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Inside *June*

The Management Accountant

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THE INSTITUTE STANDS FOR

❏ to develop the Cost and Management Accountancy profe-ssion ❏ to develop the body of members and properly equip them for functions ❏ to ensure sound professional ethics ❏ to keep abreast of new developments.

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MISSION STATEMENT

"ICWAI Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

VISION STATEMENT

"ICWAI would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

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NOTIFICATION

Ref. No. DS-3/1/1/11 January 10, 2011

Finance Act, 2010 involving Assessment Year 2011-2012 will be applicable for the subjects Applied Direct Taxation (Intermediate), Applied Indirect Taxation (Intermediate) and Indirect & Direct — Tax Management (Final) for the purpose of June 2011 term of Examination under Revised Syllabus 2008.

Arnab Chakraborty
Director of Studies

Insurance business today, is one of the most potential financial sectors with the global insurance industry valued at approximately $ 2.5 trillion servicing both life and non-life markets. By life insurance it protects the human assets of the economy and by general insurance (also called non-life insurance or casualty and property liability insurance) it protects capital assets.

A decade back, it would have been pretty difficult for anyone to visualize the insurance industry, the way we have it today. The industry, as a whole, has undergone phenomenal transformation from the time businesses were tightly regulated, and concentrated in the hands of a few public sector insurers to now with more than 30 life and non-life insurance companies vying and competing with each other towards introducing innovative products, distribution channels and aggressive sales and marketing strategy to acquire major share in the pie.

The genesis of the insurance sector reforms can be traced to the adverse economic condition prevailing in India when the Reserve Bank of India had to mortgage gold abroad to borrow funds to fund the import of essential commodities and due to almost bankruptcy of foreign exchange reserves. The Government of India initiated economic reforms to contain the rot and introduced policies of deregulation, liberalization and globalization which paved the way for the rise of financial services in general and the insurance industry in particular.

That there is a huge potential in the insurance sector was realized by the Government way back in 2000, when it took a landmark decision to open up the domestic insurance market to private sector and foreign companies. Foreign players foresaw enormous potential in India and grabbed the opportunity with both hands by participating in most of these new companies despite the ceiling of 26% on foreign ownerships through the automatic route. Since, the first of the licenses for the companies in private sector was issued in October 2000, many more have joined the bandwagon increasing the insurance awareness and penetration in the vastly under insured country.

No modern economy can be conceived in the absence of insurance and India is no exception to this. With an annual growth rate of 15–20% and the largest number of insurance policies in force, the potential of the Indian insurance industry is mammoth. Globally, a hefty 92% of the world premium is generated by industrialized countries and a mere 8% is the contribution of emerging markets. The relationship between economic development and insurance can be explained both ways that a developed economy has a developed insurance market and vice versa.

The IRDA, the apex body for regulating insurance companies, by way of issuance of various regulations has been promoting insurance to act as a catalyst for social development. The insurance sector plays an important role in the socio-economic development of the nation by providing the twin advantages of providing social security to the insured and contributing to economic progress by investing in developmental projects. The segment of compulsory insurance has already attracted the foreign insurers to become partners in progress of the Indian insurance sector.

In such a scenario, the Cost & Management Accountants, (CMA's) by virtue of their expert knowledge in Finance and sound analytical skills, can perform multi-tasking as 'insurance professionals'. There are a plethora of services which the CMA's can render to the insurance companies in the capacities of insurance management, claims management, risk management, analysis of risk perception, underwriting management, risk assessment, loss assessment, development of customized financial models, financial advisors, cost advisors, financial planning and so on. The CMA's are expected provide invaluable service to the insurance companies by providing cost effective information and appropriate control measures in the best interests of their clients.

The CMA's role in risk management needs special mention. They can assist the management in four basic functions of risk management – identifying potential losses, evaluating potential losses, selecting the appropriate technique or combination of technique for handling losses; and administering the risk management plan. They can advise the management in identifying the existing and new risks associated with the business. The risk management plan should provide for managing the identified risks in responses to the changing economic environment.

India is a signatory to the WTO and is committed to open the insurance sector. This will enhance competition among the local and global players, which in turn, will develop a better understanding of customers' requirements. The ultimate beneficiaries, i.e. the customers will immensely benefit from new products, efficient services, economic pricing, integrated risk management and safe social security system.

B. M. Sharma, President

A leader is a dealer in hope.
—Napoleon Bonaparte

Dear Professional Colleagues,

You may be aware Hon'ble Prime Minister of India Dr. Manmohan Singh during his visit to African countries has focused on new opportunities awaiting professionals if India opens up to that great continent. This would result in coming together of two civilisations and trade of services including those in the domain of Cost and Management Accounting shall also emerge.

In addition to above, while presenting the Annual Policy for 2011-12, the Governor of Reserve Bank of India pointed out the factors that have shaped the outlook and monetary strategy for 2011-12 and the policy announced on 3rd May, 2011 highlighted three key factors. Firstly global commodity prices, which have surged in recent months, are likely to, at best, remain firm and may well increase further over the course of the year. Second, headline and core inflation have significantly overshot even the most pessimistic projections over the past few months. In terms of the likely trajectory of inflation over the year, the first suggests that high inflation will persist and may get worse. The second raises concerns about inflationary expectations becoming unhinged. The third factor, countering these forces, is the likely moderation in demand, which should help reduce pricing power and the extent of pass-through of commodity prices.

The monetary policy trajectory that is being initiated in this Annual Statement is based on the premise that over the long run, high inflation is inimical to sustained growth as it harms investment by creating uncertainty. Current elevated rates of inflation pose significant risks to future growth. Bringing them down, therefore, even at the cost of some growth in the short-run, should take precedence.

As you can see these factors have basic directional flow from the information relating to Cost and Management Accounting only which are the core areas of our avocation.

Professional Development Directorate

I am happy to share with you a very significant development regarding the profession. In my last month's communiqué I had informed you that other issues concerning our profession as recommended by the Expert Group will be implemented shortly. You may be aware that the basic tenet of the recommendations of the Expert Group was maintenance of principle based cost accounting records. The Expert Group had also recommended that instead of individual product/industry based cost accounting records, the Government should adopt principle based uniform cost accounting record rules. I am extremely happy to inform our members that the Central Government has now issued Companies (Cost Accounting Records) Rules 2011 vide notification number G.S.R. 429 (E) dated 3rd June 2011.

The Central Government has also notified revised Companies (Cost Audit Report) Rules 2011 vide notification number G.S.R. 430 (E) dated 3rd June 2011. The revised structure of the cost audit report is also based on recommendations of the Expert Group. In the era of price control and administered interventions, attested cost structure had a major role to play and hence the cost audit emphasized on this aspect. In the changed economic environment the emphasis has to shift to efficiency review. Further, in a market economy, regulators are required to frame right regulations in the interest of the industry as a whole and also in the interest of the consumers and other stakeholders. The restructured Cost audit report, supported by cost accounting standards, would provide relevant and credible cost and revenue data to regulators to support their decisions. Moreover, cost audit report along with the performance appraisal report would provide relevant reports to the board of directors to strengthen its oversight function.

I would also like to inform you that subsequent to issue of General Circular No. 15/2011 dated 11th April 2011 regarding changing the methodology of appointment of cost auditors, the Central Government has prescribed Form 23D which a cost auditor would be required to file with the Central Government after receipt of formal letter of appointment. The Form can be downloaded from the site of the Ministry as well as of the Institute.

Meeting with Special Secretary, MOEF

A Team comprising Mr. Kunal Banerjee, Past President of ICWAI; Mr. A.N. Raman, President, SAFA & CCM, ICWAI and Director (Professional Development) made a presentation on Management Accounting Guidelines issued by ICWAI on Environmental Management and its Accounting to a team headed by Special Secretary, Ministry of Environment & Forests (MOEF) and other officials. The deliberations were extremely fruitful.

The MOEF has requested the Institute to develop guidelines that would help industries and the Ministry to adhere to the environmental norms stipulated by the Ministry. The Institute is also planning to organize workshops for the members of Institute to familiarize them on the environmental issues and environmental accounting. The matter is under further discussion with MOEF to crystallize the framework.

Directorate of Advance Studies

Friends, I am happy to share with you that a new directorate "Directorate of Advance Studies" has started functioning at New Delhi Office of the Institute with effect from 29th April 2011 and has been envisaged to carry out the following tasks :

1. the core activity of conducting and delivering industry-relevant post qualification courses for the members of the Institute. The Directorate shall conduct Post qualification Certificate/ Diploma courses in Indirect Taxation, Business Valuation and Risk Management for the members as well as other interested professionals.

2. to support the Institutes' representation and deliverables at the various meetings and platforms with the Ministry of Corporate Affairs and other Ministries of the Government of India, regulators, industry associations and other stakeholders.

CEP Directorate

During the month of May, 2011 following two programmes and a meeting were organized by the CEP Department of ICWAI.

1. IFRS Certificate Course at Mumbai during 4-8 May, 2011.
2. IRCON International Programme on Finance and Accounts on 13 May, 2011.

Dr Peter Byers, Deputy Pro-Vice Chancellor and Ms Marilyn Miles, Head of International Business Development, University of Birmingham visited Delhi office on 20th May, 2011 and had discussion regarding International Training Programmes exclusively for IRAS Officers of Ministry of Railways, Government of India, exchange programmes and also MBA Course for the members of the Institute.

International Affairs

You will be pleased to know that the ICWAI has entered into an MoU with the Institute of Certified Management Accountants of Sri Lanka (ICMASL), Colombo on 2nd June, 2011 paving the way for closer interaction on various issues on regional development between the two bodies. Mr. A N Raman, President SAFA and CCM, ICWAI and I also participated in the International Seminar on "CMA Management Accountant's Conference-2011 " organised by ICMASL at Colombo.

Dr Alok Pandey, Director - Advance studies also attended the Seminar at Colombo as an expert in the session 'Establishing a globally competitive Program for Management Accountants in Sri Lanka' having representation from Pakistan, Sri Lanka, UK and Australia. Dr. Alok Pandey has also been formally invited to help the ICMASL in its academic activities and programs in future as well.

Inauguration of Pimpri-Chinchwad-Akurdi Chapter of the Institute

I had the privilege to be present at the inauguration of Pimpri-Chinchwad-Akurdi Chapter of Cost Accountants, which was inaugurated by Shri Yogesh Behl, Hon'ble Mayor of Pimpri Chinchwad Metropolitan Corporation whereas Shri Gajanan D Babar, Hon'ble Member of Parliament has inaugurated oral coaching classes of the Chapter, on 25th May, 2011. Shri Yogesh Behl, Hon'ble Mayor has felicitated me with Puneri Pagdi & shawl, on the said occasion. We had the pleasure of the company of Ms. Aparnatai Doke, Hon'ble ex-Mayor of the municipality of Pimpri-Chinchwad on the august occasion. A large number of members and students attended the inaugural function.

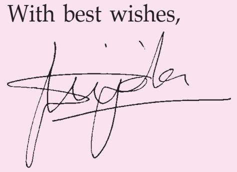
LLPs of Cost Accountants

I am happy to inform you that the Ministry of Corporate Affairs, Government of India vide its General Circular dated 4th April, 2011 has mentioned the word "partnership" wherever occurring in the Cost and Works Accountants Act, 1959, the Chartered Accountants Act, 1949 and the Company Secretaries Act, 1980 shall be applied to include those Limited Liability Partnerships (LLPs) where all the other partners are natural persons and that the word "partner" to be interpreted accordingly. I hope this shall augur well for creation of LLPs of Cost Accountants.

Elections to the Central Council and Regional Councils

The elections for the new Central Council and Regional Councils have been held peacefully across the country on 3rd June, 2011. I congratulate the members of the Institute for participating in the elections enthusiastically and thank the Returning Officer, Polling Officers, Observers and others including employees of the Institute for holding the election process in an exemplary manner.

With best wishes,



Brijmohan Sharma

President

6th June, 2011

CMAs in Insurance Sector

Asok Chattopadhyay*

Insurance in India started as early as in 1818 when Oriental Insurance came to India for Life Insurance purpose and their clientele was restricted to Europeans only. In 1850 the General Insurance was introduced in India. In 1938 the Insurance Sector was given recognition by passing the Insurance Act. Post Independence, in 1956 Life Insurance and in 1972 General Insurance was nationalised. Post globalisation, in 1999, this sector was thrown open to the private sector and a regulatory authority, IRDA, was formed.

Around the time of independence, i.e. in 1940s and 1950s, Insurance was restricted to the Life Insurance of wealthy persons and the business amounted to less than 1% of GDP. Since then, insurance business has not grown much and in 2003 the business was a mere 2.50% of GDP compared to double digit figures in other Asian countries. The business of Insurance has grown only after it was thrown open to the private sector by the Government in the process of globalisation. At present 26% of FDI investment is allowed in this sector. Union Budget of 2011-12 has proposed to enhance the FDI investment to 49% and envisaging lot of scope and development in the sector.

Previously India had only LIC in the Life Insurance sector and four companies (National, UII, New India & GIC) in the General Insurance Sector. At present we have 13 Private players in Life Insurance (Total 14) and 9 private companies in General Insurance Sector (Total 13). However, re-insurance is kept only with the Govt. sector. There is a tremendous change in the product line—For e.g. in Life Insurance, the traditional policies of endowment and money backs have become obsolete and ULIP, Term Insurances have become very common. Tariff based General Insurance is a passé and now the insurance rates are quoted by assessing the risk. Like, in the car insurance sector, some insurance companies charging higher premiums for cars with red and black colours as these colours are not visible during night time and, therefore, more prone to accidents. Similarly, mortality rates have been recalculated based on the present day medical facilities and higher life expectancies. Even Government. has started insurance policies for the poor people making the sector mass oriented and poised for growth. The growth and mass awareness in health insurance sector make TPAs be in business.

What is evident from above is that the Sector has grown rapidly in the last decade and is ready to take off from here at very high speed. India is second in population after China and yet has such low percentages in terms of sector contribution in GDP. Indian companies encashed the relaxations given in 1999 to this sector and collaborated with the foreign partners who are specialised in this field to become a part of the future growth. Foreign participation will become more due to the increase in the FDI limit. As a result, the sector needs the help of matured professionals to cater to the needs of the Industry and the Insurance companies. In India, till date, Insurance has been seen as a much specialised subject and was being dealt with by the people who have required qualification from the Insurance Institutes. Professionals like CAs and CMAs have not opted to join in this sector earlier. With the growth potentials of the sectors, now the CMAs are increasingly joining this sector. In fact, CMAs are more equipped to handle this sector in every sphere due to their expertise and knowledge.

To make an Insurance contract and its claim processed, there are four types of people involved :

1. The Insurer
2. The Insured
3. The Agent or Broker or Third Party Associates (TPAs)
4. The Surveyor or Loss Assessor.

* FICWA, Chief Manager-Marketing Finance, Haldia Petrochemicals Ltd., Kolkata.

Cost and Management Accountants have knowledge and expertise to act in all the four types of involvements. We are discussing this in the next paragraphs.

On behalf of the Insurer

The Cost and Management Accountants—with the expertise in business model development and strong financial background—can help the Insurer Company with :

a. Developing new products
b. Discounts and commissions structures
c. Analyse the risk perception of an Insurance
d. Accounting of the undertaken risks
e. Underwriting
f. Expertise on developing financial model to help the Insurer developing pension models through accumulation, investment and annuity
g. Investment opportunities of the Fund
h. Claims administration.

On behalf of the Insured

CMAs—being in very close proximity to the industry have more knowledge about the industry and its probable risk. They can help an industry with —

a. The amount of Insurance as over-and under insurance both are not acceptable in an ideal situation.
b. Help and advice in recovering loss in case of arising of any claim.
c. Periodical advice on the insurable property.
d. Analysing the facilities of group insurance, group gratuity to reduce the burden on the industry in case of any claim arising.
e. Suitably advising the industry for periodical calculation and creation of gratuity fund etc.
f. Protection of rights of the Insured.

On behalf of a Broker or TPA

A broker is different from the agent. An agent is the agent of a particular insurance company and can sell/advise only the products of that company. A broker is the agent of the Insured. They actually advise the Insured about the insurance provisions and help negotiating tariff fixation. Broker is professionally responsible to the Insured for any omission, mistake etc. And, as per the provisions of IRDA, even bound by monetary compensation in the event of any eventuality when the Insured suffered loss due to negligence of the broker. Hence, CMAs have professional expertise in this field.

The TPA or the Third Party Associates are the service facilitator of the Insurance companies. They come in between the Insurer and Insured and provide the service to both. CMAs are in a better position to offer their services and ease the claim settlement processes of the industry and general public. Introduction of the TPA system is a new thing in Indian context and its introduction has since benefitted many people—particularly the industry who insures for their employees and settlement procedure has become very easy.

As a Loss Assessor

A Loss assessor is different from the Surveyor. The Loss assessor assesses the losses of big nature and sometimes need to utilise their expertise in order to find out the loss, e.g. in a fire incidence, finding out the stock which has been burnt is a expert's job as the purchase, sales and other criteria have to be looked into before arriving at the figure.

Apart from the above, Government has introduced many beneficial insurance plans for the downtrodden and the people below poverty line. CMAs can fulfil their social responsibility by guiding such poor people or the beneficiaries and make them aware of the programs and benefits.

We have seen from the above that the Insurance Sector has grown up well and has a bright future. Till date all the private insurance companies are having foreign collaboration and the same is slated for increase once Government further deregulates this sector by allowing 49% FDI in this sector. Indian companies, thus, will poise for growth and cross the national boundaries to acquire/collaborate with insurance companies in other countries. CMAs are better equipped for this sector and will have opportunity to grow once they are part of this growth story. ❐

Real Inclusion of Cost and Management Accountants in Insurance Sectors is Imperative for its Growth

Dr. A. Selvaraj*

Introduction

The financial system in India comprises of financial institutions, financial markets, financial instruments and services. The Indian financial system is characterised by its two major segments—an organised sector and a traditional sector that is also known as informal credit market. Financial intermediation in the organised sector is conducted by a large number of financial institutions. Insurance sector in India is one of the booming sectors of the economy and is growing at the rate of 15-20%. Together with banking services, it contributes about 7% to the country's GDP. Insurance sector in India was liberalized in March 2000 with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. There is a 26% equity cap for foreign partners in an insurance company. There is a proposal to increase this limit to 49%. The opening up of the insurance sector has led to rapid growth of the sector. Presently, there are 16 life insurance companies and 15 non-life insurance companies in the market. The potential for growth of insurance industry in India is immense as nearly 80% of Indian population is without life insurance cover while health insurance and non-life insurance continues to be well below international standards.

The insurance sector has been an important source of low cost funds of long-term maturities all over the world. In the Indian context, however, the insurance companies, particularly in life insurance, apart from covering risk are also committed to repayment of the principal with interest although with long maturities and, thereby, tend to act as investment funds. One of the reasons that this has happened is that the average premium charged by the insurance companies in India tends to be relatively high due to obsolete and rigid actuarial practices and inefficient operations. There is pressing need to reorient the insurance sector in a manner that if fulfills its principal mandate of providing risk cover.

In India, information technology revolution has paved the way for the rise of financial services in general and insurance industry in particular which has ended the monopoly in the insurance sector. In extremely competitive marketplace, while new entrants focus on improving customer service and increasing the coverage of the insurance industry, old players are taking appropriate and appreciable efforts to counter the competition. By keeping in mind all these, it is an attempt to bring into light the present position of the Insurance sectors, challenges faced by these sectors and need for involvement of Cost and Management Accountants in insurance sectors.

Insurance Sectors—What are they at Present?

Insurance sector always has its own clear mission: to achieve as high as possible level of spiritual and material safety of the person insured. The vision should be achieving as high as possible level of spiritual and material safety of the person insured in real environment. Mission and vision of the insurance continuously transformed industry from everyday human activity to modern industry. The present scenario of the Indian insurance market has brought in new challenges as well as opportunities. The efficient and effective functioning of enterprises involved in the industry calls for professionally equipped and properly trained personnel with understanding of the nuances of the new products and services to spread the message of insurance.

The insurance industry also provides crucial financial intermediary services, transferring funds from the insured to capital investment, critical for continued economic expansion and growth, simultaneously generating long-term funds for infrastructure development.

In fact, infrastructure investments are ideal for asset-liability matching for life insurance companies given their long term liability profile. The insurance sector in India, which was opened up to private participation in 1999, has completed over eleven years in a liberalized environment. With an average annual growth of 37%in the first year premium in the life segment and 15.72% growth in the nonlife segment, together with the largest number of life insurance

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policies in force, the potential of the Indian insurance industry is still large.

To understand the prospects for insurance companies in rural India, it is very important to understand the requirements of India's villagers, their daily lives, their peculiar needs and their occupational structures. There are farmers, craftsmen, milkmen, weavers, casual labourers, construction workers and shopkeepers, and so on. More often than not, they are into more than one profession. The rural market offers tremendous growth opportunities for insurance companies and insurers should develop viable and cost-effective distribution channels; build consumer awareness and confidence. The ASSOCHAM found that there are a total 124 million rural households. Nearly 20% of all farmers in rural India own Kissan Credit cards. The 25 million credit cards used till date offer a huge data base and opportunity for insurance companies. An extensive rural agent network for sale of insurance products could be established. The agent can play a major role in creating awareness, motivating purchase and rendering insurance services.

As a combined result of all this, investments of insurance companies have been largely in bonds floated by GOI, PSUs, state governments, local bodies, corporate bodies and mortgages of long term nature. For GDP to grow at 8 to 10%, qualitative improvement in infrastructure is essential. Estimates of funds required for development of infrastructure vary widely. An investment of 6,19,600 crore is anticipated in the next 5 years. Tenure of funding required for infrastructure normally ranges from 10 to 20 years.

Insurance Market — Present Status

The insurance sector was opened up for private participation eleven years ago. For years now, the private players are active in the liberalized environment. The insurance market have witnessed dynamic changes which includes presence of a fairly large number of insurers both life and non-life segment. Most of the private insurance companies have formed joint venture partnering well recognized foreign players across the globe. There are now 29 insurance companies operating in the Indian market – 14 private life insurers, nine private non-life insurers and six public sector companies. With many more joint ventures in the offing, the insurance industry in India today stands at a crossroads as competition intensifies and companies prepare survival strategies in a detariffed scenario.

There is pressure from both within the country and outside on the Government to increase the foreign direct investment (FDI) limit from the current 26% to 49%, which would help JV partners to bring in funds for expansion. There are opportunities in the pensions sector where regulations are being framed. Less than 10 % of Indians above the age of 60 receive pensions. The IRDA has issued the first license for a standalone health company in the country as many more players wait to enter. The health insurance sector has tremendous growth potential, and, as it matures and new players enter, product innovation and enhancement will increase. The deepening of the health database over time will also allow players to develop and price products for larger segments of society.

Challenges to Face in the Future

The current free pricing regime has set the backdrop for risk-based pricing over the longer term. Gradually, the industry players are expected to focus on franchise building (via improved client servicing), cost competitiveness and product differentiation, which, in turn, is likely to help them to face increased competition if and when the industry is opened up further to foreign direct investment. Most private players in the domestic general insurance business would require capital infusion for future growth. With most of the private entities being joint ventures, balancing the shareholding and business objectives of the partners while infusing capital to sustain growth is a challenge. This is further compounded by the weak underwriting environment at present. Despite these challenges, the long term outlook for the domestic general insurance industry remains positive because the current low levels of insurance penetration and the country's long term economic growth potential.

