F&A/ ORD /ACTS /201/11/2015 dated 17th November 2015. The Implementation Group had submitted their Report on 29th December 2016. The draft of the Regulations recommended by the Implementation Group were issued as Exposure draft for comments from all stakeholders. Simultaneously, insurance companies have also been directed to submit Proforma Reports effective quarter ending December 2016.

  2. Further, in the press release dated 18th January 2016 the Ministry of Corporate Affairs (MCA) have laid down the roadmap for implementation of Ind AS for the insurance sector whereby, insurers/insurance companies are required to prepare Ind AS based financial statements for accounting periods beginning from April 1, 2018 onwards with one year comparatives. Rule 4 of the Companies (Indian Accounting Standards) (Amendment) Rules, 2016 further states that “The Banking Companies and Insurance Companies shall apply the Ind AS as notified by the Reserve Bank of India (RBI) and Insurance Regulatory Development Authority (IRDA) respectively”.

  3. In the meantime, the International Accounting Standards Board on 18th May 2017 issued the much awaited IFRS 17 Insurance Contracts which replaces IFRS 4, which was brought in as an interim Standard. As the IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using National Accounting Standards, resulting in a multitude of different approaches, it is difficult for stakeholders to compare the financial performance of otherwise similar companies. The developments around release of IFRS 17 have resulted in the IRDAI reviewing the position in the matter of implementation of Ind AS in the insurance sector in India.

  4. The Board of the Authority at its meeting held on 31st May 2017 noted the peculiarities of the insurance sector in India, particularly the fact that India does not have a Standard equivalent to IAS 39 on Financial Instruments: Recognition and Measurement. The Implementation of the Ind AS in the present form will lead to a position where assets will be valued on fair value / market value basis and liabilities will continue to be valued as per the existing formula based approach. This is likely to lead to mismatch in the asset and liability valuation and also cause volatility in the financial statements of the insurance companies. Further, compliance costs would be incurred twice, once immediately on implementation of Ind AS and secondly when IFRS 17 is implemented in India.

  5. The Authority therefore, approved the Regulatory override whereby the implementation of Ind AS in the Insurance Sector in India has been deferred for a period of two years and the same shall now be implemented effective 2020-21.

  6. However, the requirement of submitting Proforma Ind AS financial statements on a quarterly basis shall continue to be governed as directed under IRDAI circular reference IRDA/F&A/CIR/ACTS/ 262/12/2016 dated 30th December 2016.”

xxvi) Internal Audit Aspects of Finance Function

- Adherence to best practices of the business, having effective control systems to mitigate incidence of frauds.

- **Statutory and Regulatory Aspects**
  - Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies), Regulations, 2002
  - Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin of Life Insurance Business) Regulations, 2016

- Model Questionnaire for Internal Audit of Life Insurance

MODEL QUESTIONNAIRE FOR INTERNAL AUDIT OF LIFE INSURANCE **6.Department: Finance and Accounts**		
6.1	Are the provisions of Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies), Regulations, 2002 including Standards related to Accounting Standards being adhered to?	
6.2	Are provisions of Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin of Life Insurance Business) Regulations, 2016 relating to valuation of assets, liabilities and solvency margins strictly adhered to?	
6.3	Are systemic controls in place for income accounting?	
6.4	Are controls in place related to expense Accounting?	
6.5	Are provisions of Insurance Regulatory and Development Authority of India (Investment) Regulations, 2016 being complied with?	

8.1.7. Investment Function

- Investment of investible surpluses is a function normally handled at the headquarters of a life office. Investment of life insurance companies are governed by the provisions of section 27-A of the Insurance Act of 1938. These provisions were framed to protect the interests of unwary policyholders against the misuse of funds by the insurers.
- IRDAI, as regulator has issued regulations governing investments called Insurance Regulatory and Development Authority of India (Investment) Regulations, 2016
- Section 3 of the regulations deals with the approved investments.
- Regulation 4 deals with Regulation of Investments – Life Insurer
- Regulation 5 deals with limits and is as below:
-

5. *Without prejudice to Sections 10 (2AA), 27 or 27A of the Act and any provisions of these Regulations, every insurer carrying on the business of Life Insurance, shall invest and at all times keep invested its Investment Assets as defined in Regulation 4 (a) (other than funds relating to Pension & General Annuity and Group Business and unit reserves of all categories of Unit Linked Business) in the following manner:*

<table>
<tr><th>No</th><th>Type of Investment</th><th>Percentage to funds as under Regulation 4(a)</th></tr>
<tr><td>(i)</td><td>Central Government Securities</td><td>Not less than 25%</td></tr>
<tr><td>(ii)</td><td>Central Government Securities, State Government Securities or Other Approved Securities</td><td>Not less than 50%(incl (i) above)</td></tr>
<tr><td>(iii)

(iv)</td><td>Approved Investments as specified in Regulation 3 (a), (b) and Other Investments as specified in Section 27A (2) and Schedule I to these Regulations, (all taken together) subject to Exposure / Prudential Norms as specified in Regulation 9:
Other Investments as specified in Section 27A (2), subject to Exposure / Prudential Norms as specified in Regulation 9:</td><td>Not exceeding 50%

Not exceeding15%</td></tr>
<tr><td>(v)</td><td>Investment in housing and infrastructure by way of subscription or purchase of:
A. Investment in Housing
a. Bonds / debentures of HUDCO and National Housing Bank
b. Bonds / debentures of Housing Finance Companies either duly accredited by National Housing Banks, for house building activities, or duly guaranteed by Government or carrying current rating of not less than 'AA' by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations, 1999
c. Asset Backed Securities with underlying housing loans, satisfying the norms specified in the guidelines issued under these regulations from time to time.
B. Investment in Infrastructure
(Explanation: Subscription or purchase of Bonds / Debentures, Equity and Asset Backed Securities with underlying infrastructure assets would qualify for the purpose of this requirement.
'Infrastructure facility' shall have the meaning as given in Regulation 2 (h) as amended from time to time
Note: Investments made under category (i) and (ii) above may be considered as investment in housing and infrastructure, provided the respective government issues such a security specifically to meet the needs of any of the sectors specified as 'infrastructure facility'</td><td>Total Investment in housing and infrastructure (i.e.,) investment in categories (i), (ii), (iii) and (iv) above taken together shall not be less than 15% of the fund under Regulation 4(a)</td></tr>
</table>

Entire Regulations can be accessed through IRDAI (Inv) Regulations2016.pdf

- Model Questionnaire:

MODEL QUESTIONNAIRE FOR INTERNAL AUDIT OF LIFE INSURANCE Function: Investments		
7.Department: **Investments**		
Sl No	Particulars	Remarks:
7.1	Is there a documented, Board approved Investment Policy?	If not raise a red flag.
7.2	Are the investment functions in conformity with the statutory & Regulatory provisions particularly Insurance Regulatory and Development Authority of India (Investment) Regulations, 2016?	List all deviations?

8.1.8. Pensions & Group Schemes (P&GS) or Group Business Department

- General consideration: Group business an integral part of a life office. Individual insurance is a contract between the individual and the insurance company oblique insurer Group insurance implies one contract covering a group of lives.
- A Master Policy is issued incorporating the contract between the insurance company on the one hand and the legal entity like employer, trustees, association etc . on the other hand, defining the group of lives to be covered, benefits, contributions and terms and conditions on which the contract is entered into.
- Underwriting unit is the group of lives and hence there is a group selection of risk. The amount of cover is determined on the basis of a formula and not decided by individuals forming the group. Insurance on the life of all members up to a limit called free cover limit is granted on the basis of simple rules of insurability. The assured should not be absent from duty on grounds of sickness on the date of effecting the insurance and no evidence of health is usually called for
- Mass administration and simple underwriting practice result in low cost of insurance for the group.
- The premium rates of group schemes are adjusted periodically on the basis of experience. This feature is known as experience rating for medium and big sized groups. Sharing of profits on the basis of actual experience is a normal feature.
- **General characteristics of the group**
    - Insurance must be incidental; that is, the group must have been formed not mainly for the purpose of obtaining insurance
    - The group must have a central administrative machinery to act on behalf of members
    - The group should be such that there is a steady stream of new entrants from year to year so that the group is not stagnant and is not likely to lapse as a result of depletion of members
    - Another condition required for treating the group as an underwriting unit is that the large proportion of eligible persons must join the scheme
    - A minimum size of the group is generally prescribed
- **Different types of groups**
    - Employer-employee groups, debtor creditor groups, professional groups of doctors, lawyers, accountants, engineers, journalists, pilots etc
    - Miscellaneous - there may be other forms of groups eligible for group insurance like cooperative societies, welfare funds etc. The group should have a reliable identity and should have been formed for some purpose other than for group insurance .
- **Various group insurance schemes**