In a growing economy, low insurance penetration in terms of premium percentage to GDP, as well as increasing affordability on account of higher disposable incomes and savings, increasing urbanisation and increasing awareness, are some of the factors that would continue to fuel growth of the general insurance sector in India.

Role of Cost and Management Acccountants

In the rapidly changing economic environment, the glut of opportunities in Insurance sector is providing different avenues for Cost and Management Accountants in practice and in service. The business of Insurance essentially means defraying risks attached to any activity over time (including life) and sharing the risks between various entities—both persons and organisations. Insurance companies are important players in financial markets as they collect and invest large amounts of premium. Insurance companies receive, without much default, a steady cash stream of premium or contributions to pension plans. Various actuary studies and models enable them to predict—relatively accurately—their expected cash outflows. Liabilities of Insurance companies being long-term or contingent in nature, liquidity is excellent and their investments are also long-term in nature. Since they offer more than the return on savings in the shape of life-cover to the investors, the rate of return guaranteed in their insurance policies is relatively low. Consequently, the need to seek high rates of returns on their investments is also low. The risk-return trade off is heavily tilted in favour of risk.

Cost and Management Accountants are known for their keen analytical ability, excellent technical skills and meticulous working style. Their vast experience in professional interaction with people bears testimony to their effective communication and interpersonal skills. They possess the technical expertise that the profession demands and the integrity that the industry needs. Accountants can provide their services to Insurance enterprises in the field of risk management, insurance management, insurance fund management, insurance marketing, underwriting management, claims management, loss adjustment, re-insurance, product development, actuarial science and many allied areas such as: New Product Creation, Underwriting, Policy Owner Services, Claims Administration, Marketing and Distribution Channels, Insurance Broking, Actuary, Surveyor or Loss Assessor, Arbitration, Insurance Investigations, Risk Management, Third Party Administrators Services etc.

Management Accountant is a just like blood if he goes write and also Accounts should be in front it means if accounts they tackle secondary work then our company will not be leading company. Earlier, management accountants' main role was simply to identify problems, now he or she is called on to provide solutions. Because of that, accountants are stepping forward with good analyses and ideas on how to solve issues. Management accountants now spend more time dealing with strategic issues than ever before. Less time is being spend on performing traditional accounting functions and more time on strategic planning, internal consulting, and computer-based operations.

Insurance Planning is the process of providing advice and assistance to clients to determine whether and how clients can meet their financial needs and life's goal through proper management of financial resources. Insurers will have to improve and consolidate their processes for data mining and MIS for undertaking "informed underwriting risks". Adequate training of underwriters and the sales staff for equipping them with the ability to respond to these new changes in the market would also have to be initiated by the insurance companies.

Further, active participation of Cost and Management Accountants is expected in the following aspects for challenging growth of this sectors :

- Document services and in the aspect of defining the responsibilities.
- Defining the personal and financial goals, understand the time frame for results and discussing, if relevant, how one feels about risk.
- Analyzing and evaluating the financial status.
- Developing and presenting Financial Planning recommendations.
- Monitoring the Financial Planning.

Conclusion

There is substantial potential for insurance to make a greater contribution to economic growth and social welfare in many lower and middle income countries. Indeed, industry experts argue that insurance lags behind other financial services in the extent of globalization—providing substantial growth opportunities. The development of robust insurance markets generally requires many of the same foundations as for banking and financial market deepening: reasonable macroeconomic and political stability, clear property rights, enforceability of contracts, and safeguards against corruption. However, these are necessary but not sufficient conditions. Insurance market deepening also depends on the scale and growth of related markets, including sales of cars and other consumer durables, residential and commercial mortgage markets, business establishments, disposable income, and commercial and trade transactions, to name a few. Growth in these related markets is critical in order for the nascent insurance industry to reach scale in developing shared infrastructure, underwriting capacity, statistical databases for actuarial purposes, and the associated skills. ❒

Role of Cost and Management Accountants (CMAs) in Indian Insurance Sector

Ashim Paul*

One of the most booming and potent financial sectors of recent times that can channelize individual savings into national investment is the insurance sector. India being the second most populous country and a developing nation has huge potential for insurance industry wherein cost and management accountants (CMAs) may play a major role. The CMAs can serve this sector by providing cost effective information and other valuable services to the insurance market players for better management control, cost reduction, quality improvement and social responsibility performance etc. Since Indian insurance sector is growing at a remarkable alacrity, a modest attempt has been made in this paper to discuss the existing situations and future prospect of insurance sector in India along with the CMA's influential roles therein.

Introduction

The history of Indian insurance industry dates back to 1818 when the Oriental Life Insurance Company for the first time started insurance services in Kolkata. Next, with the establishment of Bombay Mutual Life Assurance Society in 1870, the signpost of Indian insurance business was rooted deeply. Since then, many insurance companies came into existence in India to operate insurance business.

The Life Insurance Companies Act and the Provident Fund Act in India were passed in 1912 to regulate insurance business. The Life Insurance Corporation of India (LIC) came into existence in 1956. In 1972 the General Insurance Business (Nationali-zation) Act was passed by the Indian Parliament and thereafter General Insurance Corporation of India (GIC) was nationalized with effect from 1st January 1973.

Under the guidance of GIC, ***107*** companies were amalgamated and they were grouped into four main companies which are :

(i) the National Insurance Company Ltd
(ii) the New India Assurance Company Ltd
(iii) the Oriental Insurance Company Ltd and
(iv) the United India Insurance Company Ltd.

In India the LIC had dominated life insurance business till the late 90s but after that Indian insurance sector was opened to the private sector players. Since then Indian insurance sector is growing rapidly. Currently, India occupies the world's fifth largest ***life insurance market*** and it has an annual growth of ***32-34%*** as per ***Life Insurance Council*** studies. But this growth percentage is to be developed further because, in developed countries like the USA and UK., about ***75 %*** of the total population takes advantages of some sort of insurance scheme.

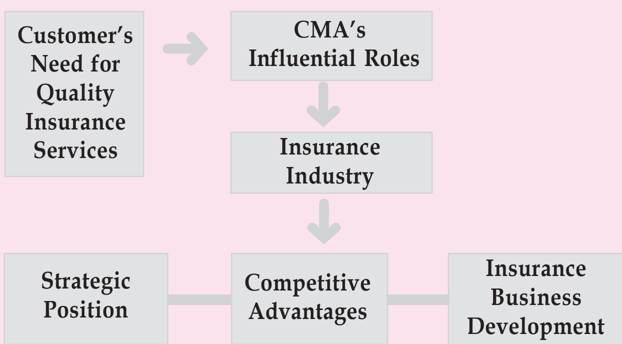
This situation is expected to change soon as with new flexible rules and regulations more and more private companies are now getting interested in insurance business but the most important thing to be kept in mind is that in today's competitive business world, for gaining competitive advantages over competitors, to sustain business in long run, each insurance market player is to develop new strategies, modern and profitable insurance schemes etc. And for forming new strategies and profitable insurance schemes, relevant and appropriate information regarding market situations, economic and regulatory measures, competitors' strategies etc are required and those can be analyzed and supplied efficiently by the CMAs.

The more the market becomes dynamic, competition becomes more difficult to survive and there lies the importance of CMAs because CMAs can supply both quantitative and qualitative information regarding the products or services according to the current market situation and which are essential for survival of the new companies in this sector. Moreover, with changing business environment, changes in strategic approaches are always needed to fulfill the goals and objectives of an organization. The valuable information supplied by CMAs make an organization efficient in its field to cope with competitive changes to achieve strategic position to gain competitive advantages in the market to increase its profitability and productivity.

The following representation will clarify CMA's roles in insurance business :

Exhibit 1

CMA's Roles in Exploring Insurance Business



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Therefore, this paper aims at examining the insurance sector reform and its effects on growth and future prospect of this sector in India along with a CMA's role therein. The remaining part of the paper has been organized as follows : *Section 2* discusses the insurance sector reform, regulatory provisions in India and CMA's role in the evolution of Indian insurance business. *Section 3* represents the future scope and opportunities of insurance business in India and examines CMA's influential role. Finally, conclusions are made in *Section 4*.

Insurance Sector Reform in India and Evolution of Indian Insurance Sector

This section has been compartmentalized into three parts : Part (a) discusses the history of insurance sector reform in India. Part (b) deals with the regulatory authorities and guidelines for Indian insurance services, and part (c) will examine the role of CMAs in evolution of Indian insurance business.

(a) Insurance sector reform

In 1993, 'Malhotra Committee' was formed to evaluate the Indian insurance industry to recommend future directives. The reform aimed at creating an efficient and competitive financial system to fulfill the requirements of the Indian economy to develop and popularize insurance business in India. However, in 1994, the Committee submitted its report and some of the key recommendations of the committee are :

- Government stakes in life insurance and general insurance companies to be brought down to 50% and 35%, respectively.
- Government should take over the holdings of GIC and its subsidiaries and all the insurance companies should be given greater freedom to operate insurance business in India.
- A minimum paid up capital of Rs.1billion should be required from a new private company to enter into the Indian insurance sector.
- No company should be allowed to deal in both life and general insurance in the name of a single entity.
- Foreign companies can only be allowed to enter the insurance industry in collaboration with the Indian companies.
- Postal Life Insurance should be permitted to operate in rural India. Computerization of operations and updated technology are to be initiated in the insurance industry to bring in speed and accuracy.
- An Insurance Regulatory body should be set up to maintain and regulate insurance business in India.
- 'Controller of Insurance' should be transformed into an independent authority.
- LIC should pay interest on delays in payments beyond 30 days and insurance companies must be encouraged to set up unit-linked pension plans.

The committee suggested the above recommendations in order to improve the insurance services by increasing the exposure of the Indian insurance industry.

(b) Regulatory authority and guidelines

Insurance Regulatory and Development Authority (henceforth to be referred to as 'Authority') is the regulatory authority for controlling and regulating insurance business in India. It was constituted on 19th April 2000 under the IRDA Act, 1999. In accordance with the provisions of the Act, the Authority had formed an Insurance Advisory Committee and, in consultation with the Committee, it had recommended different regulations in various areas like (Registration of insurers, regulation on insurance agents, fixation of solvency margin, re-insurance schemes, investment and accounting procedures etc.) to protect the policy holders' interests.

In this regard the IRDA bill was passed in 1999 by the Indian Parliament and some important regulatory provisions of the IRDA bill, 1999, are highlighted :

- The bill looks for regulating, promoting growth of the Indian insurance industry by maintaining the solvency norms.
- The bill specifies that the minimum capital requirement for life and general insurance would be Rs 100 crore and for reinsurance firms at Rs 200 crore.
- It has been fixed in the bill that the aggregate foreign holding in an Indian insurance company should not exceed 26 per cent of the paid-up equity. It has also been specified that the Indian promoters are required to bring down their equity holding to 26 percent after a period of 10 years from the beginning of business.
- The Insurance Regulatory and Development Authority (IRDA) should give priority to health insurance.
- Policyholders' funds will be invested in the social sector and infrastructure.
- Access to insurance too will probably become more widespread. Role of intermediaries would decrease and sale of insurance through direct channels and banks would increase.

Towards achieving the above mentioned objectives, the IRDA performs various activities which are :

(a) it has notified Protection of Policyholders Interest Regulations 2001 to bring in transparency in terms and conditions of different policies and claim settlement issues;

(b) it observes the performances of the Tariff Advisory Committee;

(c) it fixes responsi-bilities of the insurance surveyors and loss assessors;

(d) it ensures regulations and other formalities to operate insurance business in India by any private or public company;

(e) it works as a grievance cell for any complaints received from any policyholder in connection with any insurance provider under the insurance contract.

Thus, the IRDA performs its activities to work as a safeguard of the policyholder's interests in Indian insurance sector and with such initiatives and, activities, Indian insurance sector is expected to go a long way in achieving its desired goals and objectives in future.

(c) Evolution of Indian Insurance Sector and Role of CMA

Over the years, CMAs are serving this sector by rendering their valuable services. Insurance business in India has shown progress from its beginning. It started operations as an open market, thereafter continued as a nationalized market, and, finally, it turned into a competitive market.

Over time, a large number of insurance players have come into existence in this sector, including some international insurance partners. The Indian government allowed Foreign Direct Investment (FDI) up to 26% in Indian insurance sector in 1999. Presently, having worth of $41 billion, India stands as the world's fifth largest life insurance sector and it is growing at an annual growth rate of 32-34%.

Moreover, with the changing socio economic position of our society risks and opportunities seem to be rising at every step of our life. Business activities are becoming more complex and competitive. The more our economy is getting developed, the more opportunities are being seen to have arisen along with some inherent risks and to avoid such risks we need some special measures. There lies the importance of more technically developed insurance mechanism.

With changing situations, as complexity rises, people are demanding more flexible mechanisms, easy insurance schemes to overcome such complexities. And as long as complexity and risk persist, insurance business will grow and CMA's influential roles will be more inevitable to provide prolific managerial and technical supports to the organizations dealing in insurance business. Thus CMA's role is getting more relevance in the context of exploring insurance business.

The Exhibit 2 will show how Indian insurance sector has evolved over time with a slow but steady growth outlook :

Exhibit 2

Evolution of Indian Insurance Sector

Important Milestones of Indian Insurance Sector		Life Insurance Organizations			General Insurance Organizations		
Year	**Important events**	**Year**	**Private Organization**	**Public Organization**	**Year**	**Private Organization**	**Public Organization**
1818	The business of Oriental Life Insurance started	1956		Life Insurance Corporation of India	1906		National Insurance Company Limited
1907	The Indian Mercantile Insurance Ltd. was set up	2001	Bajaj Allianz Life Insurance Company Limited		1919		New India Assurance Company Limited
1912	The Indian Life Assurance Companies Act came into force	2001	Birla Sun-Life Insurance Company Limited		1947		Oriental Insurance Company Limited
1928	The Indian Insurance Companies Act was enacted	2000	HDFC Standard Life Insurance Co. Limited		1938		United India Insurance Company Limited
1938	Consolidation of earlier legislation with the Insurance Act	2000	ICICI Prudential Life Insurance Co. Limited		2001	Bajaj Allianz General Insurance Co.	

(Contd.)

(Contd.)

Important Milestones of Indian Insurance Sector		Life Insurance Organizations			General Insurance Organizations		
Year	**Important events**	**Year**	**Private Organization**	**Public Organization**	**Year**	**Private Organization**	**Public Organization**
1956	LIC was formed by an Act of Parliament	2001	ING Vysya Life Insurance Company Limited		2001	ICICI Lombard General Insurance Co.	
1957	Formation of Insurance Code of Conduct	2000	Max New York Life Insurance Co. Limited		2000	IFFCO-Tokio General Insurance Co. Ltd.	
1968	Tariff Advisory Committee set up	2001	MetLife Insurance Company Limited		2000	Reliance General Insurance Co. Limited	
1972	The General Insurance Business (Nationalization) Act passed	2001	Om Kotak Mahindra Life Insurance Co. Ltd.		2000	Royal Sundaram Alliance Insurance Co. Ltd.	
1973	GIC started operations with effect from 1st January 1973	2001	SBI Life Insurance Company Limited		2001	TATA AIG General Insurance Co. Limited	
1999	IRDA Act passed	2001	TATA AIG Life Insurance Company Limited		2002	Cholamandalam General Insurance Co. Ltd.	
2000	IRDA formed	2002	AMP Sanmar Assurance Company Limited		2002	Export Credit Guarantee Corporation	
		2001	Dabur CGU Life Insurance Co. Pvt. Limited		2002	HDFC Chubb General Insurance Co. Ltd.	

Data Source : Handbook on Indian Insurance Statistics 2007-08 and http://www.irdaindia.org/hist.htm
Year* implies year of registration

Exhibit 2 represents the evolution path of the Indian insurance sector. It shows how Indian insurance sector has grown over time. At first there was only LIC to initiate life insurance business in India but now companies like Bajaj Allianz Life Insurance, Birla Sun-Life Insurance, HDFC Standard Life Insurance and many other companies have joined this process. And in case of general insurance business now there are 12 players including 4 public and 8 private sector players in operation.

Though Indian insurance sector has evolved over time with a slow growth rate than that of other developed countries like the USA or UK etc the contributions made by the CMAs to this sector since its beginning in India can never be overlooked. CMAs' contributions to this sector are numerous. They have been serving this sector from the initial days and thus played an important role in its growth and evolution process. They are rendering valuable advices to the insurance merchants in different managerial areas such as scheme developments, variance analysis of the existing and budgeted schemes, implementation of budgetary control mechanism, profit volume analysis of any project, break-even point estimation for any budgeted scheme etc.

The CMAs are the best persons to make cost benefit analysis of a particular project in detail and which helps the management to take the appropriate decision regarding introduction of new product or scheme into the market. Their valuable managerial and professional advices help an organization in pricing and rating their products to gain strategic advantages even in adverse market situations. The relevance and importance of their technical and managerial services can be understood from the growth statistics of Indian insurance sector from the

Exhibit 3 which will highlight some of the growth figures of Indian insurance business from 2002-03 to 2007-08 in terms of number of policies registered under LIC and GIC :

Exhibit 3

Growth in insurance business in India (in terms of new policies)

New policies issued : life insurers

Insurer	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
LIC	24545580	26968069	23978123	31590707	38229292	37612599
Percentage Change	96.75	9.87	–11.09	31.75	21.01	–1.61
Private sector	825094	1658847	2233075	3871410	7922274	13261558
Percentage change	3.25	101.05	34.62	73.37	104.64	67.4
Total	25370674	28626916	26211198	35462117	46151566	50874157

Data source : Handbook on Indian Insurance Statistics 2007-08

New policies issued : non–life insurers

Insurer	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Public sector	41885005	38427204	44634047	42193079	33972092	38547040
Percentage change	96.15	-8.26	16.15	–5.47	–19.48	13.47
Private sector	1676907	3298827	5144755	8947516	12692053	18703219
Percentage change	3.85	96.72	55.96	73.92	41.85	47.36
Total	43561912	41726031	49778802	51140595	46664145	57250259

Data source : Handbook on Indian Insurance Statistics 2007-08

From Exhibit 3 it is quite clear that though number of policies registered under the GIC and LIC have witnessed negative growths in 2003-04, 2005-06 and 2006-07 and in 2004-05, 2007-08 respectively, in the public sector the overall picture is quite satisfactory as the total number of policies have increased from 2002-03 to 2007-08 in both the cases. And from the year 2005-06 onwards private players have become much stronger in their activities in both life insurance and general insurance business. It represents that people are getting more interested in insuring their lives as well as their assets and they are satisfied with kind of services they are receiving from the insurers.

Indian insurance sector has been performing its tasks efficiently with the help of its sound management and other professionally qualified personnel—specially the CMAs who generally contribute valuable advices for acceptance or rejection of investment schemes, implementation of budgetary control, cost control, cost classification and cost ascertainment for different activities etc.

Despite all these, it cannot be neglected that developments in many technical and managerial areas in Indian insurance sector are still required. So we can expect that in near future the scenario will change significantly and for that the CMAs are to perform their role in more scientific and skillful ways.

Future Prospect of Indian Insurance Business and Role of CMAs in exploring the market

This section has been divided into two parts. Part (a) will discuss about the future opportunities of Indian insurance business, and part (b) will explain the CMA's influential roles in insurance market.

(a) Future scope and opportunities

Insurance sector in India is flourishing at a rapid speed. Indian insurance companies are becoming global. With government investments nearly worth Rs. 280-crore, LIC is trying to make ventures globally. Its business has spread in many other developing and developed nations like Fiji, the UK, Sri Lanka, Nepal, Saudi Arabia and Africa. And in case of general insurance business presently there are 12 general insurance companies including 4 public sector companies and 8 private sector companies in operation in India.

Although the public sector companies still hold the major share of the general insurance business in India, the private players are not far behind. With the entry of the private sector companies' Indian insurance business has got new dimensions. While public sector companies, are doing profitable business in endowments and money-back policies, private sector companies are not allowing them enough space in annuity or pension fund schemes. In 2004-05 Indian insurance industry registered a total worth of Rs. 450 billion businesses and presently LIC and GIC together contribute a handsome percentage to India's national income and it is expected to grow further in near future.

But one of the main weaknesses of Indian insurance industry is lack of proper knowledge among the customers about insurance services and that is why insurance products are to be sold in an emerging economy like ours whereas those are bought in the developed nations like the USA or UK Fortunately the situation is changing because with new and flexible rules and regulations not only private players but many foreign companies such as Sun Life of Canada, Prudential of the United Kingdom are showing interests in Indian insurance market.

The changing scenario of Indian insurance business can be analyzed from the Exhibit 4 which will highlight the growth in income generation in Indian insurance sector by the LIC and GIC together in the year 2009-10 :

Exhibit 4
Statistics of Indian Insurance Business for the Year 2009-10

Particulars	Percentage(%) increase from equivalent previous year
Life Insurance Corporation of India —new business income (March 2010)	83.00
Private Players—new business premium (March 2010)	47.00
Total premium collected in 2009-10	25.46
Gross premium collected in General Insurance Industry during 2009-10	13.42
Growth in gross premium for 2009-10 : Public sector players	13.85
Growth in gross premium for 2009-10 : Private players	12.82
Non-life insurers (April-May 2010)	**19.00**

Source : *Insurance (June 2010) Indian Brand Equity Foundation*

Exhibit 4 represents that though private players are allowed in Indian insurance sector, the major role for development and growth of this sector is played by the state owned organizations because, in case of general insurance, amount of increase in gross premium generation by private players (12.82%) is less than that of public insurers (13.85%). In case of life insurance, while the LIC covered the 83% of increased business income, the contribution of the private players is only 47%.

However, this scenario is changing soon. Competition increases and a group of people start viewing insurance as a tax saving investment instrument and, as a result, they opt for insurance for tax saving purposes and it proves how insurance players are magnetizing public money. Thus, future prospects of this industry look brighter. New companies are coming with new products and services like health insurance, marine insurance, fire insurance and many other short and long term schemes. The next paragraph will explain how CMAs will render services in this changing context of Indian insurance business.

Role of CMA's in exploring insurance business

The present scenario of the Indian insurance market has brought in competitions as well as opportunities for the insurance market players. Competition is good for the growth of this sector but at the same time the insurers should keep in mind the quality factor of the services provided by them. So to maximize individual revenue and profits they should not compromise with the product or service quality. New players should take suggestions from CMAs about how to allocate their funds in a proper way in long term schemes to generate high returns. And they should also be careful in respect of clients servicing areas such as premium payments, policy transfer, solutions for complaints. For achieving a healthy competition with positive growth, proper and systematic risk management strategies need to be adopted.

Moreover, for running an organization efficiently and effectively for performing strategic tasks, sound professionals equipped with proper training skills are required. And here lies the importance of CMAs as they are well known for their analytical skills, good judgment power and sound communication skills. Their vast experience in their professional field helps them to analyze the present market situation properly. Moreover, they possess good technical expertise to maintain a liaison between their profession and the industry demands.

CMAs, as qualified professionals, can serve the Indian insurance sector by rendering valuable advices and services in the following way :

Scheme development

CMAs with proper analyzing power of customers' needs and demands and knowledge of actuarial science can provide suggestions to the management for developing new insurance schemes or strategies to make the existing services more popular by modifying existing pricing policies, decreasing premium rates, offering gainful proposals etc.

Policy selection

CMAs can render valuable suggestions to the customers in selection of a profitable insurance scheme by providing adequate knowledge about the risk involved in a particular policy or regarding payments of premiums and profitable return from the target policy etc.

Maintaining customer relation

CMAs are best known for their communicative skills which are very much helpful for creating consumer trust in the services provided by an insurer. Good relationship with consumers is necessary for any business to succeed and, in case of insurance business, it is an utmost necessity as new insurance business can desirably be generated through the existing policy-holders on the basis of customer relationship base.

Claims settlement

Policyholders generally face difficulties while managing their policies and also regarding final settlement of their policies. CMAs can play a major role here by providing adequate information and knowledge about the process from initial formalities to the final payment of a particular policy settlement to the policyholder.

Consultative service

CMA as insurance advisors can render valuable advice to his clients/customers in selecting the most profitable policy among the various schemes provided by an insurer. They are the best persons to judge and analyze the needs and risk profile of the clients to suggest them the best policy.

Cost control service

Expertise in accounting and managerial skills makes CMAs efficient to render advice on technical matters, assist in payment negotiation and settlement of claims etc. Thus they can successfully perform the tasks to control cost of different activities of an organization.

Risk evaluation

Risk and insurance are interrelated and insurance is all about mitigating risks. Therefore, proper risk evaluation is essential for selection of the appropriate policy. CMAs can deliver this service efficiently with their professional and analytical skills.

Auditing guidance

This is the area where CMAs like to act with all their professional, technical, analytical skills and experiences. CMAs can successfully perform verification and other auditing services to render valuable comments regarding claim settlements, valuation of assets and liabilities etc.

Authentic verification

CMAs can soundly perform their responsibilities to inspect the damage or loss on behalf of an insurance company as an auditor. Their verification and comments on the measurements are expected to be authentic as they perform their duty as an independent third party and qualified person.

Invigilator service

A CMA may carry out insurance investigations activities for the insurance company. He can provide solutions to various problems which need proper investigation skills.

Budget preparation

Budgets are always needed for fulfilling a particular task. CMAs with their professional skills help an organization to prepare operation budgets, master budgets etc which are of great importance to an insurance organization.

These are the activities that a CMA does perform not only to help an insurer but also to provide a transparent and clear picture of the insurance industry to its investors.

Conclusion

From the above discussions it can be concluded that CMAs' role in exploring insurance business is inevitable as they are the professionals with high expertise in areas like costing, management and accounting etc. and that expertise enables them to provide high quality managerial and technical advices to the management to utilize the existing market opportunities in the insurance sector properly. They help management to gain strategic advantage over competitors by removing organizational weaknesses. With time, CMAs' role in exploring new market strategies keeps changing. They are always to be conscious regarding the changes in various economic and monetary policies. On behalf of the management, CMAs can perform different cost-benefit analysis, break-even analysis for analyzing the potentiality of various schemes adopted by the management to cater the needs of the growing insurance market.

Moreover, CMAs can work as an independent third person in a deliberate manner for applying their technical, analytical and auditing skills in many areas of cost and management control. Thus, CMAs can serve the Indian insurance sector and help this industry to grow further—to go global. ❐

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Role of CMAs in Insurance Claim Management

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In a global market in the existing economic environment all businesses need relevant and appropriate information—quantitative as well as qualitative information—which is plenty to survive and grow in a market. In current times the market is impulsive and dynamic in nature. The main objective of business organization is to maximize owner's wealth—to be profitable in the short-term as well as in the long-term. The Cost and Management Accountant can give this information appropriately, effectively, and efficiently.

In India, liberalization, globalization and information technology revolution have paved the way for the rise of financial services in general and insurance industry in particular—it has ended the monopoly in the insurance sector. In extremely competitive marketplace, while new entrants focus on improving customer service and increasing the coverage of the insurance industry, old players are taking appropriate and appreciable efforts to counter the competition. Availability and affordability of the insurance services have emerged as a valid regulatory development issue.

Insurance Regulatory and Development Authority (IRDA) has issued various Regulations for promoting insurance as a catalyst for social development. In this dynamic environment, the landscape has also broadened for professionals willing to serve the industry. For Cost and Management Accoun-tants also—who have multi-pronged dexterity, financial and technical acumen and interpersonal and communi-cation skills—the scope of services to the industry in more prolific manner has increased.

Insurance Business Environment in India

Insurance means Collective bearing of Risk. Basic Human trait is to be averse to the idea of risk taking. Insurance, whether life or non-life, provides people with a reasonable degree of security and assurance that they will be protected in the event of a calamity or failure of any sort.

Five environmental variables that affect all industries :

1. Customers
2. Competitors
3. Government
4. Technology, and
5. Globalization.

These are are forcing rapid changes in the service sector.

In addition, there are four factors of particular importance to service providers :

1. Change in how quality is perceived
2. Cost control
3. Customer services, and
4. The new definitions of the customer.

The insurance sector in India has completed all the facets of competition –from being an open competitive market to being nationalized and then getting back to the form of a liberalized market once again. The history of the insurance sector in India reveals that it has witnessed complete dynamism for the past two centuries approximately. Insurance, worldwide, is one of the most potent financial sectors. The global insurance industry, valued at approximately $2.5 trillion, has more than 5,000 companies servicing life and non-life markets. India, the second most populous country, is ranked one of the largest insurance markets in the world. The figures loudly talk of huge untapped potential in the Indian insurance market. With an annual growth rate of 15-20% and the largest number of life insurance policies in force, the potential of the Indian insurance industry is huge. India's life insurance premium, as a percentage of GDP, is 1.8%

Economic Development through Insurance Sector

The business of India Insurance grew at a faster place as competition amongst the Indian companies intensified. To reach the real potential rate of growth of the Indian economy the Government—in addition to the development strategies—should also focus on massive resource mobilization.

Insurance can play an important role in channelising savings into national investment. In view of their long-term liabilities and stable cash flows, contractual savings institutions such as life insurance are ideal sources of long-term finance for government

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and business. Insurers invest the funds addressed to them by the customers to make long-term loans and other investments to government and business.

Role of CMAs in the Insurance Sector

The present scenario of the Indian insurance market has brought in new challenges as well as opportunities. The efficient and effective functioning of enterprises involved in the industry calls for professionally equipped and properly trained personnel with understanding of the degree of the new products and services to spread the message of insurance.

Cost and Management Accountants can provide their services to Insurance enterprises in the following fields of insurance :

1. Underwriting : It is a core insurance activity, involves classification of risks on the basis of risk characteristics so that insured parties pay premiums proportionate to the risk. CMAs can provide their services in analyzing the information to determine the right prospect and also secure profitable business to the insurer.

2. Insurance Broking : The opening up of the industry has resulted in a deluge of insurance products. Expertise in accounting and tax makes CMAs ideal insurance brokers to render advice on technical matters, assist in negotiation and settlement of claims, maintain records of client's business and much more.

3. Claims Management : This is a structured method of managing claims right from the initial report to the final payment or appeal—typically following an existing system. Claims processing is highly data intensive and time sensitive. CMAs can provide their services in effective management and understanding the system and interaction with the concerned parties.

4. Policy Owner Services : It has been an accepted fact that notable new insurance business are generated through the existing policyholders and the principles of Customer Relationship Management has to be adopted which warrants the involvement of professionals like CMAs.

5. Claims Audit Service : This area calls for specialized knowledge in risk management, audit of outsourced claims service providers and cost containment measures in relation to the overall claims spend. With their traditional cost knowledge and experience, CMAs can fit into this role with ease.

6. Marketing and Distribution Channels : CMAs with appropriate public interface can help the public to appreciate the need for personal financial planning, estate and retirement planning. CMAs as Insurance Advisors can render valuable advice to clients/ customers in selecting among various Non-Life Insurance Policies. They can, based on the needs and risk profile of the client, advise them the best Insurance Policy to cover the risks to their life and property.

7. Risk Management : This is a critical area and involves review of the efficiency and adequacy of risk management techniques. Additional areas of responsibility are business continuity planning, conducting alternative risk financing feasibility studies, and evolving loss minimisation strategies etc. CMAs will find these functions stimulating.

8. Actuary : With their expert knowledge on actuarial science can be of immense help in carrying out actuarial services such as complying with the provisions with respect to the bases of premium, ensuring that the policyholders' reasonable expectations have been considered in the matter of valuation of liabilities and distribution of surplus to the participating policyholders who are entitled for a share of surplus etc.

9. Arbitration : It is a procedure of settlement of dispute between two parties by an authority called arbitrator. A CMA with a vast amount experience in various fields can assist the parties to a dispute either as a counsel or he may decide on the dispute of the parties as an Arbitrator.

10. Insurance Investigations : They may also carry out insurance investigations for the insurance company. For e.g. in case of a false claim the professional can investigate on the amount of loss actually suffered by the insured and the compensation claimed by the insured from the Insurance Company to gauge the veracity of the claim made and the amount of compensation to be done.

11. New Product Creation : CMAs should know the appropriate customer understanding, can design appropriate products, determine price correctly and increase profitability. They can advise on premiums, rebates and the like for products unique to specific industries/companies and suggest risk-mitigating measures.

12. Third Party Administrators Services: These help insurers by reducing the administrative costs, while making the claims settlement a smoother process for the insured parties in health insurance. Because of the sensitive nature of this function covering the genuineness of the claim and timely payment of the claim and the heavy processing of accounting data involved, this area can be best handled by CMAs with appropriate qualification.

13. Surveyor or Loss Assessor : An insurance surveyor is a technical expert who inspects the damage or loss of an insurance company. There are advocacies for survey and loss assessment job should be carried out by an independent, third party, licensed and categorized surveyor only. A CMA can be of immense help in assessing the damage or the loss to the object of Insurance. This area includes general functions like conducting inspections, estimating and valuing the subject under loss.

14. Price Mix Decisions : CMAs can also do the following :

- Make possible cost of effectiveness.
- Restructuring of premiums.
- Due priority to profit generating investments.
- Rationalizing or optimizing the social costs.
- Paving avenues for channelizing the productive investments.
- Assigning weightage to the policies meant for the socially & economically backward classes.
- Making the ways for maximizing profit.

Role of CMAs in Claim Management

The legal and commercial environment of insurance claims is a moving feast. Changes in legislation, globalization of insurers and hardening of attitudes by insurers make it imperative for the policyholders, whether residential or commercial, to have access to a range of services to supplement the more traditional role of the insurer. That claims are today more complex than ever and early intervention by experienced and qualified insurance operatives can not only smooth the claims process but add value for both claimants and insurers.

CMAs have developed service streams which are tailored to assist clients in all matters involving an insurance issue or civil dispute.

1. Claim preparation : CMA can assist in preparing the claim for submission to insurers and ensure compliance with Policy conditions and development of supporting documentation and cost materials.

The procedure of claiming compensation from an insurer requires proof of an insured event, compliance with policy terms, verification of the amount of the loss, and finally, determination of the effect of any exclusions and deductibles on the amount payable. Failure to provide sufficient details of the claim particulars or unplanned wrong description of the loss can result in delay, inadequate compensation or, at worst, wrongful repudiation of the claim. The small print in insurance policies, still even today, can be a minefield to the unwary claimant.

CMAs have expertise to ensure :

- Correct completion of claim forms
- Preparation of supporting statements
- Certification of compliance with Policy conditions
- Valuation of lost or damaged property
- Identification of additional benefits
- Arrange quotations for repair or replacement
- Conduct negotiations with insurers.

2. Claim Management : CMAs offers Claims Management services based on the concept of early intervention and resolution. CMA experience has clearly shown that an early and commercial approach to claims results in measurable reductions in average claims cost and annual claims exposures. CMAs are legally qualified and have many years' experience in management of both liability and property claims. This expertise translates directly into best practice management procedures which will produce savings for clients. Their powerful analytical skills can identify trends and opportunities for risk reduction programs.

They are :

- Incident reports and Procedure manuals
- Electronic reporting facilities
- Direct online entry into database
- Claims documentation
- Standard and customized reports
- Cheque issue, escrow and audited accounts
- Legal and investigation services.

3. Insurance Disputes : CMAs can advise on the best remedy available and assist in completing submissions for legal or other assistance. The insurance policy is a legal contract containing many enforceable legal obligations breach of which may entitle the Insurance company to reject or reduce your claim. Nevertheless, the Insurers right's are subject to many limitations as may be contained in the Insurers Code of Practice, The Insurance Contracts Act, The Trade Practices Act, other statutes and Insurance Precedents. The insurer's decision should always be reviewed in the light of the protection afforded to Policyholders by Insurance Law and Practice. Some of these are available at no cost to the Policyholder.

CMA can assist in reviewing your particular claim and providing advice as to the most suitable venue for obtaining a review of the decision. CMA can also assist in preparation of factual material in support of the claim and presentation of the submission for review.

4. Loss Adjusting : CMAs are loss adjusters; they are professionally qualified personnel who undertake

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Bancassurance in India : Some Issues

Mausumi Bhattacharyya*

Emergence of insurance in India

Insurance in its modern form first appeared in India through a British company called Oriental Life Insurance in 1818 followed by Bombay Assurance Company in 1823 and the Madras Equitable Life Insurance Society in 1829. The target clientele was the Europeans living in India. Till mid-1950s, Insurance was considered a luxury of urban elites.

Regulation of insurance companies began with the Indian Life Assurance Companies Act, 1912. In 1938, all insurance companies were brought under regulation when Insurance Act was passed. The Act covered both life and non-life insurance sector. Nationalization of Insurance sector is a significant milestone in the history of Indian insurance services. The life insurance sector was nationalized in 1956 and the non-life sector in 1972.

The next significant landmark is the opening up of the sector for private participation in 1999. The Insurance Regulatory Development Act of 1999 was practically superimposed on the Insurance Act of 1938. The sector received a new lease of life with the entry of many private players while public sector insurance players remained a favourite choice of majority of Indian insurers.

Bankassurance—a financial conglomerate

Financial sector reforms in India have reshaped the landscape of financial services sector in a dramatic way. Market got flooded with financial products with varied terms of issues. As private players started gaining momentum, public sector entities, particularly banks, did not lag behind. Banks stretched their arms beyond traditional banking and migrated towards newer and non-traditional operational areas—especially relating to fee-based and non-fund activities. Delivery of the products like merchant banking, lease financing and hire purchase by banks are in line with the said migration. Banks entered the insurance sector too. With the entry of banks into insurance business, the term 'Bancassuarance' found place in the vocabulary of Indian financial system.

Bancassuarance implies distribution of insurance products through network of Banks. IRDA refers Bancassuarance as "banks acting as corporate agents for insurers to distribute insurance products". This concept gained importance in the context of growing global insurance industry and its search for new channels of distribution.

The banks with wide geographical spread and sound market penetration in terms of customer reach of diverse segments have emerged as a viable source of the distribution of insurance products. However, the difference in working style and culture of the banks and insurance sector needs greater apprecia-tion. Insurance is a 'business of solicitation' unlike a typical banking service, it requires great drive to sell or market the insurance products.

It should, however, be recognized that 'bancassu-rance' is not simply about selling insurance but about changing the mindset of a bank. The system of 'relationship banking' has amply contributed in building up of bancassurance.

Bancassurance models

Several bankassurance models are in vogue to suit the banks' risk and return appetite. Structurally, three models may be contemplated :

One, referral model, where banks merely part with their client data base for business lead for commission. The actual transaction with the prospective client in referral model is done by the staff of the insurance company either at the premise of the bank or elsewhere.

Two, corporate agency model, wherein the bank staff is trained to appraise and sell the products to the customers. Here, the bank as an institution acts as a corporate agent for the insurance products for a fee or commission.

Three, fully integrated financial service model where the bank functions as fully universal in its operations and selling of insurance products is just one more function. In India, ICICI Bank and HDFC Bank in private sector and State Bank of India in the public sector have already taken a lead in resorting to this type of bancassurance model and have acquired sizeable share in the insurance market.

Product-wise bancassurance model may vary between a stand-alone insurance product and a blend of insurance with bank products. For instance, Karur Vysya Bank sells life insurance of Birla Sun Insurance and non-life insurance of Bajaj Allianz General Company as stand-alone products. Blending, on the other hand, is a strategy that aims at mixing of insurance products as a 'value addition' while promoting the

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bank's own products. For example, the home loans or vehicle loans, etc. have also been packaged by banks with the insurance cover as an additional incentive.

Global experience

World over, the idea of separation of roles between banks and other financial activities has become redundant. Even in the United States—which was known for strict separation of banking and non-banking activities during the Glass-Steagall Act regime—broke the dividing wall. The post Gramm-Leach-Bliley (GLB) Act, 1999 scenario, stated to have indicated increased preference for banks coterminously dealing with other non-banking financial products, including the insurance products.

The strategy of bancassurance has been highly successful in Europe, especially France and Portugal stated to be most successful in bancassurance wherein as much as 70 % of the insurance products were sold through the banking channel alone, followed by Spain where more than 59 % of the insurance products were being sold through the banks. In countries such as Belgium and Italy, though, the bancassurance concept has been in prevalence for some years but seems to be picking up only since the late 1990s (Popli and Rao). As opposed to the above, in the UK and Netherlands the concept of bancassurance is stated to be relatively less popular although banks sell the insurance products. In Germany, although the system of universal banking is predominant, bancassurance does not seem to have showed up a big stride.

In Asian countries like Taiwan, Singapore and Japan the trend has been set towards financial supermarket. The financial liberalization and financial innovations have drawn the worlds of banking and insurance closer together, desegmenting the financial industry and spurring competition (Knight, 2005). Therefore, banks dealing in insurance products have increasingly become accepted norm rather than exception.

Regulatory Push

With globalization and the increased structural deregulation within the financial system, the banking system in India has been exposed to tough competition compelling them to move towards new vistas of business activity. The developments in this direction were evident in the acceptance of universal banking framework and eventually the emergence of financial conglomerate. Quite predictably, such developments brought along some regulatory and supervisory concerns. Thus, the increased market integration and globalization demanded new realism on the part of the regulator and supervisor for stricter prudential regulation and supervisor on 'inter-sector' activities especially, considering the pace with which the system is moving. This process is referred in the literature as 'structural deregulation' and 'supervisory re-regulation'. while it is inevitable that Indian banks entering into insurance sector, given the size of the transactions in 'general insurance transactions', coupled with the type of built-in risks on the one side and that the banking system being the focal point of the payment and settlement on the other, any migration from the former to the latter will have a greater systemic implications. Therefore, adequate and appropriate checks and balances are required to be put in place in time by all regulatory authorities concerned (Karunagaran, 2006).

Following the issuance of Government of India Notification dated August 3, 2000, specifying 'Insurance' as a permissible form of business that could be undertaken by banks under Section 6(1)(o) of the Banking Regulation Act, 1949, RBI issued the guidelines on Insurance business for banks :

1. Any scheduled commercial bank would be permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation.

2. Banks which satisfy the eligibility criteria will be permitted to set up a joint venture company for undertaking insurance business with risk participation, subject to safeguards. The maximum equity contribution such a bank can hold in the joint venture company will normally be 50 per cent of the paid-up capital of the insurance company. On a selective basis, the Reserve Bank of India may permit a higher equity contribution by a promoter bank initially, pending divestment of equity within the prescribed period.

3. In cases where a foreign partner contributes 26 per cent of the equity with the approval of Insurance Regulatory and Development Authority or Foreign Investment Promotion Board, more than one public sector bank or private sector bank may be allowed to participate in the equity of the insurance joint venture.

4. Banks which are not eligible for 'joint venture' participant can make investments up to 10% of the net worth of the bank or Rs.50 crore, whichever is lower, in the insurance company for providing infrastructure and services support. Such participation shall be treated as an investment and should be without any contingent liability for the bank.

6. All banks entering into insurance business will be required to obtain prior approval of the Reserve Bank. The Reserve Bank will give permission to banks on case to case basis—keeping in view all relevant factors including the position in regard to the level of

non-performing assets of the applicant bank so as to ensure that non-performing assets do not pose any future threat to the bank in its present or the proposed line of activity, *i.e.* insurance business. It should be ensured that risks involved in insurance business do not get transferred to the bank and that the banking business does not get contaminated by any risks which may arise from insurance business. RBI stressed that there should be 'arms length' relationship between the bank and the insurance outfit.

Mutual advantages

When banks embrace the insurance service, it is not the banks that profit, insurance companies too stand to gain from bancassurance. Even from customers' point of view, bancassurance is beneficial. It is said that insurance is not bought, it is sold. That is, insurance policies are not primarily sought by the customers, rather, they are force-sold or sold through persuasion. For selling the additional product, banks need not build up much additional infrastructure. Bank diversification into insurance business may also be viewed as a measure to utilize the excess manpower and infrastructure lying with banks. Bancassurance provides the banks with an additional channel for generation of fee based revenue without involving additional resources. In a competitive environment, when their profits are declining in the traditional banking, banks see it as a source of an additional noninterest income for their survival (Sinha, 2005).

Proximity to customers and large database serve as the backbone to the bancassurance. Banks have a readymade distribution network with spread all over the country which the insurance companies do not have. Insurance companies enjoy the easy access to a wide spectrum of clients through a vast customer base—of banks. Moreover, the whole financial profile of customers is known to the banks. Thus, the right customer group could be approached for the right product. Through bancassurance, insurance companies reap the economy in distribution cost and banks servers as a pivotal medium to lift their level of insurance penetration in the country.

Since insurance companies can economize the distribution cost, such cost advantage is shared partly with the customers too. Therefore, customers get an economy in cost of insurance. Moreover, customers prefer bancassurance owing to the fact that they get the integrated service under a single roof. Skilled and trained executives of banks bring them the benefits of insurance. Banks can meet the customer-needs better. Customers feel confident to buy a policy from a known bank than from a less known insurance company.

Worries

Despite the fact that general insurance business has been growing at a healthy rate of 16% annually between 2004-05 to 2008-09, its penetration level is just 0.60% of India's GDP against world average of 2.14%, says a Joint Research Paper on Indian Insurance Industry brought out by CRISIL and ASSOCHAM in 2009. "India ranks 136th on penetration levels and lags behind China (106), Thailand (87), Russia (86), Brazil (85), Japan (61) and the US (9). The penetration of general insurance in India remains low on account of low consumer preference, largely untapped rural markets and constrained distribution channels", adds the Paper.

Moreover, in India, since the majority of the banks are in public sector and which has been widely disparaged for the lethargic attitude and poor quality of customer service, it needs to refurbish the blemished image. Else, the bancassurance would be difficult to succeed in these banks. Studies have revealed that the basic attitudinal incompatibility on the part of employees of banks and insurance companies and the perception of customers about the poor quality of banks had led to failures of bancassurance even in some of the Latin American countries.

There are also glitches in the system of bancassurance strategy in the form of 'conflict of interests'. Some of the products offered by the banks such as term-deposits are mainly aimed at long term savings or investments and can be very similar to that of the insurance products. Banks could as well feel apprehension about the possibility of substitution effect between its own products and insurance products and, more so, as a number of insurance products in India come with an added attraction of tax incentives.

One of the biggest constraints facing the general insurance business is the lack of reach beyond the cities. While life insurance players are struggling with the quality of insurance advisors, general insurance players face difficulty in getting intermediaries to distribute their products. The average ticket size and the commission rates are extremely low compared to life insurance.

Concluding remarks

In India, still vast majority of banking operations are conducted through the manual operations at the banks' branch level with relatively less automation such as ATMs, tele-banking, internet banking, etc., unlike many developed countries. This stands out as an added advantage for the banks to have direct interface with the customers, to understand their needs or tastes and preferences and, accordingly, customize insurance products. In fact there is also greater scope for innovation of new insurance products in the process. Bancassurance would, therefore, be uniquely suited to exploit the economies of scale for the banks in India.