    For employer employee groups

    1. Group Gratuity Scheme to provide for the gratuity liability

    2.Group Superannuation Scheme

    3. Group Leave Encashment Scheme

4. Group Annuity Scheme for privately managed superannuation funds

5. Group schemes for employers' voluntary retirement schemes

6. Group Savings Linked Insurance Scheme (GSLI)

7.Group Term Insurance Scheme

For other groups

1.Group term insurance schemes

- Model Questionnaire

MODEL QUESTIONNAIRE FOR INTERNAL AUDIT OF LIFE INSURANCE FUNCTION: PENSION AND GROUP SCHEMES		
Department: **P&GS**		
Sl No	***Particulars***	***Remarks***
8.1	Is there a board approved policy on group business ?	
8.2	Is the Group business administered as per the policy established?	
8.3	Are group products approved by the regulator?	
8.4	Are necessary approvals from the Government, Tax Authorities obtained wherever required?	

8.1.9. Actuarial function

- Actuarial valuation is a technical function in a life insurance company. Basically, actuarial work is related to ascertaining values of probability functions like pricing of life insurance risks, design of products and valuation of life insurance funds and assets and liabilities.

  Under the Companies Act, 2013 actuarial valuation is to be certified by a Qualified Actuary. Normally Actuaries are Associate/Fellow Members of the Institute of Actuaries of India

- **Internal audit issues related /Functional aspects of actuaries**
  (1) Market Research to understand the economic needs of life insurance consumers.
  (2) Pricing of products based on the needs, design life insurance products and price them.
  (3) Valuation of Portfolio: Periodically, evaluate the values of liabilities under contracts of assurances and also the assets/reserves held to ensure solvency as stipulated under law.
  (4) Compliance / file and use procedure: Actuaries are also responsible for communicating with the regulators on connected issues of compliance like file and use procedure.
- **Regulatory and Compliance**

  From compliance perspective the following regulations issued by IRDAI are to be kept in mind by the internal auditor:

  - Insurance Regulatory and Development Authority of India (Actuarial Report and Abstract for Life Insurance Business) Regulations, 2016

- Insurance Regulatory and Development Authority of India (Minimum Limits for Annuities and Other Benefits Regulations), 2015
- Insurance Regulatory and Development Authority of India (Assets, Liabilities and Solvency Margin of Life Insurance Business) Regulations, 2016
- Insurance Regulatory and Development Authority of India (Non-Linked Insurance Products) Regulations, 2019
- Insurance Regulatory and Development Authority of India (Unit Linked Insurance Products) Regulations, 2019
- Insurance Regulatory and Development Authority of India (Distribution of Surplus) Regulations, 2002
- Insurance Regulatory and Development Authority of India (Appointed Actuary) Regulations, 2017,14th May 2020

- **Model Questionnaire**

MODEL QUESTIONNAIRE FOR INTERNAL AUDIT OF LIFE INSURANCE FUNCTION: ACTUARIAL		
9.Department: **General Servicing**		
Sl No	Particulars	Remarks:
9.1	Is there a Board approved actuarial policy in place?	
9.2	Is the actuarial function managed by qualified actuary and actuarial team?	
9.3	Are the provisions of Insurance Regulatory and Development Authority of India (Appointed Actuary) Regulations, 2017,14th May 2020 complied with?	
9.4	Are the provisions of IRDAI (Actuarial Report and Abstract for Life Insurance Business) Regulations, 2016 complied with?	
9.5	Are the provisions of IRDAI (Assets, Liabilities and Solvency Margin of Life Insurance Business) Regulations, 2016 complied with especially with regard to valuation of assets, liabilities and solvency margins ?	
9.6	Are file and use guidelines strictly adhered to while reporting to the regulator?	
9.7	Is there a Board appointed actuary in charge to certify the records?	

8.1.10. Systems & Technology

Systems are integral part of modern office infrastructure. Since these are very expensive investments and fragile also, safety and security of these assets should be of prime importance to the life insurance company. In the modern business context of data management, systems including servers require protection from loss or damage and also from access control, especially from life insurance perspective.

- **Internal audit aspects in the function**
    - There should be a Board Accepted Policy on automation of the functionalities in the life insurance company, as this directly impacts the recruitment strategy of human resources.
    - Investment and technology involve huge financial investments which will have short life span. Hence it is necessary to recoup the investments within the pay-back period. Also, technology selection should have a futuristic perspective so that frequent changes in technology wouldn't require frequent investments.
    - Functionally there should be a scientific office layout for systems to minimise cost escalation due to movements.
    - A complete inventory of all hardware and software be maintained at Systems Department, which periodically should be reconciled with the Schedule of fixed assets in Finance Department
    - There should be a well-defined access control to Systems Department and all transactions should be subjected to audit/inspection
    - There should be a control on movement of input hardware units like disks, tapes, drives etc into & out of systems department and be part of approval by competent authority.
    - LAN /Wireless/Network-drive access should be as per approved process,
    - Disposal of scrap of system hardware should be as per approved process
    - Pre-printed computer stationery should be under access control and all wastes of used stationery should be destroyed/disposed of as per approved procedure.
    - There should be a well-defined control on licences held by the life insurance company and renewals of licences should be as per approved process. All communications in purchase of licenses/renewal of licences or termination of licensees should be in writing and with the approval of concerned
    - A Management Committee is preferable comprising of functional heads which takes decisions on purchase/renewal/termination of existing or new hardware/software. This function is supported by the technology head.
    - Compliance aspect of the systems and technology function involves adherence to the provisions of
- **Statutory perspectives of Internal audit**
    - Information and Technology Act,2000
- **Regulatory:**
    - Insurance Web Aggregator Regulations, 2017
    - Insurance Regulatory and Development Authority of India (Issuance of e-Insurance Policies) Regulations, 2016
    - Insurance Regulatory and Development Authority of India (Web Aggregators) Regulations, 2013
    - Insurance Regulatory and Development Authority of India (Sharing of Database for Distribution of Insurance Products) Regulations, 2010

- **Model Questionnaire**

MODEL QUESTIONNAIRE FOR INTERNAL AUDIT OF LIFE INSURANCE FUNCTION: SYSTEMS AND INFORMATION TECHNOLOGY		
10.Department: **Information & Technology**		
Sl No	***Particulars***	***Remarks***
10.1	Is there a documented Board approved Information Technology Policy in place?	
10.2	Are the process of purchase of systems and applications standardised and as approved?	
10.3	Is the system control secured and in charge of a competent person(s)?	
10.4	Are the licenses of systems up-to-date?	
10.5	Are the servers located in approved places?	
10.6	Is the movement of systems, assets, media in control as per approved process, whether within the premises or otherwise?	
10.7	Are the system access controls as per the approved process?	
10.8	Are proper firewalls and VPN protocols in place to ensure security and safety?	
10.9	Is the system utilities under control for accidents like fire, theft?	
10.10	Are all the systems and utilities uniquely identifiable?	
10.11	Is inventory verification done once in a year to match with the inventory in fixed assets register?	
10.12	Are the systems and licenses adequately insured for accidental losses?	