Domestic demands in India are well supported by the positive demographic structure, the rising income levels, continued access to financing and higher savings rates. More domestic demand has already triggered the rise of a modern retail sector in the region, which will surely benefit the insurance industry here. The savings rates in most Asian countries have exceeded 30 percent of their gross national product (People's Daily, 2009). The changing priorities of the growing population in the region—largely comprising of a young workforce in the middle income group—have also enhanced the demand for investment-linked and wealth management products. All these will favour bankassurance in the days ahead. But, for the success of bankassurance, what is urgently needed is the dynamism in the attitude of the banks and their zeal to think beyond traditional banking. ❐

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investigations of incidents where damage has been caused to property. Traditionally, adjusters have been retained by Insurance companies but such services are now also offered to the insuring public.

It is the role of the adjuster to determine the facts of the incident by collation of legally admissible statements and the preservation of real evidence by an evidentiary chain. The adjuster documents the extent of the loss/damage, prepares scopes of work for repair or replacement and arranges competitive quotations from service providers. Upon determination of the actual loss the adjuster then applies policy conditions to calculate the claim settlement which—after agreement with stakeholder become the assessed loss.

CMAs can offer loss adjusting services in the following areas : Industrial Special Risk, Fire Accidents, Business Interruption, Burglary & Theft, Fidelity Guarantee, Motor Vehicle, Public Liability, Products Liability, Professional Indemnity, Motor Vehicle and Marine Insurance.

5. Support Services : CMAs offer a range of services to insurance stakeholders including litigation support, mercantile service, professional consultancies and replacement services. The acquiring of effective insurance or dealing with an incident that caused injury or damage may create a need for the Client, Broker, Customer, or Potential Defendant to obtain support services which are not traditionally provided by Insurers or Solicitors. CMA is a Master Commercial Agent and can provide in-house mercantile services.

They are :

For The Client/Insurer

- Debt Recovery
- Asset Damage Recovery
- Debtor Location
- Excess Recovery
- Debtor Investigation
- Building Consultancy
- Professional Services
  Engineering
  Accounting

For The Broker

- Liability valuation
- Property Risk valuation
- Machinery Valuations
- Other Contents Valuations.

Conclusion

CMAs are known for their keen analytical ability, excellent technical skills and thorough working style. Their vast experience in professional interaction with people bears evidence to their effective communication and interpersonal skills. They have the technical expertise that the profession demands and the integrity that the industry needs. Corporate insurance have to demand increasingly complex insurance products. The CMAs have to be more attentive and knowledgeable about emerging risks, how those risks are managed effectively and efficiently, and how they could ultimately affect a company's financial situation and, therefore, its position in the marketplace. They convert risk as a competitive advantage. CMAs, as professionals, can emerge as insurance specialists very easily. ❐

Indian Insurance Sector Reforms and Role of CMAs

Dr. Sukamal Datta*

In India Insurance has a long history. There is always an urge to minimize the risk and take protection against possible failure. The risk includes death and accident, the perils of sea, fire and burglary.

Insurance in various forms has been found in writings of Manu (Manusmriti), Yagnavalka (Dharmashastra) and Kautilya (Arthashastra).

A risk may be insured against a premium and that risk may be distributed among all the persons who pay premium. Thus collective bearing of risks is insurance. Both the insurance—either life or non-life —provide reasonable degree of security and assurance in the event of a calamity or any sort of failure.

Insurance in modern form originated in the 13th century. Marine Insurance is the oldest form of Insurance and it is followed by life insurance and fire insurance.

Life insurance in its modern form started in India in 1818 when Oriental Life Insurance Company was incorporated at Calcutta followed by Bombay Life Assurance Company in 1823. Then many insurance companies were founded at the beginning of the 20th century. To regulate the insurance sector the Life Insurance Companies Act and the Provident Fund Act were passed in 1912. But the first comprehensive legislation was introduced in 1938 with the Insurance Act which provided strict state of control over insurance business in India.

In 1956 the India Government took over 245 Indian and Foreign insurers and provident societies and nationalized life insurance sector. Life Insurance Corporation came into existence in the same year. In 1972 the General Insurance Business (Nationalization) Act, was passed and nationalized the general insurance business with effect from 1st January, 1973. As a result 107 insurens were amalgamated and grouped into 4 companies : (i) The National Insurance Company Ltd., (ii) The New India Assurance Company Ltd., (iii) The Oriental Insurance Company Ltd. and (iv) The United India Insurance Company Ltd.

Insurance Sector Reforms

Financial sector reforms have been regarded as an integral part of overall policy reforms in India. India has recognized that these reforms will increase the efficiency of resource mobilization and allocation in the real economy and for the overall macroeconomic stability. As a part of financial sector reform India initiate the process of Insurance Sector Reform with the Committee on Reforms in the Insurance Sector constituted in April, 1993 under the chairmanship of R. N. Malhotra, a former Finance Secretary and RBI Governor. The main objectives were to suggest guidelines for improving the functioning of the LIC and GIC, as well as strengthening the regulatory system for reforms in the insurance sector. The Committee submitted its report to the Union Finance Minister on 07.01.1994, recommending a phased programme of liberalization and called for private sector entry and restructuring of LIC and GIC. In the process of Insurance Sector Reform the legislation of Insurance Regulatory and Development Authority (IRDA) Bill, 1999, is a landmark in the move towards privatization of the India's Insurance Sector.

This bill allowed the entry of private enterprises both in life and non-life sector but a single company cannot operate business in both the sector. Until 1999, no private insurance company was allowed to function in India. The sector was opened up in August 2000 and global insurance giants started entering this sector soon after the opening up the sector. When India has taken initiative for privatization of insurance sector, it had two alternatives : (i) selling of PSEs (LIC and GIC) to private companies, and (ii) allowing private sector to enter this sector and make friendly competition with the existing PSEs. But India considered the second option and LIC and GIC were untouched which make the coexistence of public and private sectors and will benefit the Indian Economy. Insurance sector in this way has invited competition without closing the PSEs. So, Privatization of Indian insurance does not mean disinvestment of the PSEs. The IRDA Act, 1999, protects the interests of holders of insurance policy and to regulate, promote and ensure orderly growth of the insurance sector. The road map of Indian insurance sector reforms is shown in **Exhibit 1**.

Exhibit 1 : Insurance Sector Reforms

Month and year	Events
April 1993	Malhotra Committee on Insurance Sector Reforms and Deregulation set up
January 1994	Malhotra Committee submitted report to the Finance Minister
December 1996	IRDA Bill introduced in Parliament and referred to the Standing Committee
August 1997	IRDA is withdrawn following opposition to foreign participation

(contd.)

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(contd.)

Month and year	Events
November 1997	Government of India clears greater autonomy to LIC and GIC
June 1998	Union Budget announces opening up of insurance sector
January 1999	Notification of IRDA as a statutory authority
October 1999	Approval of IRDA Bill by the Cabinet with FDI limited to 26%
February 2000	Insurance Bill presented in the Budget Session
October 2000	Private Insurance Companies are back

There exist huge scopes of investment in the insurance sector in India. India has 250 million middle class people and only 22 percent of insurable population was covered till the limitation of reform in this sector. Entry of private players will reduce the huge gap between insurable population and insurance coverage. A large number of public and private players are competing today in both life and general insurance segments. At present the Indian insurance sector has a total of 47 insurance companies including life as well as non-life (general) insurance companies.

Table 1 : Public Sector and Private Sector Insurance Companies (As on 30th September 2010)

Type of Insurance Companies	Life Insurance	General Insurance	Total
Public Sector Companies	01	06	07
Private Sector Companies	22	18	40
Total	**23**	**24**	**47**

It is observed from **Table 1** that a large number of private players are competing today in both life and non-life insurance segment. After starting reform of Indian Insurance Sector the FDI Equity in this sector is 26 percent under the automatic route subject to licensing by the IRDA. The development in the insurance sector is going on fast and more prominently after the establishment of IRDA. Four public sector non-life insurance companies were delinked from subsidiary companies of the General Insurance Company of India. Now those subsidiary companies are operating independently and compete with each other. As a result, the monopoly of public sector in the insurance market ends and opens up the access of private sector into the insurance market. As per Life Insurance Council studies, India is the world's fifteenth largest insurance market and growing at a rate of 32 to 34% annually. Currently in India only 2 million people (0.2% of total population of over 1 billion) are covered under Mediclaim but in USA about 75% of total population are covered under insurance scheme. Entrance of more and more private insurance companies and their competition may change the situation in near future. It is recognized that India has vast potentials, which is waiting to be tapped and that could be achieved by keen competition among the public and private sector companies and it is exposed to the development of Indian insurance sector. It is observed that the new insurance companies have approached the business in a proper perspective and both the life and general insurance business is growing beyond the normal expectation.

Low Insurance Penetration and Density in India

The measurement of insurance penetration and density reflects the level of development of insurance sector in a country. Insurance penetration is defined as premium as percentage of GDP, whereas insurance density is defined as premium per capita i.e. the ratio of premium to population (not by the number of people insured). Both insurance penetration and insurance density in life and non-life sector has been very low in India compared to the UK, France, Hong Kong, Japan, South Korea, South Africa and many other countries. But by opening up Indian insurance sector for private participation, insurance penetration and density has been increasing, although the increase has been almost entirely contributed by the life insurance sector. **Table 2** shows the insurance penetration and density in India during the period 2001 to 2009.

Table 2 : Insurance Penetration and Density in India

Year	Life		Non-Life		Industry	
	Density (US$)	Penetration	Density (US$)	Penetration	Density (US$)	Penetration
2001	9.1	2.15	2.4	0.56	11.5	2.71
2002	11.7	2.59	3.0	0.67	14.7	3.26
2003	12.9	2.26	3.5	0.62	16.4	2.88
2004	15.7	2.53	4.0	0.64	19.7	3.17
2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.10	5.2	0.60	38.4	4.80
2007	40.4	4.00	6.2	0.60	46.6	4.70
2008	41.2	4.00	6.2	0.60	47.4	4.60
2009	47.7	4.60	6.7	0.60	54.3	5.20

Source : IRDA Annual Report 2009-10

It is observed from **Table 2** that the insurance density of life insurance has increased in every year and has gone up from US$ 9.1 in 2001 to US$ 47.7 in 2009 (more than 5 times). Similarly, insurance penetration of life sector has also almost a constant growth during the period. It has gone up from 2.15 percent in 2001 to 4.60 percent in 2009 (more than double). The insurance penetration of non-life sector in India has remained near-constant for the 9 years around 0.60 percent. But there has been a constant increase in density which reached from US$ 2.4 in 2001 to US$ 6.7 in 2009. During the period, industry density reached from US$ 11.5 in 2001 to US$ 54.3 in 2009 and industry penetration reached from 2.71 percent in 2001 to 5.20 percent in 2009. The constant increase in insurance density and penetration is the result of participation of private players in the insurance sector after reform.

Market Conditions and Growth of Insurance Sector

The Insurance market of India has experienced constant growth and expected to continue expanding the market due to different reasons. India is the second most populous country in the world and has a strong savings culture. Economic prospects are better in India than many other developing countries. Global financial meltdown has little direct impact in Indian insurance market. During the financial years 2007-08 to 2009-10 total insurance premium increased from Rs. 2,302 billion to Rs. 3,013 and the rate of growth is 26.46% in 2007-08, 10.02% in 2009-09 and 18.98% in 2009-10 though there exist troubles in the more developed insurance market (vide **Table 3**).

Table 3 : India Non-Life and Life-Market Growth (2007-2010)

Sector	Premium Volumes (Rs. in billions)			Growth in %		
	2007-08	2008-09	2009-10	2007-08	2008-09	2009-10
Life	2014	2218	2655	29.02	10.15	19.69
Non-life	288	314	358	29.02	10.15	19.69
Total	**2302**	**253**	**3013**	**26.46**	**10.02**	**18.98**

Source : IRDA Annual Reports 2007-08 to 2009-10

As per IMF's October 2010 World Economic Outlook, the yearly GDP growth of India has averaged 8.3% from 2005 to 2010 in spite of global recession. Though both India and China have large populations and economies that are growing rapidly, China's total insurance premiums are more than double of India. On the other hand, life insurance penetration is higher in India than in China due to high savings elements in India's life products. Non-life insurance in India has been growing strongly from 2006 to 2010 with aggregated gross premium written (GPW) rising by 11.5% to 20.8% each year. Motor insurance is the largest line of business representing 43% of total non-life premium. Health insurance is the second largest component and fastest growing line of non-life insurance representing 21% of total non-life insurance.

The private insurers have growth at a faster pace than the already established PSUS after insurance market liberalised in India. Gross Premium Written (GPW) for private insurers increased by 61% in 2007, compared to 8.4% increase in public insurers. The private insurer's leverages tend to be significantly higher than PSUS. Private Companies' aggregate Net Premiums Written (NPW) to surplus was 157% in 2010 which is more than 4 times higher than PSEs aggregate NPW to surplus (36%) in 2010.

To change the non-life market of insurance significantly the IRDA has been considering two elements: (i) Mergers and Acquisitions (M&A) and (ii) Initial Public Offerings (IPOs). Private insurens with weaker capitalisation due to short period operation in the market are being expanding rapidly in recent years. Some private insurens may consolidate with bigger insurens. Reliance General Insurance Co. Ltd. is expected to merge with Royal Sundaram Alliance Insurance Co. Ltd., a joint venture between the UK's and India's Sundaram Finance Ltd. It is expected to be the first merger in the non-life insurance market. At present, the life insurance companies are permitted to merge. The IRDA has emphasised the deals for the sake of interests of policyholders and, accordingly, is examining the merger rules of non-life insurers in consultation with Securities and Exchange Board of India. The IRDA is expected to publish IPO guidelines firstly for life insurance companies followed by non-life companies for an alternative route for financial growth. Raising of Foreign Direct Investment (FDI) limit from 26% to 49% would positively provide additional funds to private insurers for their growth. However, this proposal in the Insurance Law (Amendment) Bill, 2008, is still controversial and has been facing strong political opposition. International insurers are also willing to provide technical knowledge and expertise to reduce expenses.

In spite of global recession, continued economic development of India is creating plenty of opportunities for non-life sector of insurance though private participants face a wide range of challenges. Only 10% of market share of India has been utilized by the LIC and GIC and the 90% of the balance remains open for private sector. To serve the population of more than 120 crore Indians insurance market offers big opportunities to private insurers. There is a high demand of insurance due to growing of middle class, increasing working population, rising household savings and increasing purchasing power. The increasing of literacy rate has spread awareness about the need of insurance. Favourable Government and regulatory initiatives will increase the contribution of the insurance industry to the overall economic development of the country.

Construction and infrastructure initiatives obviously provide greater opportunities for insurers. In February 2011 Mr. Pranab Mukherjee, the Union Finance Minister, said that India would need US$ 1 trillion for infrastructure projects by 2017. Agriculture, still now, holds a key component of Indian economy, with various government incentives for the agricultural sector. State-owned Agriculture Insurance Company of India (AIC) and micro insurance initiatives cover the environmental risks including crop failure. Natural hazards, including droughts, flash floods from monsoon rains, severe thunderstorms and earthquakes have attracted the attention of non-life insurers and re-insurers.

After reform of insurance sector market competition is a challenge due to increase in the number of private registered insurers. In addition to that international insurers including Prudential, Allianz and Standard Life have partnered the domestic companies to gain a substantial part of Indian insurance market.

Role of CMAs

India's insurance market has been drastically expanding due to reforms of insurance sector, strong economic growth with a growing middle class in the world's second largest population. Despite recent global economic recession India's total insurance premiums climb 19% in the year ended 31st March 2010. After insurance market reform a large number of public and private players are competing today with each other in both life and non-life segments. Consumers of insurance services are expected to be provided with a wider choice to get benefit of the competition in terms of product, price and services. Indian insurance sector is far behind the international standard and even from many developing countries not only in terms of technology, managerial skill, cost efficiency, product range and innovation. Privatization of this sector is expected to bring new technology, increase productivity, create demand for skilled and professional human resources which, in turn, increase the overall efficiency through proper and efficient utilization of scarce resources.

The Cost and Management Accountants (CMAs) may play an important role to face the cutthroat competition in the recent liberalized insurance market. The CMAs obviously provide necessary suggestions to those companies to adopt appropriate control measures to bring and keep the premium low with supply of quality service. CMAs are known for their analytical ability, excellent technical skills and meticulous working style. They can fit themselves in the insurance sector as cost accountants, management accountants, cost auditors, loss assessors, cost analysts or cost advisors. They are required specialised knowledge of insurance, expertise in cost and management accounting, ability to assess plan and have a clear perception of risk management. CMAs with post qualification course on insurance could aspire to become preferred professionals in the insurance sector. They are closely involved in planning, controlling, directing, communicating and coordinating the decision making activities of the enterprise. They are always aware of the need of the organisation and always try to satisfy the requirement.

With expertise knowledge of costing, management, accounting, taxation, law etc. CMAs must consider short as well as long-term planning horizons and develop management accounting systems for providing information which supports both strategic and operational decisions. In such a highly competitive environment in insurance sector the expertise service of CMAs are very essential. Insurance sector finds CMAs as its real friends because they are well conversant with different effective tools like Marginal Costing, Standard Costing, Variable Cost Analysis, Product Mix Analysis and Computation, Cost Control, Cost Reduction etc. and guide the company to sustain and prosper.

CMAs can render service either being part of insurance companies or through external support services in the form on consultant of advisor. In the present world of buyers market, buyer is bestowed with countless choices. In such a situation CMAs have to find out different insurance policies which may be suitable for wide range of customer with lowest premium in comparison with other competitors. Ultimately the CMAs must serve the company in such a way that profitability will be maximum in the long run. ❒

Grievance Redressal Mechanism—A Case Study of Indian Insurance Sector

Suvarun Goswami*
Aniruddha Sarkar**

Indian insurance is a flourishing industry, with several national and international players competing and growing at rapid rates. Thanks to reforms and the easing of policy regulations, the Indian insurance sector has been allowed to flourish, and as Indians become more familiar with different insurance products, this growth can only increase – with the period from 2010 - 2015 projected to be the 'Golden Age' for the Indian insurance industry.

Protection of the interest of policyholders

IRDA has the responsibility of protecting the interest of insurance policyholders. Towards achieving this objective, the Authority has taken the following steps:

- IRDA has notified Protection of Policyholders Interest Regulations 2001 to provide for : policy proposal documents in easily understandable language; claims procedure in both life and non-life; setting up of grievance redressal machinery; speedy settlement of claims; and policyholders' servicing. The Regulation also provides for payment of interest by insurers for the delay in settlement of claim.
- The insurers are required to maintain solvency margins so that they are in a position to meet their obligations towards policyholders with regard to payment of claims.
- It is obligatory on the part of the insurance companies to disclose clearly the benefits, terms and conditions under the policy. The advertisements issued by the insurers should not mislead the insuring public.
- All insurers are required to set up proper grievance redress machinery in their head office and at their other offices.
- The Authority takes up with the insurers any complaint received from the policyholders in connection with services provided by them under the insurance contract.

Indian Insurance Sector likely to be Rs 2000 billion size by 2011

An unprecedented growth of over 200% is likely to be seen in Indian insurance business by 2010-11 in which private insurance business would grow @ 140% in view of aggressive marketing technique adopted by them as against 35-40% of state owned insurance companies growth rate, according to The Associated Chambers of Commerce and Industry of India (ASSOCHAM).

The Chamber expects the total insurance business reaching a level of Rs.2000 billion in next 2 years from current level of Rs. 500 billion. The aforesaid findings are made by the ASSOCHAM on 'Insurance Sector Futuristic Growth', pointing out that, in the last couple of years, the insurance sector has grown by CAGR of around 175% and the trend will emerge still better because of potential factor.

The Chamber President, Mr. Sajjan Jindal, said, "On account of intense marketing strategies adopted by private insurance players, the market share of state owned insurance companies like GIC, LIC and others have already come down to 70% in last 4-5 years from over 97% and more intense competition is likely to be witnessed in the near future".

The private insurance players' entry into insurance sector is still restricted since India has yet to open it up liberally. But even then, their rate of return (RoR) to their subscribers and policyholders is estimated at about 35% as against 20% of domestic insurance companies. This factor is mainly responsible for hike in private insurance market and might grow further – exceeding even 140%.

Secondly, the state owned insurance companies have limited number of policies to offer to their subscribers while, in case of private insurance companies, their policy numbers are many more and the premium amount as well as the maturity period is much competitive as against those of government insurance companies.

Interestingly, said Mr. Jindal, the private sector insurance players have started exploring the rural markets in which until recently the state owned companies had the monopoly.

The Chamber has projected that, in rural markets, the share of private insurance players would increase substantially as these have been able to generate a faith among their rural consumers.

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Pattern of Market Share of Different Insurance Companies

Name of the Insurance Company	Market share (%)
Life Insurance Corporation of India	82.3
ICICI Prudential	5.63
Birla Sun Life	2.56
Bajaj Allianz	2.03
SBI Life Insurance	1.80
HDFC Standard	1.36
TATA AIG	1.29
Max New York	0.90
AVIVA	0.79
OM Kotak Mahindra	0.51
ING Vysya	0.37
Met Life	0.21

What is Grievance?

A "Grievance/Complaint" is defined as any communication that expresses dissatisfaction about an action or lack of action, about the standard of service/deficiency of service of MNYL and/or any intermediary or asks for remedial action.

An "Inquiry" is defined as any communication from a customer for the primary purpose of requesting information about MNYL and/or its services.

A "Request" is defined as any communication from a customer soliciting a service such as a change or modification in the policy.

"Redressal" shall mean the resolution or disposal of the Grievance and communication to the Complainant. In the event of nonredressal/delay in redressal the Company will communicate the reasons to the Complainant.

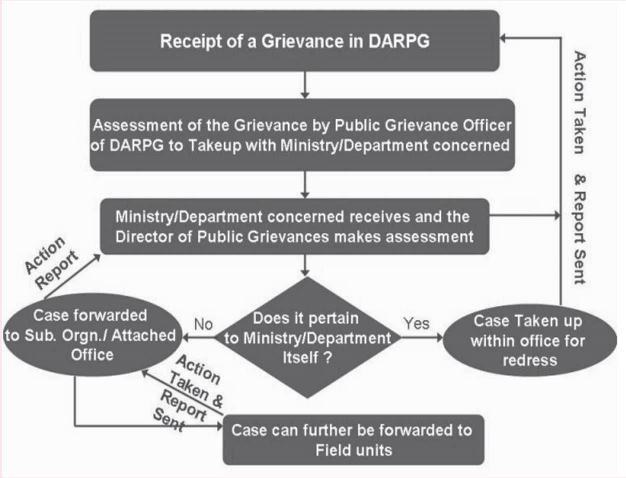
Grievance Redressal in India

Public Grievances pertaining to identified issues in respect of 20 Central Government Organizations are being handled by Directorate of Public Grievances (DPG), Cabinet Secretariat. If your Grievance falls under the purview of Directorate of Public Grievances, Cabinet Secretariat, please lodge your Grievance to The **Department of Administrative Reforms And Public Grievances**—the nodal agency to formulate policy guidelines for citizen-centric governance in the country. Redress of citizens' grievances, being one of the most important initiatives of the department, DAR&PG formulates public grievance redress mechanisms for effective and timely redress/settlement of citizens' grievances.

The DAR&PG has been making endeavors to bring excellence in public service delivery and to redress grievances of citizens in a meaningful manner by effectively coordinating with different Ministries and Departments of the Government and trying to eliminate the causes of grievances.