8.1.11. Human Resources Management (HR)

- Insurance is a technical domain which has established its unique position similar to that of Banking. The personnel in insurance industry need to be specialised and technically qualified. Insurance education and qualifications have been discussed earlier in detail. Following are the internal audit considerations in the Human Resources function of a life insurance company.
  - Following are the categories of functional expert resources required in a Life insurance company:
    - **Qualified Intermediaries** who are adept in selling, insurance, statutory, regulatory aspects in marketing of insurance products
    - **Underwriters** are the specialists who evaluate a life risk and price it. Underwriters may be field underwriters, medical underwriters, financial underwriters.
    - **Customer Service Executives & Managers**: These are the personnel, who are conversant with the issues, in Policy holders servicing
    - **Claims Managers/Investigators/Analysts** who are specialists in handling claims process
    - **Finance Executives:** These are specialists like Chartered Accountants/Cost accountants who have specialised exposure and experience in Insurance Accounting and Finance and Processes
    - **Investment Experts/Asset Managers:** These are the people with specialisation in managing the investments of funds, stock market etc.
    - **Actuaries** are the specialists in insurance finance and computing, who handle complicated function of pricing of insurance risks and valuation of insurance portfolios (assets and liabilities management -ALM)
    - **Legal Personnel** who are mainly involved in understanding and interpreting legal provisions, case laws, judgements, awards and also involved in drafting legal documents like policy contracts, clauses, endorsements etc.
    - **Systems/IT Personnel:** Specially skilled personnel in technology, RDBMS, DBAs, Programmers, Network Specialists
    - **General Admin/PR/HR Personnel:** All other personnel
  - **Human Resources Department would be involved in the following functions**
    - Specialised recruitment of resources, experts
    - Providing company specific training like induction, orientation, refresher etc
    - Managing compensation for these resources
    - Taxation and filings related to employees like professional tax, income tax, provident funds, mandatory insurance coverages if any.
    - Performance appraisal, rewards & recognition
    - Termination of contracts
    - Disciplinary proceedings
    - Prevention of discrimination and atrocities: Vishaka Guidelines as ordered by the Supreme Court in 1997. Every organisation should have an Internal Complaints Committee, called a Vishaka Committee, for women to file complaints of sexual harassment they faced at workplaces. The Supreme Court has called sexual harassment at a workplace a violation of a woman's Constitutional rights.
    - Special facilities like Baby Care Rooms, Rest Rooms etc.
    - Statutory Compliance: Provisions related to
      - Workmen's Compensation Act
      - Payment of Bonus Act

- Payment of Wages Act
- Payment of Gratuity Act
- Income Tax Act,.q\1961
- Professional Tax Act

- **Model Internal Audit Questionnaire**

MODEL QUESTIONNAIRE FOR INTERNAL AUDIT OF LIFE INSURANCE FUNCTION: POLICY SERVICING		
11.Department: **Human Resources Department**		
Sl No	Particulars	Remarks:
11.1	Is there a Board approved HR Policy in place?	
11.2	Is the hiring process outsourced to external vendor?	
11.3	Are human resources in the organisation adequately trained and equipped with the organisation Vision and Mission?	
11.4	Are HR records maintained in the required format and under control for unauthorised access?	
11.5	Are payroll records adequately under supervision and control?	
11.6	Are recoveries from pay remitted to authorities in time without delays or default?	
11.7	Is there a process and authority for employee grievance redressal?	
11.8	Is there a Board constituted Vishaka Committee to ensure the interests of women personnel and to address their grievances?	
11.9	Is there a process for taking views from personnel for process improvement in the form of employee feedback?	
11.10	Is there a process for exit interviews to help containing attrition?	

8.1.12. Legal Department

- Insurance being a financial arrangement between insured and insurer, it is a contract. Insurance policy issued by the Insurance company *per-se* is not the contract, but evidence of the contract. Hence Life Insurance company would necessarily have a Legal and Compliance Department managed by qualified legal professionals.