This is a Government of India Portal aimed at providing the citizens with a platform for redress of their grievances. If you have any grievance against any Government organization in the country, you may lodge your grievance which will go to the Ministry/Department/State Government concerned for immediate redress.

The Flow Chart of Grievance Redressal as per DPG



Objectives of the Study

The present study is directed towards the following objectives:

1. To assess the essence of grievance redressal mechanism in general
2. To evaluate the grievance redressal mechanism of Insurance Sector in India.
3. To explore the methods of settlement of grievance of the customers of two major insurance companies viz: Life Insurance Corporation of India & ICICI Prudential.
4. To suggest ways and means as to how the grievance redressal mechanism can be improved.

Methodology

The data base of the article is secondary in nature. The data relating to the present study has been collected from the official websites of LICI and ICICI Prudential. Besides the above, the help of different journals, reports and periodicals, articles has been taken, the details of which has been duly incorporated in the reference . Regarding selection of LICI and ICICI Prudential it is mention-worthy that the total market share of these two companies is 87.93.

As such, the in-depth study of these two companies in respect of any matter results in study of almost the entire industry in that particular respect.

Company Profile (Life Insurance Corporation of India)

The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern businessmen today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era – past few centuries – yet its beginnings date back almost 6,000 years.

LIC had 5 zonal offices, 33 divisional offices and 212 branch offices, apart from its corporate office in the year 1956. Since life insurance contracts are long term contracts and during the currency of the policy it requires a variety of services, need was felt in the later years to expand the operations and place a branch office at each district headquarter. Re-organization of LIC took place and large number of new branch offices were opened. As a result of re-organisation, servicing functions were transferred to the branches, and branches were made accounting units.

Today LIC functions with 2,048 fully computerized branch offices, 109 divisional offices, 8 zonal offices, 992 satellite offices and the Corporate office. LIC's Wide Area Network covers 109 divisional offices and connects all the branches through a Metro Area Network. LIC has tied up with some Banks and Service providers to offer on-line premium collection facility in selected cities. LIC's ECS and ATM premium payment facility is an addition to customer convenience.

Some of the important milestones in the life insurance business in India are

1818 : Oriental Life Insurance Company, the first life insurance company on Indian soil, started functioning.

1870 : Bombay Mutual Life Assurance Society, the first Indian life insurance company, started its business.

1912 : The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.

1928 : The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

1938: Earlier legislation consolidated and amended by the Insurance Act with the objective of protecting the interests of the insuring public.

1956: 245 Indian and foreign insurers and provident societies are taken over by the Central Government and nationalised. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India.

An Overview of the Grievance Redressal Mechanism at Life Insurance Corporation of India (LICI)

In a vast organisation like LIC, catering to the various needs and aspirations of millions of policy-holders, grievances of customers do arise occasionally. In order to redress these grievances, LIC has established an elaborate Grievance Rederessal Machinery and the details are :

I. Grievance Redressal Officers

Grievance Redressal Officers have been designated at all levels of the Organisation :

At the branch level : The Sr/Branch Manager

At the divisional level : Manager, CRM

At the zonal level : The Regional Manager CRM

At the Central level : The Executive Director CRM/ Chief(CRM)

For P&GS policies :

At the Zonal level :

The Regional Manager (Pension and Group Schemes) in case of P&GS.

Policyholders can personally contact these designated officials and seek redressal of their grievances.

The respective Grievance Redressal Officers are available at their Offices for personal interviews with the customers on all Mondays between 2.30 p.m. to 4.30 p.m., except on holidays, without prior appointment. Customers can meet the Grievance Redressal Officers on other days also with prior appointment.

The names of the Grievance Redressal Officers are displayed in the respective offices and are periodically published in the local newspapers.

II. Claims Review Committee

The Corporation settles a large number of Death Claims every year. Only in case of fraudulent suppression of material information is the liability repudiated. This is to ensure that claims are not paid to fraudulent persons at the cost of honest policyholders. The number of Death Claims repudiated is, however, very small. Even in these cases, an opportunity is given to the claimant to make a representation for consideration by the Review Committees of the Zonal Office and the Central Office. As a result of such review, depending on the merits of each case, appropriate decisions are taken. The Claims Review Committees of the Central and Zonal Offices have, among their Members, a retired High Court/District Court Judge. This has helped providing transparency and confidence in our operations and has resulted in greater satisfaction among claimants, policyholders and public.

III. Policyholder Councils and Zonal Advisory Boards

In all the 109 Divisional Centres, Policyholders' Councils have been established. Three policyholders of the area represent the interest of the policyholders and interact with the Divisional Management on consumer concerns. Similarly, at all the seven Zonal Centres, Zonal Advisory Boards are functioning.

IV. Citizens' Charter

LIC has adopted a Citizens' Charter through which it reiterates its commitments to the customers and the standards for general procedures, the standards for policy servicing, the standards for easy access to information for customers and the standards for fairness in dealing with the customers have been laid down.

Report any breach of ethics to our Chief Vigilance Officer.

Company Profile (ICICI Prudential) : ICICI Prudential Life Insurance Company is a joint venture between ICICI Bank—one of India's foremost financial services companies—and prudential plc—a leading international financial services group headquartered in the United Kingdom. Total capital infusion stands at Rs. 47.80 billion, with ICICI Bank holding a stake of 74% and Prudential plc holding 26%.

It began its operations in December 2000 after receiving approval from Insurance Regulatory Development Authority (IRDA). Today, its nation-wide reach includes 1,900 branches (inclusive of 1,074 micro-offices), over 210,000 advisors; and 6 banc-assurance partners.

For three years in a row, ICICI Prudential has been voted as India's Most Trusted Private Life Insurer, by The Economic Times-AC Nielsen ORG Marg survey of 'Most Trusted Brands'. 'As we grow our distribution, product range and customer base, we continue to tirelessly uphold our commitment to deliver world-class financial solutions to customers all over India.'

Rewards & Recognitions

(a) ICICI Prudential Life ranked as the Most Trusted Pvt Life Insurance brand in the Brand Equity "Most Trusted Brands 2009" survey.

(b) The International Council of Customer Service Organizations (ICCSO) recently awarded ICICI Prudential Life, the International Service Excellence Awards 2009 in the categories of Customer Charter – Winner, Service Excellence in Large Business – Highly Commended and CustomerService Leader awarded to Priya Nayak, VP—Service Quality.

(c) ICICI Prudential Life Insurance has won the first Runner-up award for the Best Defect Elimination in Service & Transaction category at Asian Six Sigma Excellence Summit 2009.

An Overview of the Grievance Redressal Mechanism at ICICI Prudential : At ICICI Prudential, they believe in providing the best of services to the customers. They provide customers with easy access to information, products and services, as well as the means to get their grievances redressed. To read their Complaint Handling Process : If you have a grievance, please feel free to:

Step 1 : Call Customer Care Helpline OR for online submission of grievance. You will receive a response within **7 business days** of our receiving your communication.

Step 2 : If the resolution you receive does not meet your expectations, please write to our **Grievance Redressal Officer, Ms. Gayatri Nathan (Associate Vice President—Customer Service & Operations)** to send an e-mail to our Grievance Redressal Officer.You will receive a response within **7 business days** of our receiving your communication.

Step 3 : If you are still dissatisfied with the resolution you receive, you may write to our **Senior Grievance Redressal Officer, Mr. Deepak Kinger(Senior Vice President—Compliance & Taxation)**to send an email our Senior Grievance Redressal Officer.You will receive a response within **7 business days** of our receiving your communication.

Step 4 : If the resolution you receive does not meet your expectations, please write to our Grievance Redressal Committee to send an email your Grievance Redressal Committee.You will receive a response within **7 business days** of our receiving your communication. If after having followed Steps 1, 2 and 3 your issue remains unresolved, you may directly approach the **Insurance Ombudsman** for redressal, for addresses of the Insurance Ombudsman Offices.

Findings & Conclusions of the Study

1. A close perusal of Grievance Redressal Mechanism of LICI shows that there exists a four tier grievance redressal mechanism which appears to be effective. It is further observed that LICI, being the largest public sector insurance company, has established several departments to provide better service to the members of public. Besides that there a vigilance department in the corporation which is responsible for depth inquiry of all those losses/ frauds which result in huge loss to the company as well as to the government. It is also ascertained that to avoid delay in payment of matured value/claim amount, step is taken by the LICI well in advance. In each and every branch of LICI the head of the office, i.e. the Branch Manager, is personally responsible for settlement of all public grievances that may arise out of day to day functioning of the Corporation. It is proposed that a grievance committee may be set up at the branch level comprising members of all tiers who should sit at regular intervals for monitoring of all public grievances and arrange their expeditious settlement. The Citizens Charter is also in use to provide.

2. In ICICI Prudential also there is a Grievance Redressal Mechanism consisting of four tiers. The maximum time allotted for each phase is Seven Days, i.e. according to the model all grievance should be settled within one month. The management of ICICI Prudential should take all measures so that the grievances of members of public do not creep up due to reasons like delay in issuance of policy, delay in payment of matured value to the insured, and delay in payment of surrender value etc. The grievance redressal mechanism needs to be further strengthened so that it can gain competitive advantage within the industry. ❒

Reference

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5. en.wikipedia.org/insurance
6. http://pgportal.gov.in/Default.aspx D Department of Administrative Reforms & Public Grievances epartment of Administrative Reforms & Public Grievances english.htmehttp://www.cbec.gov.in/cae1-english.htmhttp://www.cbec.gov.in/cae1-english.htmhttp://www.cbec.gov.in/cae1-english.htmhttp://www.cbec.gov.in/cae1-english.htmnglis

Hearty Congratulations to

Shri Ravi Khandelwal, A Law Graduate, MBA (Finance), Cost Accountant & Company Secretary for taking the charge of Director-Finance of ITI Ltd. on 5 th March, 2011. Prior to joining ITI Ltd., he was Executive Director of Container Corporation of India Ltd., Delhi. We wish Shri Khandelwal the very best in all his future endeavours.

Role of CMAs in the Indian Insurance Industry

P. K. Sinha*
Sanchari Sinha**

Over the past few years most of the sectors have been working towards only one objective i.e. survival against stiff competition. Worldwide, the financial services sector was one of the hardest hit due to economic upheaval. Insurance companies emerged stronger from the downturn by capitalizing on market opportunities to extend their market reach, enhancing their product range and taking market share away from their competitors.

In India, when the insurance sector was opened up for private participation, insurance penetration was quite low. Companies reaped the benefit of this under penetration and reported high growth rates. Times have changed now and the ride going forward is unlikely to be smooth. Insurance companies need to focus on their distribution efficiency, customer retention strategy, operational discipline, regulatory developments and opportunities for innovation to drive sustainable growth and profitability.

The insurance industry is facing an extraordinary confluence of adverse macroeconomic trends, along with unique regulatory challenges. As balance sheets weaken, revenue growth slows down and margins come under pressure, the urgency for CMAs to reduce costs, strengthen a company's risk management functions and stabilize their capital position increases. In addition, CMA's are under growing pressure from analysts and investors to implement changes that will improve the long term operational efficiency of their organization.

This article also brings about the need for efficiency and cost management to be undertaken by CMAs. It addresses how insurance companies can adjust their perspectives as they contemplate cost reduction. Focusing on cost reduction, in good times and bad, enables companies to strengthen their operating performance and generate the momentum to capitalize on new opportunities.

Introduction

In the early 1990s economic reforms paved the way for growth and opening up of the financial sector that led to a sustained period of economic growth. In 2000 the insurance industry was opened up for private players and has seen tremendous growth over the past decade with the entry of global insurance majors. India is fast emerging as one of the world's most dynamic insurance markets with significant untapped potential.

The insurance sector plays a critical role in a country's economic development. It acts as a mobilizer of savings, a financial intermediary, a promoter of investment activities, a stabilizer of financial markets and a risk manager.

The life insurance sector plays an important role in providing risk cover, investment and tax planning for individuals, the non-life insurance industry provides a risk cover for assets. Health insurance and pension systems are fundamental to protecting individuals against the hazards of life and India, as the second most populous nation in the world, offers significant potential for that type of cover. Further-more, fire and liability insurance are essential for corporations to safeguard infrastructure projects and investment risks. Private insurance systems comple-ment social security systems and add value by matching risk with price. Appropriate risk pricing is one of the most powerful tools for setting the right incentives for the allocation of resources, a feature which is the key to a fast developing country such as India.

By the nature of its business, insurance is closely related to savings and investments. Life insurance, funded pension systems, and, to a lesser extent, non-life insurance, will accumulate a significant amount of capital over time, which can be invested produc-tively in the economy. There are good reasons to expect that growth momentum can be sustained. In particular, there is significant untapped potential in various segments of the market. While the nation is heavily exposed to natural catastrophes, the insurance cover to mitigate the negative financial consequences of these adverse events is still underdeveloped. The same is true for both pension and health insurance, where insurers can play a critical role in bridging demand and supply gaps. The major changes in both national economic policies and insurance regulations will highlight the prospects of these segments going forward.

Insurance Sector : Market Overview

India's insurance sector has seen significant activity

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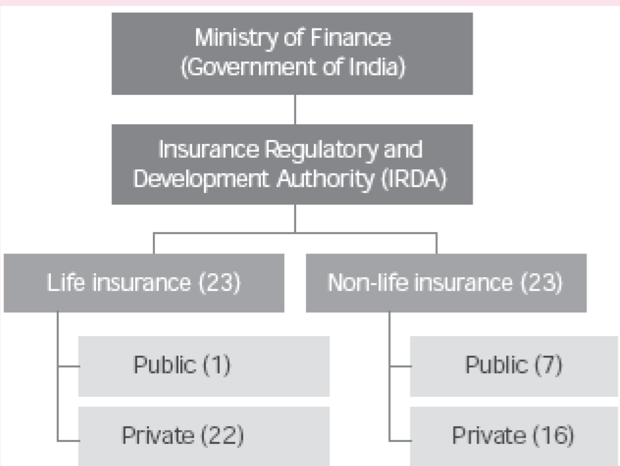
and growth during the last decade. Its potential for providing insurance services has encouraged many foreign players, as well as a large number of domestic players, to enter the market. Several reforms and policy measures, especially during the last decade, have provided a favorable environment for insurance companies to flourish in the country.

The insurance sector in India is primarily divided into life and non-life, apart from a very small segment comprising re-insurance. Both the life and non-life insurance segments, which were nationalized in the 1950s and 1960s, respectively, witnessed an across-the-board liberalization process in 2000. After the reforms, the number of players has increased from one in life insurance and four in non-life insurance in 2000 to 23 players in each segment in 2010 (including one re-insurer in the non-life segment).

A growing middle class segment, rising incomes, increasing awareness of insurance as well as investments and infrastructure spending has laid a strong foundation for insurance services in India.

Structure of the Insurance Industry



Source : IRDA

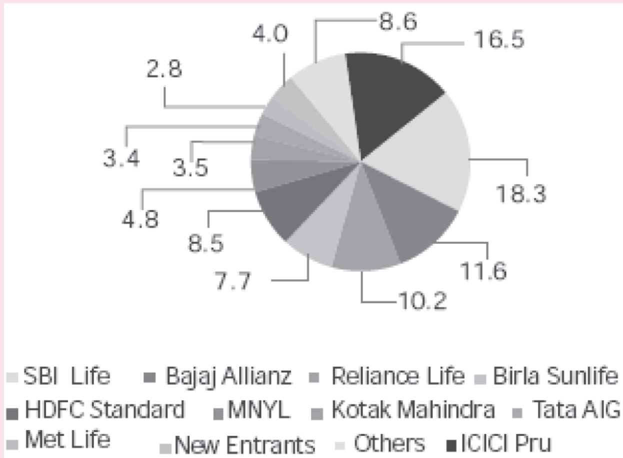
Life Insurance Sector

In 2010, there were 23 players in the sector (1 public and 22 private). Life Insurance Corporation of India (LIC) is the only public sector player, and held almost 65% of the market share in FY10.

A large number of private sector players have entered the market to cater to the need for highly customized products and prompt service in the country. Innovative products, aggressive marketing and effective distribution have enabled fledgling private insurance companies to sign up Indian customers more rapidly than expected. In the coming years, private sector players are expected to play a larger role than earlier in the growth of India's insurance sector.

However, in a fragmented industry, new players are eating away the market share of larger players. Existing small players have aggressive plans for network expansion as their foreign partners are keen to take advantage of the significant opportunities presented by the Indian life insurance market.

Market share amongst private players – FY10 (based on first year premiums) (in %)



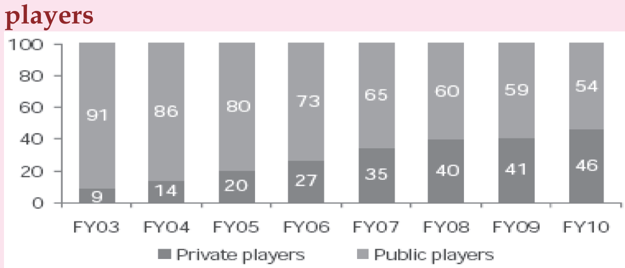
Source : *"IRDA Annual Report FY09, IRDA Journal," Insurance Regulatory and Development Authority*

ICICI Prudential, Bajaj Allianz and SBI Life hold almost 50% of the market in the private life insurance segment. To tap the opportunity, banks have also begun entering alliances with insurance companies to develop/underwrite insurance products rather than merely distribute them.

The regulator mandates that all insurance companies file their solvency position on a quarterly basis. It is expected that the stipulation will enable insurance companies to lay down their business plans and be in a position to meet their capital requirements in a timely manner. The life insurance market strongly emphasizes the move from the current solvency regime of keeping aside a 150% margin over insured liabilities to risk based capital.

Non-Life Insurance Sector

Market share (in %) of private non-life insurance players



Source : "IRDA Annual Report FY09, IRDA Journal," Insurance Regulatory and Development Authority

Private sector players have been focusing mainly on auto and health insurance since these two sectors have shown bright prospects and are expected to increase their share significantly in the coming years. With the sector poised for exponential growth, more players, including mono-line players, are likely to enter the market in the near future.

The last two years have seen the emergence of special institutions for health insurance such as Star and Apollo Munich.

In the last decade, it was observed that most players achieved growth by formulating aggressive growth strategies and capitalizing on their distribution networks to target the retail segment. It has also been clearly demonstrated that although players in the private and public sectors generally offer similar products in the non-life insurance segment, private sector players outscore their public sector counter-parts in the quality of service provided by them.

Way forward

The life insurance segment is a major attraction for private and foreign players. On the back of their experience of the last 10 years, most insurers are in the process of establishing their niche distribution channel. Most large players rely heavily on the Agency channel, primarily because of ease of scalability. Furthermore, the channel offers easy access to the micro insurance segment of society.

Most bank backed insurers have been building bancassurance as their primary channel of distribution to penetrate banks customer bases in the most cost effective manner. Other models of distribution including direct marketing and the internet have been in vogue, but none of them have achieved a scale that will enable them to become a mainstream channel.

The industry is going through an interesting phase in its lifecycle. The IRDA is finalizing its norms for IPOs and some companies are likely to come up with their IPOs this year. Companies are also likely to focus on consolidation to sustain them in this competitive environment.

After de-tarrification, the non-life insurance sector has witnessed a slowdown in premium growth. As witnessed in other countries, the industry is likely to grow at a stable rate during the next three or four years. The health and auto insurance sectors are both highly promising and are expected to increase their share significantly in coming years.

The reinsurance industry is likely to increase its pricing rates in the light of increasing claims and a fall in the value of investment income after the financial crisis. Opening up of the market as a whole, and the insurance sector in particular, has created a potential for Indian companies to secure additional funds to support other capital intensive sectors.

The market needs to ensure that domestic companies increase their own capacities and introduce strict guidelines as firsthand risk carriers. Insurance companies need to establish business relations with their reinsurers to prevent the worldwide re-insurance cycle from affecting their capacity and stability. Furthermore, foreign reinsurance companies such as Swiss Re plan to commence operations in India soon.

In future, insurance companies are likely to compete on a number of parameters, including price, products, underwriting and innovative sales methods. The abolition of market barriers will permit the entry of specialist suppliers, banks and foreign insurers. Poorly managed companies, with a weak capital base, are expected to either drop out of the market or become uncompetitive on premium rates and profits. For insurance companies, profit from innovation will be the key to success and technology will help private insurers to develop and customize products to suit individual needs.

Lessons from the downturn 2008-09

Asset Protection : Reassess risk models

Beware of silo effect

- Some large insurers tend to make decisions in silos, i.e. appropriate oversight or adequate transparency is not established ahead of many decisions that commit capital. This silo approach to decision making can result in situations where executives and the board are surprised by the size of certain positions and the aggregation of associated risks.

- To improve the decision-making process, focus is needed on :

1. Reassessing the risk management model
2. Identifying and monitoring emerging risks
3. Understanding the links between risk management and capital management.

Work on balancing act

- It is important for companies to review how they delegate authority to achieve an appropriate level of approval and adequate oversight.

- Companies need to define roles and responsibilities to identify, assess, monitor, report and manage risks in a way that promotes a risk management culture which is consistent with their strategic goals.

Monitor emerging risk

● There are two forms of emerging risks — new risks that warrant being monitored and existing risks that unexpectedly rise in importance. Insurers often do not have leading practices in place to identify and monitor such risks.

● CMAs need to work closely together to maintain processes, to identify and escalate emerging risks to the executive management and the Board.

● CMAs need stress testing or capital-at-risk metrics to monitor emerging risks. These metrics should represent companies' portfolios under various stress scenarios, report and explain these to the Board and executive management so that they can take appropriate actions.

● In an effective risk monitoring process, CMAs can explain the potential impact of certain scenarios on the company's current portfolio, provide an analysis and offer recommendations for action. Typical risk reports fall short of this analysis and the action recommended.

Reflect on risk

● Reflect on the risk profile when making decisions about strategy and operations. Often, decisions to allocate capital do not take risk into consideration in a disciplined, consistent and comprehensive manner. Although CMAs spend significant resources on developing economic capital models and processes, very few insurers utilize the outcome of these models to manage their statutory and GAAP capital, thereby making actual returns diverge from expected returns more than anticipated.

● Ensure ERM performance :

1. Data should be reliable and accessible to risk monitors.
2. Models should be independently reviewed regularly.
3. Reporting content should include measures, analyses and recommended action, allowing for timely decisions.
4. Risk management staff should have the skills to identify and monitor drivers of risk exposures.

● Support for improving the key elements of an ERM program should come from the CEO and driven by the board. Without this support, CMAs will not have the resources and power to enhance the decision making process.

Reshape business : Increase strength through market share

Growth from crisis

● As the economy improves and market volatility decreases, take advantage of market conditions by buying businesses others are shedding and by considering acquisitions at reduced prices. Take the opportunity to divest noncore businesses and re-invest in areas of expertise.

● Insurers that fared better in the downturn are emerging with strong balance sheets. This gives them access to sufficient capital to fund acquisitions or achieve growth organically with improved economies of scale and increased market shares at the expense of weakened competitors. In the short term, sellers need to raise capital and exit underperforming businesses — this is the impetus that has resulted in an increased number of insurance properties being up for sale.

● While business prospects and the underlying financial viability of an entity's core business are still the principal analysis factors for a potential acquisition, other factors have also become important. These factors, including liquidity analysis and focus on individual security holdings affect the sales price and determine whether transactions will actually take place.

● The financial crisis created acquisition opportunities, but also highlighted risks that require a clear understanding of investment valuation and comprehensive due diligence.

Seize a market share

● Seizing market share from weakened competitors is another way to grow.

● Consumers have switched from variable products to more traditional ones. In addition, the cost of guarantees embedded in variable products is a significant factor in depleting regulatory capital for life insurers.

● Many life insurance companies with guarantees suffered due to declining stock market prices, as their hedging strategies were imperfect. As a result, nearly all of the top variable product issuers have announced their product redesigns, price changes or other product rollbacks in an effort to rebalance their companies' risk appetite with consumer demand for increased benefits, lower fees and more conservative offerings.

● The near term challenge is to develop or redevelop products that will convince customers who are trying to reduce their debt margins and recover their net worth to use their savings to instead buy these new products.

● Consumers' increasing demands for tradeoffs between guarantees, fees and risks are driving insurance companies to design products with additional features. As a result, it seems that clients need more advice on the complex features of insurance products and appear less willing or able to make their own informed decisions. This has created an opportunity for insurers to meet these needs.

Sustain the future : Get ready for change

Discover risks and opportunities

● Market volatility and demographic shifts in core markets are creating a new wave of growth opportunities for the insurance industry.

● People are living longer and government safety nets are being reduced—thus opening the doors for life and health insurance companies to offer product solutions.

● Looking to the future, there are opportunities in the life and annuity business for the aging population, heightened awareness of longevity risk and for ensuring the health of senior citizens.

● Insurers are in a better position than other financial service providers to manage these risks — they can apply their years of experience in underwriting older age mortality.

Innovate in new products and markets

● Many companies—as a result of changing demographics—are looking to Latin America, the Middle East and Eastern Europe for growth. These emerging markets represent an opportunity for insurance companies to launch new products, expand their customer base and build an improved infrastructure.

● Success lies in choosing the right strategy and mode of market entry, along with right local partners, products and reliable distribution channels. In addition to potential regulatory constraints, there are also cultural, language and religious barriers to overcome.

● Progressive companies that were better positioned for the economic downturn regardless of their expansion strategies and business models are capitalizing on opportunities to leverage their capabilities and increase their market share.

● Future innovations will include :

1. Meeting customer needs and changing attitude to retirement income products.
2. Providing stronger value propositions and global capabilities.
3. Aligning strategies with the realities of a changing marketplace.

Evolve regulations

● Economic events are strategically driving the constructive evolution of global initiatives and regulatory guidance.

● Regulatory programs such as Solvency II are grounded in solid governance and supervisory principles and are gaining ground globally.

● Solvency II and IFRS Phase 2 provide global standards and a framework that will have a major impact on how companies manage their businesses in the future.

Role of CMAs in Insurance Companies

Macroeconomics of unprecedented times

Credit and Capital crisis

● Insurance companies, large and small, are seeing a dramatic decline in their capital levels, caused by investment portfolio devaluation and impairment charges, increased life and annuity product guarantee values and weakening sales and profits.

● Most companies have become much more risk averse and have curtailed their usual capital deployment operations.

Crisis of confidence

● Despite the Government's intervention and capital investment in the financial services and automotive sectors, there is still a worldwide crisis of confidence in capital markets. While generally better capitalized and more stable than companies in other sectors, insurance companies are straining to protect their assets and capital base, maintain their liquidity and mitigate their exposure to losses that may be developing.

● Insurers continue to be concerned about maintaining their ratings and retaining the confidence of their customers and distributors. These issues, combined with insurers' declining investment portfolios, are resulting in additional economic pressures.

● There is a consensus that companies will report increased asset write downs and weakening in their asset quality. There are likely to be a noticeable impact on solvency levels and reduction of dividends available to investors. If performance continues to deteriorate and company ratings are further lowered, as many industry experts expect, availability and cost of capital will be adversely affected, further constraining growth and competitiveness.

● Of equal concern, companies are reporting reduced revenue from fee based services and smaller increases in their premium rates. Their expense ratios are expected to increase faster than their premium growth, with expenses at some big insurers increasing faster than the industry average, even as the industry average moves higher.

● Historically, these trends have been short term and offset by strong investment returns. However, in a climate of weakened returns, companies are seeing the sharp impact of increasing expense ratios. Some companies have already announced layoffs, restructuring initiatives, write-downs and asset sales, and more are likely to do so in the current economic climate.

● With companies now being in weakened positions with their stock performance declining, the insurance industry is bracing itself for a period of consolidation and low premium growth. Organizations that do not act in the face of these challenges will find that their more nimble competitors have achieved a strategic advantage. However, as markets recover, a new competitive landscape is expected to emerge.

Failure of cost reduction programs

● All companies, including insurance companies, launched cost cutting programs in bad times, and less frequently in good times. The highs and lows of these efforts are also familiar — their initial high hopes are sometimes matched by initial solid payback. Thereafter companies encounter the inevitability of low long term results and a decreasing focus on both outright cost cutting and more subtle efficiency improvement. This is particularly true when an economy improves and customers resume their spending.

● There is no single or simple answer to why so many cost reduction efforts fail. Some cost reduction programs fail immediately. Many produce good results initially, but these results rapidly decline thereafter. There is never a single root cause, but multiple points of failure, which include the following:

● People assigned to an initiative lack the requisite skills to execute a cost reduction program or are diverted too quickly into other assignments. When insurers' business units or functions are required to implement cost reduction measures, line managers are typically responsible for cutting down in their own operations. At the same time, they are still committed to established operational goals and/or are further distracted by and divert their attention to other urgent operational issues.

● Costs and the time required to implement a program are frequently underestimated. Many insurers seeking to reduce costs often neglect to account for all the aspects of investment that may be required to achieve savings. For example, new technology and human capital—as well as unexpected capital expenditure needed for conversion and to achieve improvement in processes—are often overlooked when consolidating systems and organizational areas such as billing, finance, claims and customer service. In addition, while immediate reductions are easily achievable by reducing headcount, discretionary travel and supplies, insurers often neglect to plan and carry out analyses required to determine when savings will be achieved, as well as resultant costs and the revenue impact. These include cash outlays for severance, hiring of temporary workers, cancellation penalties and delays in product development and other deliverables.

● Implementation delays reduce and/or slow down the run rate of savings realized. After the initial flurry of cost reduction measures is accomplished, implementation of long term reductions is allowed to drift in the absence of precise and specific timetables for execution and completion.

● Savings are poorly calculated or double counted. Even in smaller, less complex operations, but almost invariably in larger, multi-site, multi-product operations, cost reductions are difficult to calculate and schedule, and it is surprisingly easy to double count costs across back office and customer facing operations.

● Inappropriate cutting off of capabilities often adds back costs. Most organizations learn that cost reduction requires both science and art. Adding back capability or capacity that has been precipitously and/or overzealously cut almost always comes at a greater cost and greater management effort than accomplishing the originally planned reductions.

● Companies often neglect to put into place procedures and systems to help them track the continuing impact of cost reduction initiatives over extended periods. This is important in understanding to what extent cost reduction has affected operational efficiency and in ensuring that the carrier has the requisite transparency needed to obtain and track the quarterly timing of these savings.

● During the course of cost reduction programs, being mindful of risks and controls can ensure continued and efficient risk management. Controls that were performed manually should be automated to further reduce costs or should continue to be performed as they were previously so that an organization does not incur unnecessary new risks as it implements cost reduction measures. Enterprise cost reduction is universally acknowledged as a critical tool for all companies. The countervailing belief is that cost reduction can be beneficial for all companies all of the time, regardless of economic or market cycles.

Critical elements for understanding sustainable cost reduction

● When companies look at cost reduction as a series of discrete actions (often performed simultaneously) to reduce cash outlays, there are obvious places to make cuts and achieve significant savings.

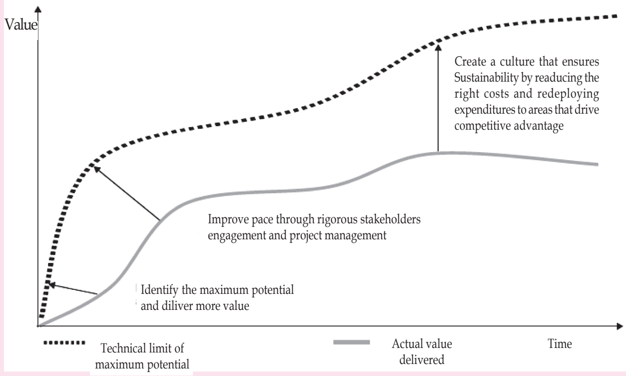
● If the market environment does not improve or if some other factors adversely impact performance such as late product introduction, sudden price competition, or a natural or manmade catastrophic event, a second or even third round of cost cutting can also improve results.

● More elusive and, ultimately, more important, is sustainable cost reduction. To accomplish long term cost reduction, companies need to look at their cost reduction needs and efforts through the lens of value, pace and culture. These are the critical elements of cost reduction.

In the context of sustainable cost reduction :

– *Value* is identifying and demonstrably wringing costs out of operations.
– *Pace* is accomplishing targeted savings at a controlled, planned and ideally predictable momentum.
– *Culture* is building into an organization the discipline to drive out right costs and approach daily work with permanent cost-consciousness.

Critical elements of cost reduction



Source : Insurance Industry, Retrospection and Opportunities, June 2010, Ernst & Young and ICC

Primary drivers of cost reduction

● The requirement for cost reduction initiatives is driven by a number of sources including operational factors such as general expense deterioration over time, the general market trend of increased competition and a legacy of merger and acquisition (M&A) activity where operational synergies have not been fully realized.

● Other technical factors can create an enhanced demand for these initiatives i.e. increased cost of capital or general liquidity issues often result in organizations focusing more sharply on all areas of cash outflow from the business.

● Given the high level of M&A activity within the insurance industry, both in the past and most likely in the future, it is worth considering its impact on underlying costs.

● Over the years, many insurers operating models have evolved to become more complex than necessary or have been planned on the basis of balance sheet driven deals. When companies are brought together without careful integration of the operations and technology of the acquired organization, it is often found that the newly formed organization is challenged by supporting multiple business systems and processes with overlapping and redundant organizational structures. Consequently, when market turmoil or softening occurs, inefficiency and high expense ratios are exposed within the company.

● During the acquisition process, many focus on strategic and financial integration. While adding customers, product lines and geography is a critical consideration during M&As, operational and technology redundancies continue long after the acquisition has been completed. When this is allowed to occur, an M&A growth strategy can become more about acquiring than merging. Some cost reduction programs in the insurance industry, therefore, resemble the residual phase of an M&A transaction because they focus on reducing costs by consolidating organizational structures, business processes, third party spend and infrastructure.

● Many insurers have been seen with a complex array of multiple and redundant operations and technology platforms. In some cases, insurers have more than 15 billing systems, 25 financial systems, and multiple claims and policy administration environ-ments. This serves to increase not only the complexity of their operating environment, but also adds to their cost structure. Each of these system and operating environments have to be maintained, controlled, supported and managed. The longer this situation persists unconsolidated, the longer are insurers subject to added pressure in their operational cost structures.

● Many insurance IT organizations are spending most of their IT budgets just on maintaining their current systems.

● While there is much academic research and conventional management wisdom about how CMAs can most effectively implement cost reduction programs, more often than not, functional and cross—functional teams can work themselves into a gridlock by availing of too many opportunities and approaches to reduce costs. A formal, structured approach is therefore required to achieve a comprehensive outlook that will attain sustainable cost reductions, resulting in enhanced operational efficiency.

Organizational streamlining

● An obvious driver of cost reduction used by CMAs is reducing headcount by redesigning and combining functions and streamlining the span of control.

● A greater challenge is improving the utilization and productivity of full time positions in terms of how they contribute to an organization's strategic goals.

● Making employees work harder is not the same as ensuring that what they do is a strategic contribution.

● Offshoring or alternative sourcing of back office processes and operations commonly considered as "commodity" can achieve effective cost reduction. However, CMAs need to conduct a risk reward analysis and then carefully track benefits to ensure that costs have been truly reduced rather than just moved around and then allowed to creep back.

Process optimization

● Reduction of process based costs is particularly important for insurance companies and other financial services organizations whose transactions and customer service are critical.

● The challenge for CMAs is to redesign processes —both back office (accounts payable, accounts receivable, billing, accounting and payroll) and customer facing ones (distribution, claims and customer service) to reduce cost-per-transaction and maintain or improve quality. For example, implementing shared service centers to centralize common processes such as first notice of loss, billing, collections and finance can generate substantial rewards for carriers. Additionally, it is important to reinforce and align capital spending so that new project approvals enable a stronger focus on capital expenditure that is consistent with an insurer's strategy.

Rationalization of third party spending

● CMAs can achieve substantial cost reductions in companies simply by curtailing discretionary spending. However, more strategic cost reduction is attained by improving demand management, alternative sourcing, as well as by implementing more disciplined contract compliance and tracking systems, supplier metrics and internal controls across all business unit entities.

● Negotiation and renegotiation of contracts that enable immediate cost reduction and minimize future cost increases are of vital importance in a cost reduction program.

Methodology for sustainable cost reduction

CMAs will need to identify a cost reduction approach that is best for the organization — a discrete, short term, cost cutting measure designed to align the size of the organization's business with the current environment, or a more comprehensive approach to integrate and transform their operations and reduce costs. While these actions are not mutually exclusive, it is critical to gauge how much change the organization is capable of absorbing. This begins with a structured approach, which increases for the possibility of achieving sustained cost reduction.

A successful cost reduction program is based on the integrated implementation of the following critical components:

Vision

● A vision that is aligned with a company's corporate strategy and backed by its leadership enables identification of appropriate cost reduction opportunities and measures.

● Organizational resistance to large scale cost reduction programs can be formidable because cost reduction is a powerful form of change.

● Companies are successful only when their leadership puts in place a clear vision for success, talks about cost reduction and expense ratios as a vital aspect of change and demonstrably supports the effort.

Hypothesis

● A hypothesis–driven approach to cost reduction relies on evidence based targeting of areas with the highest benefit potential.

● CMAs are most successful at identifying opportunities for improvement when they aggressively challenge the status quo and utilize external benchmarking to encourage new thinking and break away from previous paradigms. As they look at potential cost reduction opportunities, they need to scan, validate, quantify and prioritize the opportunities available. This systematic approach will help them to focus the company's resources on achieving the highest returns without risk to their critical business functions and processes.

Portfolio approach

● Putting in place a more holistic portfolio of initiatives rather than piecemeal cost cutting initiatives is the basis of an integrated roadmap for change.

● A portfolio approach helps companies to manage opportunities and initiatives throughout their project lifecycle.

● A successful cost reduction program is diversified. It consists of a portfolio of near term quick win opportunities and longer term transformational programs. A balanced portfolio may help to create a self-funding cost reduction program that uses early cash savings to fund longer term initiatives, which will enable higher returns in terms of even higher cash savings as well as improved productivity and quality.

Program and change management

● Cost reduction programs are usually executed during stressful times and require a significant effort beyond the "day jobs" of managers and other employees.

● Effective program management is essential to keep parallel projects on track and to manage the linkages and interdependencies between projects.

● At the same time, insurers need to keep in mind that sustainable cost reduction requires change management.

● An empowered Program Management Office (PMO), fully supported by program sponsors and steering committees, is essential to ensure that identified savings are realized in the business and change management activities are delivered. This critical function is required throughout the program (and beyond if required) to ensure that the benefits of the savings achieved are sustained.

Tracking and analytics

● CMAs need a robust process to track the progress and benefits of specific cost reduction activities, along with analytics, which enables them to quantify the impact of one time and ongoing efforts. As they work their way through cost reduction projects, they need to capture and monitor the timeliness of the benefits achieved and the cost savings.

● Tracking must be integrated within existing processes to drive accountability and realization over the long term.

● Accurate benefit tracking and reliable analytics are essential for deriving cost reduction benefits, enforcing accountability and determining whether financial value has been ultimately achieved.

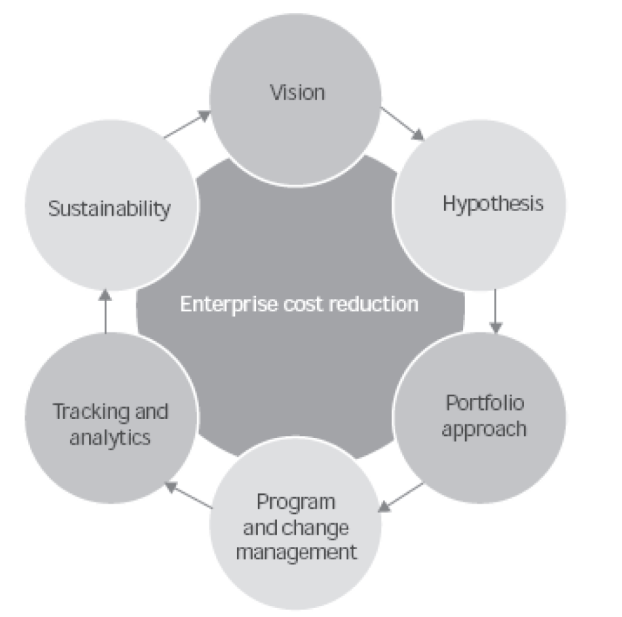
Sustainability

● Cost reduction programs that are implemented simply as one time initiatives will need to be repeated because their benefits will be short term. The end game in cost reduction is to evolve or transform a cost reduction program into a sustainable, ongoing attribute of a function, department or team.

Achieving sustainability requires

1. Governance and a control structure that embeds cost reduction into formal functional and business unit goals, operations plans and budgets.
2. Alignment of performance management and incentive systems with cost reduction goals.
3. Alignment of cost reduction with strategy to ensure that strategic initiatives comprising acquisitions, joint ventures and new products include cost reduction goals.
4. Transfer of knowledge to embed a cost reduction culture into a company as team leaders change – with the best practices learned in one cost reduction program being captured and made available to future teams.

Six critical components of sustainable cost reduction



Source : Insurance Industry, Retrospection & Opportunities, June 2010, Ernst & Young and ICC

● CMAs that suggest companies to adhere to these six components of cost reduction will be more likely to achieve transformational change, which results in permanent and sustainable cost reduction within the company.

● Organizations with cost reduction built into their organization make choices and decisions reflecting their inherent belief that cost reduction is a way of thinking and acting and not a discrete and unpleasant exercise.

Conclusion

The insurance industry has learned many lessons from the financial market crisis. Leading insurers have been responding to the pressures of an evolving economic landscape. They are not only applying strategies to manage and protect their businesses, but are focusing on a growth agenda that will reshape their organizations and guide them in future.

Some of the actions taken by CMAs to accelerate change include :

● Focus on upgrading capital management and embedding economic capital measurement into business models by implementing sound risk management practice through effective risk and corporate governance & adequate monitoring of risk expenses and related tolerances.

● Improve performance by aligning operating models with the current environment and strategic objectives of the business by divesting noncore or nonperforming businesses, redesigning and enhancing products and considering M&A activity as means of gaining market share.

● Take advantage of demographic shifts, regulatory changes and market conditions to focus on expansion and growth.

Sustainable cost reduction, like other areas of business success, is not about the highs and lows of economic cycles and company performance. It is about consistency of vision, purpose, focus, execution, governance, controls and culture. These are the elements of an organization's DNA or character and, therefore, transcend economic cycles, business issues and individuals.

Sustaining cost reduction requires moving beyond cost cutting and into the more challenging territory of thinking about how CMAs use the financial and human capital of an organization and how well resources are aligned to serve customers and generate appropriate returns for investors. These are important factors, regardless of how big an organization is or what is the current market and economic environment.

Sustainable cost reduction must occur on two tracks. One is to reduce costs sooner rather than later to improve results within a specific time period. The other track, which is, ultimately, more critical for a company's long term success in satisfying its customers and investors, is to learn how to sustain cost reduction over time through its management decision making and the organization's culture. Companies need to sharpen their skills at both.

The insurance industry has learned many lessons from the crisis and we are now entering a new and changing world. CMAs who show ingenuity, have the courage to take tough decisions, and demonstrate their foresight to apply lessons from change will be able to guide their companies to success in the insurance sector. These companies will be the leaders—who establish the foundation upon which our new global economy will rise. ❐

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Statutory Usury : Interest Over-Kill in Indirect Taxation—Tax Payer's Invoice as Potential Promissory Note to the Revenue

P. Ravindran*

"Render unto God what is God's and unto Caesar what is Caesar's"—so goes the Biblical saying. In the modern era, it is by no means an easy task to determine what belongs to the Caesar, that is the State and by necessary implication the tax department. In the name of reform and liberalization, the tax departments have taken to back seat driving of the tax payer by telling the tax payers themselves to assess their tax liability. The tax big brother will enter the scene with his opinion on the self assessment by the tax-payer much later at his own convenience. It has become a fashion to introduce self assessment and stop with that. Since it is the tax-payer who bears the burden of having to become a kind of tax expert in de-coding the statute law and going over the proliferating tax case law, he expects legitimately that the law should be simple, easy to understand and the tax procedures convenient. In reality, however, the tax laws have become more and more complex at a time when in the name of self assessment the tax-payers have been directed to shoulder increased responsibilities of understanding and estimating their tax liability. If for any reason the tax-payer has had to pay the tax belatedly or later when the tax man comes calling for an audit and gloriously flaunts an under assessed tax before the tax-payer the later is faced with an unpleasant Hobson's choice. He has to shell out extra money as interest on the tax assessed by the tax men to be under-estimated or short-paid etc. In this article let us examine the nature of interest in the indirect taxation and analyze the justification for its steep rates and also whether justice for the tax-payer has been compromised in the whole unedifying game.

The Nature and Jurisprudence of Tax Interest

The sole acceptable reason for levying and collecting interest from the tax-payers for any belated payment of tax consists in the argument that having received the tax payment belatedly, i.e. beyond the due date of payment, the Government has lost potential value for money. Therefore, the Government has to be compensated for the pecuniary loss inherent in the belated payment of tax. There could be other reasons as well, though these do not seem, in our country, to have been canvassed or articulated either by the tax administrations or supported by the higher judiciary. In Europe, the tax administrations do not justify tax interest on the ground of compensation for the loss of value for tax money, but on the basis that such interest burden would enable tax payers to calculate and pay their taxes right in the first instance and that it is not fair to excuse belated tax payment by some tax payers when other tax payers who paid on time would feel thereby short-changed by the State. Here the paradigm of interest derives its claim to legitimacy on the ground that the tax liability was clear and known but was not discharged by the tax-payer. As a logical extension of this defining idiom, the legitimacy of tax interest will be seriously undermined when the tax-payer could not reasonably be said to have been clearly aware of his tax liability or when the tax liability was more opaque than clear-cut. Unfortunately, in our country in the major divisions of indirect taxation comprising the Central Excise Duty, Service Tax, Customs Duty and the State Value Added Taxes, there has been no attempt to delineate the boundaries of interest-liable transactions and others outside of a carefully crafted dividing line. In other words, the tax laws tar every transaction with the same brutal brush. In an act of unjustifiable and unsolicited equality all cases of belated payment of tax are punished with the same burden of interest. The tax laws do not look into the circumstances that made such interest liability so contingent. With the introduction of Input Tax Credit System in almost all the indirect taxes, the temptation on the part of the Revenue to extend the interest empire beyond the tax ***simpliciter*** has been all too evident. The CENVAT Credit Rules for example penalize even an inadvertent availment of CENVAT Credit with steep interest liability even though the tax-payer would have surrendered the credit by debiting the same in his account and without taking any advantage thereby, causing no loss to the exchequer.