- Legal Work to include:
  - Drafting and vetting of contracts
  - Drafting of standard proposal and application forms
  - Drafting of Addendums to proposals
  - Drafting of questionnaires
  - Drafting of Clauses in Policies
  - Interpretation of Statutory/Regulatory provisions and providing clarifications in the form of internal Memos and Circulars
  - Identifying legal issues in disputed claims
  - Representing Insurers in Courts of law, consumer forums, grievance Redressal authorities in dispute resolutions
  - Complying with reports to Regulators, Government and other statutory authorities
  - Investigation of Early/fraudulent claims in Life Insurance
- **Internal Audit Perspectives**
  - Strict control on legal and compliance issues
  - Keeping up the public image about the organisation through its PR strategy
- **Model Questionnaire for Internal Audit**

MODEL QUESTIONNAIRE FOR INTERNAL AUDIT OF LIFE INSURANCE FUNCTION: LEGAL		
12.Department: **General Servicing**		
Sl No	***Particulars***	***Remarks***
12.1	Is the legal team constituted as per the Board approval?	
12.2	Is there a Qualified Company Secretary in charge to manage this team?	
12.3	Are all statutory, mandated documents vetted by legal professionals for accuracy in wordings?	
12.4	Are the legal team briefed by the Department Heads in matters related to respective function especifically in matters related to compliance with authorities and courts of law?	

8.1.13. General Administration

- Possibly this is the only non-technical and general function in a life insurance company. However, life insurance is a hugely investment-oriented industry and hence pilferages, thefts, damages, accidents are quite common, which need to be avoided to contain costs. This function is generally concerned with:
  - Office up keep
  - Hygiene and sanitation
  - Providing stationery and other utilities
  - From an internal audit perspective, the following are to be kept in mind:
    - Custody of office premises, furniture, systems and cash safe locker
    - Internal surveillance to prevent thefts, accidents
    - Provide basic safety to employees in the office premises
    - Control on movement of people
    - Control on movement of assets
    - Control on movement of keys related to office
    - Control on movement of papers & documents
    - Control on general expenses budgeted through budget control process
    - Facilities to visitors
    - Managing travel, conveyance of personnel like tickets etc.
    - Control on various inventories
    - Destruction and disposal of old records and scrap
    - Maintenance of Notice boards, statutory display boards like Payment of Gratuity Act etc.
    - Display of sign Boards like emergency exits/stairs/elevators/utilities
  - **Model Questionnaire**

MODEL QUESTIONNAIRE FOR INTERNAL AUDIT OF LIFE INSURANCE FUNCTION: GEN ADMIN		
.Department: **General Admin 13**		
Sl No	***Particulars***	***Remarks***
13.1	Is there a documented Board approved administrative procedure on General admin function? If not raise a red flag.	This is required for audit team member to get conversant with the practices in the organisation.
13.2	Is there a documented, approved, latest turnaround timelines for the activities in the admin department?	Required to eliminate delays in the servicing
13.3	Is the Office location secured? Property and assets secured? Access to premises secured from intruders?	
13.4	Are the office assets, records distinctly identifiable and forms part of fixed assets register?	
13.5	Are the movement of assets, records from one location to other, either within the premises or outside premises under control of a responsible official?	
13.6	Are the fixed assets of the office verified	

	at least once a year, with that of the fixed assets register?	
13.7	Is there proper control on the office stationery, printed material with proprietary control and its use by personnel?	
13.8	Are the wastage of stationery kept at minimum and records are shredded before disposal?	
13.9	If the sale of scrap of old papers in accordance with the approved process?	
13.10	Are there any instances of theft of office assets recorded? What is the action taken? Is ATR satisfactory.	
13.11	Is there a general office name plate/Boards at the prominent places , showing office timings, responsible official ?	
13.12	Are the contact details of grievance redressal officer are displayed in prominent place?	
13.13	Is Payment of Gratuity Act displayed at a prominent place as required?	
13.14	Are there direction signs to public utilities like wash room, entry, exits, fire exits etc. within the premises?	

8.2. Compliance aspects

All the relevant aspects of compliance covered in each of the functions above and these are related to

- Statutory Compliance
- Regulatory Compliance
- Policy Compliance
- Legal aspects in drafting of documents, contracts and communications
- Grievance Redressal and Reporting

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9. Bibliography:

Disclaimer: Company specific, proprietary information has not been disclosed. Industry related best practices is mentioned as a standard as no other industry specific standard systems are available for India. Business related information has been taken from the course contents of various insurance education material, including that of Insurance Institute of India and Chartered Insurance Institute, to ensure correctness of the information. Information has also been taken extensively from the websites of IRDAI, insurance industry's regulator.