The Foundation of the Concept of Interest Lies in its Comensatory Justification

The Hon'ble Supreme Court of India has had to clearly draw attention to the fundamental feature of interest in taxation. In ***Pratibha Processors vs. Union***

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of India – AIR 1997 SC 138, the Judges observed as follows :

"In fiscal statutes, the import of the words 'tax', 'interest', 'penalty' etc. are well known. They are different concepts. Tax is the amount payable as a result of the charging section. It is a compulsory exaction of money by a public authority for public purposes, the payment of which is enforced by law. Penalty is ordinarily levied on an assessee for some contumacious conduct or a deliberate violation of the provisions of the particular statute. Interest is compensatory in character and is imposed on an assessee who has withheld payment of any tax as and when it is due and payable. The levy of interest is geared to actual amount of tax withheld and the extent of delay in paying the tax on due date. Essentially, it is compensatory and different from penalty – which is penal in character".

The salutary proposition of the Supreme Court has been seen and echoed in various judgments outlining the basic character of interest in any situation. The cases are ***Central Provinces Manganese Ore Co. Ltd. vs. CIT – 1986 (3) SCC 461, Central Bank of India vs. Ravindra – AIR 2001 SC 3095*** where the Supreme Court observed again:

"Interest is compensation paid by borrower to the lender for deprivation of the use of his money. A person deprived of the use of money to which he is legitimately entitled has a right to be compensated for the deprivation, call it by any name. – Liability to pay interest is founded on the doctrine of compensation, but penal interest is an extraordinary liability incurred by a debtor on account of his being a wrong-doer".

From the above narration of the basic jurisprudence of the interest in taxation, it will become abundantly clear that interest is chargeable and justifiable only as a matter of compensation and that it should not be collected in a penal manner and the interest charged cannot partake of the character of plain **usury** which is a moral and religious offense as well as prohibited by every state in India. For the wrong-doings of the tax payers separate penalties are levied and enforced. The Interest in tax law can only be compensatory in character. However, it is a matter of deep concern and regret among the tax-payers in this country that the tax departments both at the Centre and at the States have been transgressing the jurisprudential limitations on the charge of tax interest by increasing the scope of transactions made liable to interest as well as by increasing the rate of taxation beyond the measure of justifiable compensation.

The Usurious Rates of Tax Interest In India

The Union Budget for 2011-12 has increased the interest rate from an already high rate of 13% p.a. to an unconscionable 18% p.a. w.e.f. 1st of April, 2011. The steep hike covers Customs Duties, Central Excise Duty and Service Tax. Already many States in India charge not less than 15% p.a. as the rate of interest payable by the tax-payers. One does not have to be an economist or a banker to see that the interest rates in taxation have gone far too beyond the level of compensation for the Government. The interest rates at such percentages as prevailing now are surely penal in character. Imposing interest as penalty cannot be a permitted privilege of the Revenue when separate penalties are in place in the tax law to punish any tax malfeasance.

An international comparison with advanced GST jurisdictions abroad would show that our tax interest rates are way beyond the limit needed to compensate the government for the loss of value for its tax money. In England, the interest is seen to be pegged to the Bank of England base rate and calculated on a formula that does not exceed 3.5% to 4% for most cases. In Canada whose GST model we may largely emulate in the Indian GST to come, the tax interest is Base Rate plus 4%, where the base rate is linked to the interest on a short term 90-day Treasury bill. The VAT laws in these jurisdictions provide also for no–interest on certain happenings or waiver on the ground of exceptional difficulties faced by the tax players leading to belated payment of tax assessed. Thus, in the comparable jurisdictions abroad, the tax interest is in the range of 3-8% per annum. Going by this methodology, the tax interest rates in India would have to be well below the rate of 13% per annum that prevailed before the Budget 2011. The rate of 13% stood for a long while against the tax payers even when the interest rates in the larger economy were diving south. There is no moral or ethical or jurisprudential justification for the interest rate of 18% per annum that has been unleashed on the hapless tax payers now.

Extension of Tax Interest to novel areas

The Revenue has already made belated payment of output tax liable to interest and it was extended to cover also a delay in remitting tax already collected from the buyers for any reason. The Cenvat credit Rules have widened the ambit of tax interest to cenvat credit taken or utilized wrongly. Thus, even a mere, unintended "wrong' booking of a credit entry in the tax payer's account will invite tax interest at a jaw-dropping 18 % per annum. This is bound to have a sobering effect on the tax payers in claiming cenvat credit which is already mired in confusion and litigation. Perhaps, the Revenue seeks to ensure that cenvat credit is taken in effect only on the say-so of the department and not on an independent and proper assessment of the law of tax credit by the tax payers. In this way and to this extent, the tax interest becomes a kind of tax not voted in the parliament as such.

Further extensions of the applicability of the tax interest are seen in cases of provisional assessment where the final price is delayed by the buyers of the goods and services for no fault of the tax paying sellers. This happens frequently in the case of public sector behemoths who usually take time to finalize the contract and the initial price. This may also happen in normal sale and purchase situations, when after some negotiation the buyer agrees to compensate the seller for unanticipated rise in input costs for the seller. The price increases may be granted also as a commercial act of grace. In such situations, the tax paying sellers are required by the Rules in central excise and service tax arenas to pay tax interest from the date of original sale and clearance of the goods or the service provided and not from the date of price finalization.

Still, more extensions of the tax interest can be seen in the cenvat credit rules, especially under the provisions of Rule 6.

Other Interesting issues in the area of Tax Interest

The tax systems invariably require the distinct and separate payment of the tax interest by adjusting the cash account and the tax payers are not permitted to utilize the input tax credit account. Especially, in the area of state VAT where the rules provide for the cash refund of excess input tax credit balance at the end of the financial year, the cash payment of tax interest is a needless infliction. The cenvat credit rules provide for cash refund of excess credit only in the case of exports. But, the higher judiciary has ruled in certain cases that the excess cenvat credit is liable to be refunded in 'terminal situations' for the assessees. In such situations, use of cenvat credit to pay the tax interest should be contemplated by the Revenue. At least, in cases where the buyers have taken input tax credit, interest on belated payment should be waived, since in such cases, the tax paid belatedly also resulted in the belated availment of the tax credit at the other end, to the detriment of the buyer and to the advantage of the Revenue.

There is also the problem of recovery of tax interest. The question is whether due process such as notice and hearing are necessary to enforce the payment of tax interest. The tax administration and several tribunal benches have taken the view that such a demand is not essential, as the tax interest is "automatic". However, the tax rules in the central excise and service tax fields do not lend themselves to such a stance. The rules only contemplate the 'liability to pay interest'. Only in the Customs Act there has been an interesting and noteworthy proposition in the enforcement of tax interest. Section 28 of the Act requires the authorities to issue a demand for the recovery of tax interest where such interest is not paid or short-paid, within time limit. Thus, there is a time limit built in the Customs law for the demand and recovery of the tax interest. Such a salutary provision is missing in the other indirect tax laws which is a significant omission. The Indirect tax administration has so far not discussed this dichotomy between the Customs law and the Central Excise and Service tax areas.

Conclusion

The discussion that went as above would show that there has not been any analytical thinking behind the move to impose tax interest and to raise its rates periodically without heed to the prevailing circumstances – both as to the state of play in the tax world and in the larger economy. Since the Revenue is committed to bringing in the all-new GST by next year, it is incumbent on it to rein in such usurious interest rates and tie them into some basic concepts which should be debated by all the stake-holders. The tax administration ought to tell us whether the tax interest is a penalty or otherwise. A well-thought out policy behind the tax interest is due and urgently called for. A suite of transactions and exceptional circumstances should be notified for determining waiver of tax interest, based on clear evidence. The present tax interest regime is too much of an opaque, double penalty system without an element of justice in it. An unchecked and high tax interest would force the tax payers into the same situation as regards their tax invoices as if they entered into a promissory note with the government for a loan they never took. After all, the State disavows and disallows loan sharks and private usury living off interest which is nothing but sheer robbery by another name. By the same high principles, the tax administration should usher in an equitable tax interest model which is fair to all concerned and which is not viewed as a legalized usury by the State. ❐

Corporate (Re) Structuring

CMA V. Gopalan*

Globalisation has major influence on corporate structure decisions. The world has been increasingly witnessing companies facing challenges resulting in changes in their manner and conduct of business. While some corporates have been growing and expanding through Joint Ventures, Strategic Alliances, Mergers and Acquisitions (both inbound and outbound), many others have been divesting their business units and retrenching labour. The exercise, either way, is to become more agile, resilient and to meet the demands from environment—both internal and external.

Corporate Restructuring—in whatever manner—is becoming crucial and relevant to strive, to be more adaptive and resilient in the face of social, financial, competitive and economic compulsions. Many companies recognize the need to restructure too late—and suffer in the process. The general framework for corporate restructuring and reorganisation consists of (a) Reorganisation of assets (M&As, Subsidiaries, SPVs, Sell-offs, Divestitures), (b) Establishing new relationships (Spin-offs, Split-offs, Split-ups, Equity carve-outs), (c) Financial recapitalizations, Financial reorganization, Liquidation, (d) Others (Joint ventures, LLPs, LBOs, MBOs, Share repurchase programs), etc.

'Corporate restructuring or reorganisation' is designed to accomplish specific goals and strategies such as: Profitability & ROI improvement; higher economies of scale; optimum break-even point; reducing financial and operational risks; and continuous improvement in shareholder value.

Corporate restructuring is often divided into two parts :

- Financial restructuring; and
- Operational restructuring.

'Financial restructuring' aims at improvements in the capital structure of the firm such as substituting low cost debt to minimise the average cost of capital. It can even be 'debt rescheduling' or 'equity swaps' depending on the cost of each such component of capital employed in the business, comparative cost of capital of similar firms in the industry and its own financial situation at any given point of time. It involves restructuring the assets and liabilities, debt/equity mix, ideal allocation of funds to balance short term and long term requirements etc. for achieving efficiency, growth and value to shareholders, creditors and all other stakeholders.

'Operational restructuring' aims at improving and constantly increasing the operational and economic viability of the underlying business model. It includes 'mergers' 'hive off' of divisions or product lines, closing down unprofitable facilities etc.

Financial and operational restructuring is a continuous process and may mean refinancing at every level of capital structure such as: Raising secured borrowings against assets such as fixed assets, inventory, receivables etc. Raising equity against private placements; Raising venture funding; Strategic partnering; Merger & Acquisitions; etc.,

Normally, restructuring is done pro-actively by the Management or the Board of Directors. In case of share buybacks and leveraged recapitalizations the existing structure remains. There are also cases of hostile takeover. Key for restructuring is to benchmark the company's operations and capital structure against industry competitors.

Strategic reorganizations should be designed to maximize the company's value over the long-term by maximizing the future cash flows and/or by reducing the company's cost of capital.

Value Creation is a continuous process by way of: Constantly measuring the cost of debt, cost of equity, weighted-average cost of capital and assessing the optimal capital structure; Adjusting the costs of debt and equity for leverage; Ratings and debt pricing; Corporate taxation and capital structure; and Profitability and process improvements for achieving operational efficiency.

Group Reorganisation

A group re-organisation is a form of corporate re-organisation. It involves transfer of assets, say, the shares from one Group Company to another company under the same management. The reasons may include disposal of a division by suitably altering its capital structure, to integrate an acquired business within an existing group structure, to benefit from operational or tax efficiency etc.

De-merger

De-merger is adopted as a business strategy to separate businesses which do not comfortably merge with each other. The two businesses may have

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different strategies, operational or regulatory needs which are difficult to fulfill while they are still linked. They may even be competing with each other for business. A de-merger is a form of re-organisation where business activities owned by one company or group are separated out into several companies or groups. Each business will usually have the same ultimate ownership as before even after the de-merger but likely to change over time. A de-merger may be a step towards sale to a third party.

Reduction of Capital

A company can reduce its share capital if its creditors are not adversely affected by following certain set procedures. One reason for reducing capital is to return surplus cash to shareholders, if the company cannot justify investing that in its business. This method is adopted by companies trading profitably but has made significant losses historically which prevent them from paying out dividends to shareholders as capital reduction can eliminate the accumulated losses. A share buyback is a more suitable option if the purpose is to return cash to the shareholders.

Buzzell & Gale, based on the work of Schoffler, based on data related to the companies included in their 'Profit Impact of Market Strategies' database, suggest that four strategic factors are primarily responsible for long-term increases in ROI. They are: Investment levels (a) assets/employees; (b) assets/sales; and (c) assets compared to competitors; Productivity (a) sales/employee; (b) Value added/employee; and (c) overhead/sales; Relative Product quality (a) quality measures; and (b) technology and innovation; and Relative market share (a) defined business unit; (b) market; (c) competitors; and (d) market share.

Companies which hope to accomplish meaningful long-term benefits from restructuring must do so by pursuing strategies which maximize ROI. In addition, since leverage also affects ROI, efforts should be continually pursued to minimize the company's overall cost of capital. Effective asset and liability restructurings should conceptually increase the NPV. Poorly conceived restructurings often deplete net asset values and weaken a company's financial position.

'Effectiveness of Restructuring'

A survey by Wyatt Co. of 1,005 large U.S. companies (i.e., companies employing more than four million people) clearly brings out various aspects on the 'Effectiveness of Restructuring' such as reduce expenses, increase profits, improve cash flow, increase productivity, increase competitive advantage, increase customer satisfaction, increase market share, adopt new technology, thwart takeovers etc.

Corporate restructuring is not just a one-time exercise. It is an ongoing exercise for many of the top companies world over. It is false to assume that only sick companies or companies facing financial and liquidity problems have to restructure and, therefore, wrong to conclude that it is not meant for healthy companies. Statistics show that the healthy companies become healthier and stronger by timely and proper methods of restructuring. There is also no fixed agenda to follow for choosing the right option. It varies from case to case and the prevailing market conditions.

In effect, corporates have to understand that 'either they keep restructuring on continuous basis to effectively face the competitive environment or shut down their operations'. ❐

Important Announcement

The Ministry of Corporate Affairs is mandating filing of Profit & Loss Account and Balance Sheet in XBRL mode for a select class of companies from the filing due for FY 2010-11. Details of the circular are available in the website of the Ministry. For further information, kindly click on the link : http://www.mca.gov.in/Ministry/pdf/xbrl 31mar2011.pdf.

Sustainable Development and its reporting—A social commitment and changing role of business

Parimal Ray*

Sustainability

Meaning of the term "sustainability" is the ability to maintain something over time. However, till early 1990s entrepreneurs or business managers used loosely the term sustainability to indicate entity's potential to survive (to sustain) and generating profit on continual basis. Business executives were more concerned about taking steps for ensuring the profitability of the business among other objective fulfilling efforts as the most important tool for sustaining or surviving of the entity in the highly competitive market. However, slowly but steadily over the decades, through development of social science and other subjects like environmental awareness, managers of business entities also started appreciating their role to make the corporate houses they manage as a good corporate citizen. The idea or awareness of becoming a good corporate citizen brought the drastic change of the idea and mindset of the business managers about Sustainability or sustainable development of business in today's society.

Sustainable development

The concept of Sustainable development of business has undergone a great since the early 1990s. Until 1990s organizations For Profit could not conceive the horizon of social responsibility beyond their current or present situation. Since 1990s, not only the economic use of the resources by the business community for its profitability and environmental issues became pertinent to the business managers, but also its impact and corrective measures on the input resources for preserving maximum resources for future generation also got impetus in the greater interest of the society for future generations. This phrase sustainable development is made popularized in 1992 Earth Summit in Rio de Janeiro even as the definition of the term remained vague. The many definitions and frameworks that now exist share a number of basic principles including: ? Overall awareness of the multi-dimensional impacts of any decision or its making process (broadly economic, environmental, social); ? The concern for the well-being of future generations; ? The necessity for balance among the different dimensions across sectors, themes (like climate change, community cohesion etc) and scale (local, regional, national or even international).

In recent times, we in industry, constructing in particular, are gradually becoming more and more aware and cautious of the role of business towards improving the health & safety condition, reducing environmental pollution levels and preserving maximum possible resources for future generation by greater efficiency at various operation levels. Not only environmental protection and profit maximization, the idea about reserving or conserving natural resources for future generation started gaining importance among the mind of thinkers and business leaders particularly since this period. Presently Sustainability and sustainable development are increasingly being discussed in the community all over the world.

But what is the something which needs to be maintained as mentioned in the first line of this article? When we talk about sustainability, are we mentioning about sustaining the environment OR we mean the society OR the economy OR the firm or organization we work for OR this something else OR some combination of these? Lots of people now mean sustainability as the integration of social, economic and environmental issues even where these are traded off against each other. So the idea of maintenance of resources as the core meaning for sustainability is displaced by the idea of integration (with trade-offs). But maintenance and major trade-offs are mutually exclusive. This morphing of the true meaning has come about due to confusion between the priority fixing between the means and the ends (objectives). The primary objective of sustainability is the maintenance while the means to this end might be (inter alia) an integrated grappling with issues in the social, economic and environmental arenas but without any major trade-offs.

Sustainability Reporting

Sustainability Reporting is voluntary initiative undertaking by entities to report on their environmental, social and ethical performance besides their profit oriented goal sets. This concept is gradually becoming more relevant in the perspective of global concern about thinking for a better and greener tomorrow without sacrificing today's growth or Genuine Progress.

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Genuine Progress and Sustainable development —complementary to together Sustainable development is a compound concept that combines or aligns concerns for continuity (sustainability) with concerns for change (development). Genuine Progress cannot be neglected by simply preserving the resources for future generation. In its correct meaning in today's perspective, Sustainable Development is the change process in society and the economy that enables the attainment of sustainability and the effective pursuit of Real or Genuine Progress.

Telling more appropriately, sustainable development to be seen as a goal with suitable aspiration for the society but it cannot be considered as a complete goal. People are truly motivated not only by saving the environment or the social resources but also with desire for true progress. Sustainable development is the concept which successfully brings bridge between the pursuit for conserving the resources and environmental condition for future generation with genuine progress of the society through the operations of the enterprises. Genuine Progress is attained when the process of change enables human needs of all types for present and future generations more effectively without much affecting people or nature. It may be appropriate to see sustainable development as a suitable comprehensive aspiration goal for society, but it is certainly not appropriate to see sustainability as such a complete goal. People are motivated, quite reasonably, by more than just maintaining/saving certain environmental, social or economic values (the focus of sustainability). They are also motivated and encouraged by novelty spirit and by the desire for genuine progress. It is sustainable development that combines the pursuit of sustainability and genuine progress. It is true that rich or non poor society can dream and take a relaxed attitude towards genuine progress. They can enjoy the journey as being no less important than the destination and can recognize logically there is no final destination of the real or genuine progress. Conscious human being is concerned about the sustainability since they can perceive the idea of not losing the something that might be lost due to improper attention to preserve it. Irreversibility of the decay, degeneration or decline of the resources acts as a threat to the human society. This threat or risk of irreversible loss brings the idea to focus on and act to attain the preferred end state by timely and appropriate action by all relevant segment of the society and business operations in particular.

Sustainability—from individuals to the ecology, society and environmental aspects and need for thinking for the future generation For Sustainability, the destination is more important than the journey. Sustainable state is not a particular state but a condition. For example, as health are a condition and not a place. There are various ways and means to be sustainable. To attain proper sustainability, we need to choose and attain the best possible configurations to avoid non achievement of sustainability or sustainable development of any activity including business operations and there will be fare chance to lose those which we value the most.

To understand better we can ask ourselves about how sustainability looks like for individuals. For us as individuals our goal for sustainability is to avoid or reduce the possibility of (i) Decay or degeneration Process i.e., illness which is irreversible and (ii) Risk of sudden loss to our health. Hence we can say that personal sustainability can be attained by combining maintaining proper health and security for a long time enjoyable free life. This idea if we extend to the society and the environment at large it can be said that though there is no ideal sustainable society or the environment, yet a society or economy or environment can be called achieved the Sustainability if the health and security is achieved in respect of —

(a) Ecological health & security

(b) Social health & security

(c) Economic health & security

Simply working forever towards the profit is not enough for a society unless its health and security is adequately achieved and maintained as a continual process. Need and taking care for the coming generations by preserving resources at the highest possible level and a green pollution free world is the one of the ideal objectives of today's business world too which makes them different from the people of the primitive age when men lived for their own survival only. **Need for Corporate appreciation and involvement in the process** Corporate houses being the major role player of the economy, has to appreciate and come forward in ensuring the sustainable development while operating. Global Corporate giants have already put encouraging efforts in this direction and more development are needed to make the blue planet a truly sustainable place for the future generation. Global initiatives are already on this track which is discussed in more detail in the trailing paragraphs. **The Evolution of Sustainability Disclosure in Business Reporting** Why Do a Report?

Any initiative without monitoring makes no sense. Similarly in the field of Sustainability Disclosure, it demands an appropriate standard and regular reporting system for monitoring the performance of corporate houses as well as for improving from time to time to cope with the global need from a good corporate citizen.

The contents and requirement from a Sustainability Development Report Corporate produce CSR (corporate Sustainability Report) for various purposes, some of the motivating factors include Providing meaningful information like challenges and achievements in this area to the stakeholders, as an internal commitment to environmental and social responsibility, making a truly competitive organization in the market, for successful implementation of the management plan to achieve higher level of profitability through innovations, economy of production etc.

Many of the organizations make the report just to window- dress to the stakeholders. However, a proper reporting on sustainability can help achieving enhancement of company's public image along with creating an opportunity for locating cost waste inefficiency too.

Whenever there is a change in thought giving birth to a new idea for control or advancement in any subject or operation, importance of simultaneous development of structured reporting takes place. A proper and regular Reporting system creates a transparent platform to assess the true or genuine progress in implementation of the new concept. Likewise, after the business and industry started acknowledging the importance of sustainability in their field, simultaneously capturing the data for appraising the performance in right direction also gained importance for the business managers.

With the development process towards ensuring sustainability in society through its business operations gave birth of value addition to the Corporate Reporting System from time to time. Though encouraging efforts and results are coming in a long way is still there to go for a meaningful reporting by corporate towards their sustainable development. Realization by various accounting and social bodies for a new approach in corporate reporting has already received adequate global focus in recent years.

Similar to any new initiative, Sustainability disclosure in business reporting is also undergoing rapid changes with the time. Though till now it is not statutorily mandatory over all the countries, initiatives for present optional reporting will certainly take a lift towards making it a legal requirement for corporate reporting practices.

From the investor's point of view, sustainable development is important since it drives towards value creation through good process control, innovation, increasing entity's intangible assets. Through proper Reporting of sustainable develop-ment of a business, investors become aware of as to the position of their enterprise in the competitive market. To put is in simple words, its quality can help management to differentiate the entity they own from the others in the market who are heading for a bumpy ride. True Value creation of the company by a quality approach towards sustainable development can only increase competencies in operations and bringing the organization to a greater height which the investors look for from long term view.

Global Initiatives and Guidelines for Reporting of Sustainability—GRI guidelines

Need for setting up of a structured organization to frame out policies, issue of guidelines, monitoring the performance of the organizations in respect of Sustainability Reporting, gave birth to Netherlands-based Global Reporting Initiative (GRI). GRI is an UN-backed, multi-stakeholder international initiative to develop and disseminate globally applicable Sustainability Reporting Guidelines.

With the appreciation of the requirement for a globally acclaimed standard for reporting on the sustainable development by organization, Global Reporting Initiative (GRI) has been working seriously with representatives of many sectors to develop guidelines for reporting by organizations on sustainability. For example, General Motors and Norsk Hydro both tested the draft guidelines for their 1999 environmental reports. The GRI guidelines are the results of several years of cross-sectional cooperation for identifying the best methodology for reporting on sustainability. The success of the reports mainly relies on the types of data which are often already collected for other work or objective. The primary aim is to gain a better understanding of what sustainability means by developing and formulating a standard approach towards reporting format and contents that will allow for comparison. Though apparently it seems that there is a large gap between Sustainability Reporting and Financial Reporting, in reality it is not so. Though most of the indicators in the sustainability reporting are qualitative policy descriptions and with non financial quantitative data, most of these can be translated in financial terms. A survey report by GRI on 112 organizations in early 2000 gave a very encouraging result. It showed that quite a large number (58%) of them is of the opinion that it is either very easy or not challenging at all to combine the two namely the financial or sustainability reporting. So days are not far to see these two aspects in corporate reporting evolved as closure cousins.

Used by nearly 500 companies from 45 countries, the guidelines provide a standard set of disclosures and performance measures for organizations reporting on their economic, environmental, and social performance. They offer both a road map of key risks facing companies and a common platform that helps ensure consistent and timely release of comparable information.

Major milestones of GRI over the years

- 1997-1998 — Idea of disclosure framework conceived, The Boston-based non-profit CERES starts a Global Reporting Initiative project division and GRI steering committee formed.
- 1999 —Release of Exposure draft of GRI Sustainability Reporting Guidelines; 20 organizations release sustainability reports based on the Guidelines.
- 2000 — GRI's first Sustainability Reporting Guidelines released;
- 2005 — Technical Advisory Committee (TAC) appointed and meets for the first time; 750 organizations release sustainability reports based on the Guidelines ? 2006 - Draft G3 Guidelines released for public comment; 270 responses received;
- 2008 — First GRI Certified Training Partners certified in several countries;
- 2010 — 3rd Amsterdam Global Conference on Sustainability and Transparency attracts over 1200 delegates from 77 countries; GRI Focal Point India and Focal Point USA established;

Sustainability Reporting

Global scenario

Remarkable advancement is experienced in the direction of quality reporting on Sustainable development by corporate mainly in the developed countries. In their Reports, some leading houses demonstrate their concern about their commitment towards Employee heath (Du Pont Canada), in 1998, for the first time, BP Amoco has set the first time global targets for its people management process. In their Towards Sustainable Development report, Ontario Power Generation (OPG) includes, inter alia, a description of the benchmarking study made by a consultant to compare OPG's corporate environmental management practices and processes to those of best-in-class organizations of the recent time. Electrolux has also reported on the life cycle analysis of a number of their products in their report showing the assessment of the environmental impact of the essential inputs like water, energy and detergents vis a vis their cost. Some companies have already started issuing paperless electronic reports to its stakeholders showing the path to the others towards a greener world. —Indian panorama

Leading Indian multinationals like ITC, L&T etc are bringing more and more with time, the concept of sustainability in its management and operation structure for attainment of the social, economic and environmental objectives side by side ensuring efficiency enhancement for higher profitability.

In 2008, as a joint initiative, Confederation of Indian Industries (CII) with ITC Ltd issued a report which is part of a series of studies by WWF's Trade and Investment Policy Program aiming towards identifying and cooperate with actors in the BRICS group of key emerging economies (Brazil, Russia, India, China and South Africa) of the world to champion international sustainable trade and investment. The Program examined the scope which exists for these countries to become the leading exporters of, and investors in, sustainable goods and services, whilst emerging as key actors in promoting a proactive international sustainable development agenda.

In the above referred report, five case studies and two examples are presented as an attempt to unlock the genuine spirit of innovation and generate different ideas to handle some of the most chronic social and environmental ailments India is facing. Using the criteria along four dimensional benefits – social, environment, business and innovation – the five case studies are presented in the report. Following Table shows how they were filtered by looking at the approach and solution matrix for each of the companies

Company-Approach-Solution Matrix

ORGANIZATION APPROACH SOLUTION BASIX New business Innovation to model: improve quality of life for

Cosmos Ignite Sustainable the have-nots' livelihoods promotion

Innovations Social Disruptive entrepreneurship: innovation : Light poor as the first Emitting

ITC Customer Diode

(LED) =based solar power lighting

L&T Scaled-up low-System hanging fruits to create

TCS sustainability Sustainability image benefits across

SBUs due

Source : INDIAN COMPANIES WITH SOLUTIONS THAT THE WORLD NEEDS – SUSTAINABILITY AS A DRIVER FOR INNOVATION AND PROFIT – By – Sachin Joshi, Seema Arora, Dennis Pamlin & Shirish Sinha, Published by CII-ITC Centre of Excellence for Sustainable Development.

From the above it is ample clear that the leading corporate houses have already taken the challenge of the day and now working as the forerunner and torchbearer in the field of sustainability development and reporting thereof in emerging India. Not only the ecological, environmental, economic or profit oriented objectives, they also cover in their corporate policies the broader concept of ensuring sustainable livelihoods promotion for the have-nots. We can expect lot of further advancement in this spectrum of corporate culture.

The most encouraging fact is that the ever growing Indian corporate, ITC is the first from India and among the first 10 companies in the world to publish its Sustainability Report in compliance (at the highest A+ level) with the G3 guidelines issued by the GRI. Not only this achievement, ITC also adjudged in 2005 as the first Indian company and the second in the world to win the prestigious Development Gateway Award for its exemplary contribution in the field of Information and Communication Technologies (ICT) for development during the last 10 years. It's wining of Award for the importance of its contribution to development priorities like poverty reduction, its scale and applicability, sustainability and transparency is really an enviable achievement in recent years.

Today's Business Challenge & role of Sustainable development and its reporting Businesses are established and they must make money. No matter what other goals and ideals its directors and employees bring to the entity, staying in business and prospering is a fundamental value of any for-profit enterprise.

Business leaders of today now accept and appreciate the fact that sustainable development and reporting thereof are complementary and the most useful tool to survive and grow. Another remarkable step in this field is the conceiving and formulating Triple bottom line (TBL) approach in financial reporting. It is a new concept formulated to recognize the need to—evaluate company performance according to a summary of costs and benefits to the corporation's finances, the communities where it operates and impacts on natural resources as another method for presenting and/or assessing corporate sustainability. TBL is also known as People, Planet, Profit (Or Three Pillar) approach capturing expanded spectrum of values and criteria for measuring organizational (and societal) success: economic, ecological and social . It expects that companies formulating to produce corporate sustainability report must show how business objectives such as profit and competitiveness are consistent with sound environmental management and/or sustainability principles. Failure to connect these interlinked aspects of equal importance not only makes the efforts a waste, it also fails to demonstrate its real value to the stakeholders of the company.

Relevance of Sustainable development in unorganized sector like construction industry

Construction industry is a significant part of any economy as one of the prime platforms for progress. The need for the day is to adhere to EHS (Environment, Health and Safety) norms in most of the countries all over the globe. Besides, the core concept of Sustainable Development and reports thereon is becoming gradually relevant in construction field due to its hazardous, un organized and non standard mode of operation involving large number of manpower and natural resources in almost all countries. Construction houses are equally responsible to make this journey a successful one like other sectors too.

Conclusion

When enterprises are committed not only to profit creation but also to sustainability, it implies that it looks beyond immediate profits to the values and returns in the years to come. The return they foresee is not necessarily be in terms of money only but also in the form of consideration of environmental, ecological and social issues and more appropriately concern for the future generations.

Today a commitment from Private Sector is demanded for presenting meaningful Sustainable Development Reporting showing its efforts and results towards Conserving energy, Reducing carbon emission, Recycling of waste, Rural development, Innovations. We as corporate citizens should come forward to participate in the global program for making our blue planet a sustainable one with Genuine Progress today. Here lies the message for a good corporate actions and reporting on Sustainable Development. It not only makes the planet sustainable for the future generation but also makes the organization more competitive with bright image of caring socio, economical and ecological issues.

To make the process a success, appropriate amendments/changes in various laws all over the globe is also required for shifting the concept from voluntary submission to statutory reporting for presenting a better world to our successors to live in. ❒

Telecom Mergers and Acquisitions

Puneet Jain*

Overview

Mergers and acquisitions in the telecommunications field have become a booming business as large companies scramble to acquire new IP technology companies. Telecom mergers and acquisitions are one of the hottest areas in the US economy.

Economic reforms have spurred the growth in the mergers and acquisitions industry of the telecommunications sector to a satisfactory level.

Telecommunication industry deals with various forms of communication mediums, for example mobile phones, fixed line phones, as well as Internet and broadband services. Both transnational and domestic telecommunications services providers are keen to try merger and acquisition options because this will help them in many ways. They can cut down on their expenses, achieve greater market share and accomplish market control.

Mergers and acquisitions in Telecom Sector can also have some negative effects, which include monopolization of the telecommunication products and services, unemployment, and others. However, the governments of various countries take appropriate steps to curb these problems. In countries like India, mergers and acquisitions have increased to a considerable level from the mid 1990s.

Benefits of mergers and acquisitions in the Indian telecommunication industry

Mergers and acquisitions in the telecom sector in India provide certain benefits in terms of :

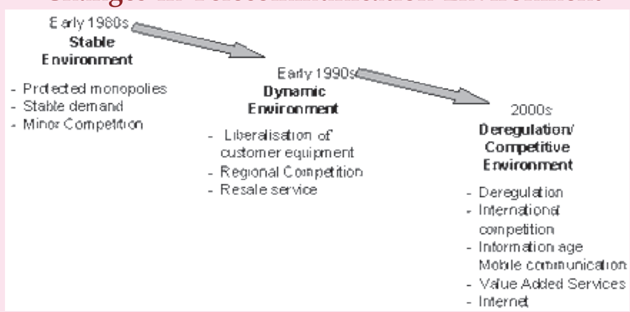
Infrastructure : Building infrastructure for telecommunications is not easy. Moreover, it consumes much time. Mergers and acquisition provides access to infrastructure much easily.

- **Network** : Benefits of existing network are available much easily through mergers and acquisitions.
- **License :** In certain regions there may be restrictions on getting new license. In such a case, mergers and acquisitions provide an option to run services in that region.
- Customer base.
- Brand value.
- Spectrum.

India has become a hotbed of telecom mergers and acquisitions in the last decade. Foreign investors and telecom majors look at India as one of the fastest growing telecom markets in the world. Sweeping reforms introduced by successive governments over the last decade have dramatically changed the face of the telecommunication industry. M&A in Telecom Industry are subject to various statutory guidelines and Industry Specific provisions e.g. Companies Act, 1956; Income Tax Act, 1961; Competition Act, 2002; MRTP Act; Indian Telegraph Act; FEMA Act; FEMA Regulations; SEBI Takeover Regulation; etc.

Telecom Regulatory Authority of India (TRAI) is of the view that while on one hand mergers encourage efficiencies of scope and scale and, hence, are desirable, care has to be taken that monopolies do not emerge as a consequence.

Changes in Telecommunication Environment



Throughout the world, telecom industry is being controlled by private companies instead of government monopolies. Traditional telecom technologies are also being replaced by modern wireless technologies, specifically in case of mobile services. One of the major objectives of telecom industry is to enhance the quality and speed of Internet technology.

Opportunities

- Rural tele-density is less than 10%.
  Overall tele-density is only 24%.
  Broadband penetration is just 0.25%, hence, vast scope.
- BPO business is growing fast : Telecom can ride on it.
- Value added services like M-Commerce, M-Marketing, Special Information, Ring tones, etc. offer venues of additional revenue.

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- As globalization is increasing, more percentage of global business for Indian telecom.
- Technologies like NGN, 3G, WiMAX, will open up new frontierns of business.

Over the last few years, a phenomenal growth has been witnessed in the number of mergers and acquisitions taking place in the telecommunications industry. The reasons behind this development include :

- Deregulation
- Introduction of sophisticated technologies (Wireless land phone services)
- Innovative products and services (Internet, broadband and cable services).

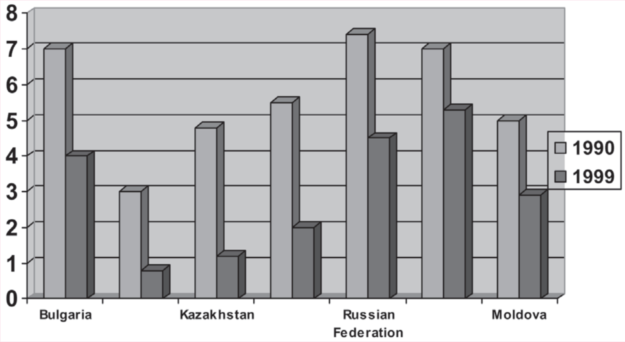
Both transnational and domestic telecommunication service providers are keen to try merger and acquisition options because this will help them in many ways. They can cut down on their expenses, achieve greater market share and accomplish market control.

M&A are also referred as Corporate Marriages and Alliances. Mergers can be across same or similar product lines. In many cases mergers are initiated to acquire a competing or complementary product. A reverse merger is another scenario in taxation parlance where a profit-making company merges with a loss incurring company to take advantage of tax shelter.

Whether M & A Indian Telecom were Successful

A merger, to be successful, should create new capabilities, offer better value proposition to the combined entity's customers and, above all, enhance shareholders' value. Empirical studies prove that M&A brings with it the advantage of synergies to the operators and in majority of cases results in immense increase of shareholders value. M&A in Indian telecom industry has also benefited other stake-holders, i.e., customers, Indian economy, and society at large.

Private sector investment and FDI (Foreign Direct Investment) have also boosted the growth of mergers and acquisitions in the telecommunications sector.



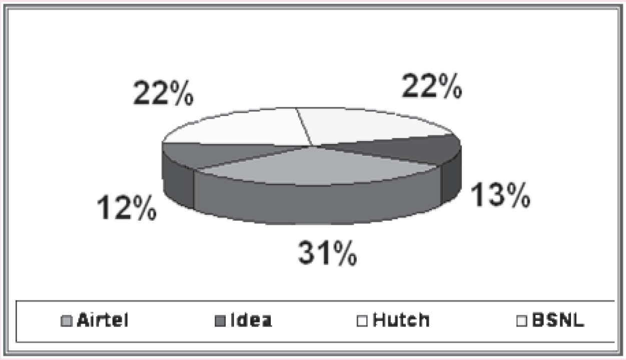
Data Source : World Bank Development Indicators International Telecommunications Union

Since India's Telecom Sector Trails That of Other Asian Economies by About 10 years, Growth is a Certainty

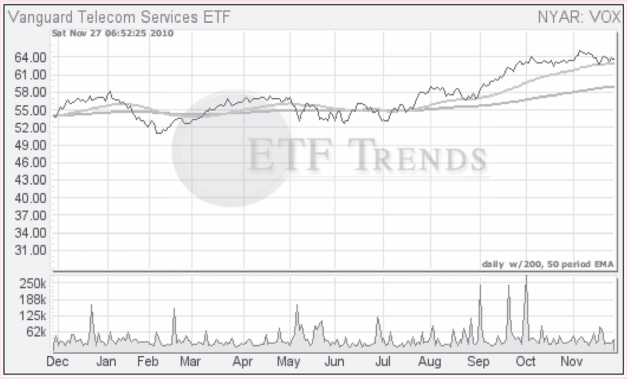
- India is currently the second largest market in the world in terms of mobile subscribers.
- The Indian telecom market generated revenues of approximately US$ 32 billion in **2007-08.** Further, the industry is expected to register a CAGR of approximately 16 percent from **2007-08 to 2009-10** and scale to US$ 43 billion by **2010.**
- It is also expected that, by **2012**, fixed line revenues will reach US$ 12.2 billion and mobile revenues will reach US$ 39.8 billion.
- Several foreign companies are making large investments in India.

Proposed Investments by Telecom Companies in India (US$ Billion)	
BSNL	1.3
Idea	2.4
Reliance	5.7
Aircel	5.0
Quippo telecom infrastructure (QTIL)	3.0
Vodafone	6.0

The telecom sector is growing



- Overseas is actually where most of the growth is expected to take place in the next few years. According to the Wall Street Journal, projected cell phone revenue between 2007 and 2012 is 96% in China and India; 53% in Africa and the Middle East, and 42% in Latin America. Developed markets, like Western Europe, are projected to see about 13% growth.
- And here's some food for thought: the world's richest person, Carlos Slim Helu, holds a controlling interest in some telecom companies. This includes America Movil (AMX), Latin America's largest mobile phone business.



Conclusion

Critics claim telecom mergers reduce competition and promote monopoly. In reality, these mergers are part of a healthy competitive process and would foster innovation and bring benefits to consumers.

Finally, the success of a merger hinges on how well the post-merged entity positions itself to achieve cost and profit efficiencies. As Robert C Higgins of University of Washington points out " careful valuation and disciplined negotiation are vital to successful acquisition, but in business as in life, it is sometimes more important to be lucky than smart." ❒

Request for empanelment of Resource person for Investor Awareness Programmes

ICWAI has been holding Investor Awareness Programmes throughout the country with the financial assistance from Ministry of Corporate Affairs (MCA), Government of India. Since 2009-10, ICWAI has responded to the requirements of MCA on this issue in a befitting manner.

For the year 2011-12, ICWAI has been empaneled by MCA to hold 4000 programmes in the Country through its Regional Councils, Chapters and additionally through Senior Professionals/ Retired Teachers of Universities/Schools to be called as 'Resource Persons'. These Resource Persons based preferably in Small Towns/ Cities are expected to be well versed in any of the fields namely Finance, Accountancy, Commerce, Law, Management relevant for Investor Issues. Resource Persons shall be imparted 5 days training at a place nearby their home towns. The Resource Persons selected by ICWAI have to choose a venue, organise programme/s of two-three hours duration on aspects related to Investors Awareness for 50-60 persons in towns they reside/nearby towns. Resource Persons shall be reimbursed at the rates to be finalised by MCA for organising these programmes.

Professional like CWAs, Retired Teachers, Others having expertise in the field, who are interested are requested to send their bio-data with complete contact details at the earliest to the following address :

The Institute of Cost and Works Accountants of India,
3rd Floor, ICWAI Bhawan, 3 Institutional Area,
Lodi Road, New Delhi – 110003
Phone : 011- 24622156, 09811004329
Email : president.delhioffice@icwai.org, technical.sudhir@icwai.org

Limited Liability Partnership (LLP) — Unlimited Possibilities

Dr. Parimal Kr. Sen*
Indrani Saha**
Palash Garani***

The concept of Limited Liability Partnership (LLP) as a body corporate form of alternative flexible business structure was introduced in India and viewed as path-breaking reform initiatives which may provide a platform to small and medium firms and professional personnel. The LLP Rules are broadly based on the UK LLP Act 2000 (the Act became law on 1/4/2001) and Singapore LLP Laws 2005 which follow the "fiscal transparency". This article intends to highlight the genesis of LLP Act, 2008, in India. The object of the study is to examine the conceptual idea as descanted earlier conceived by Government of India (GoI) and its practical utility and also to focus the successfulness of the said Act after its implementation in India.

Introduction

The enormous pool of technical and professional manpower in India, coupled with the growing number of entrepreneurs, has been a major driving force in the growth of the Indian economy— now acknowledged as one of the fastest growing economies of the world. In this background, a need has been felt to provide for a business format that would combine the flexibility of partnership and the advantages of limited liability of a company at a low compliance cost. The Limited Liability Partnership (LLP) format is an alternative corporate flexible business structure that provides the benefit of limited liability of a company and allows its members the flexibility of organizing their internal management on the basis of a mutually arrived agreement, as in the case of a partnership firm. This hybrid structure is quite useful for unregulated small and medium enterprises in general and for the enterprises in service sectors, like law firms and accountancy partnerships in particular, to organize and operate their business/ profession efficiently which would, in turn, increase their global competitiveness. It would be a suitable business vehicle to reap the true benefits from this new corporate structure to the partners, particularly professionals who are already regulated such as Chartered Accountants, Company Secretaries, Cost Accountants, Advocates, Architects, Engineers, Doctors and other activities involving legal and technical professionals. These professionals may also form Multi-Disciplinary LLPs to meet the global competition in changing economic environment in an innovative and efficient manner.

The LLP form of alternative and flexible business structure is prevalent in a number of developed and developing countries across the globe with varying intricacies. This distinct legal body corporate entity is very popular in countries like USA, UK, Australia, Singapore. In order to facilitate corporate growth, reforms and regulations through synergized knowledge management, the Government had taken a well-timed initiative by introducing the Limited Liability Partnership Act, 2008. The LLP Bill was tabled first in Rajya Sabha on 15th December 2006. The Bill introduced by the Ministry of Company Affairs (MCA), GOI, is viewed as a path-breaking reform initiative. This Bill is broadly based on the UK and Singapore LLP laws. Under their law, the LLP is a ***"fiscal transparency"***. In other words, it is not subject to taxation. Only the members are liable to taxation.

The long and eagerly awaited LLP Act, 2008, got the assent of the President of India on 7th January 2009 and was notified on 9th January 2009. The provisions of the LLP Act came into force on 31st March 2009. This Bill is divided into XIV Chapters having 73 Sections and Four Schedules. The LLP Rules, 2009, have also been notified by the Central Government in phases since 1st April 2009. The number of companies registered as LLPs has almost increased 6-fold from 700 in February 2010 to 4,085 as on 14th March 2011, most of them in business consultancy and advisory services.

Conceptual Framework and the Process of LLP Formation

LLP is basically a body corporate structure of which, apart from individuals, even body corporates may be partners. Minimum two partners and two Designated Partners, who must be individuals, are required. However, no limit on the maximum number of partners is prescribed. Designated Partners shall be liable to penalties imposed on LLP for contravention of any provisions of the Act. LLP can carry on any lawful business, trade, profession, service or occupation with an objective to earn profit. Thus

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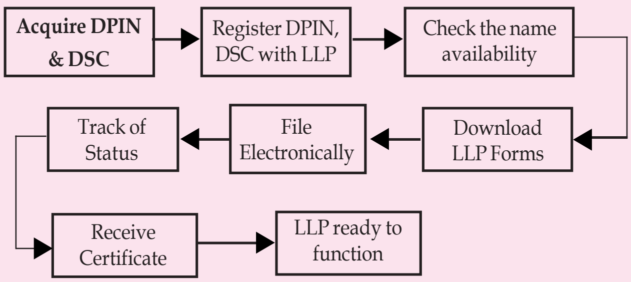
this new form of business organization provides the benefits of limited liability and allows its members the flexibility of organizing their internal structure based on a mutually arrived agreement, which is to be registered.

Incorporation procedure of LLP is relatively simple and expeditious compared to Joint Stock Company. Following is the flowchart for LLP formation:

Flow Chart Showing the Process of Formation of LLP



(DPIN-Designated Partners Identification Number; DSC- Digital Signature Certificate)

Advantages of Limited Liability Partnership

The LLPs combine the shielded liability aspect of companies with many of the same practices of a partnership, such as direct control. It enjoys myriad advantages some of which are :

1. Limited Liability : The primary advantage of a LLP over a general partnership is that each partner is potentially liable for only the amount of money put into partnership and is generally not personally liable for debts.

2. Rights to Manage Directly : LLPs also offer an advantage over the corporate form by allowing partners to directly own and manage business, rather than going through a multi-step corporate ownership process as corporations necessarily involve both shareholders and board of directors.

3. Easily Converted Form : Switching from a general partnership to a LLP is simple compared to switching to a corporate form because contracts do not need to be re-executed and property does not need to be transferred to the new entity.

4. Profits Not Taxed Twice : Profits of corporations are subjected to "Double Taxation" as the income from the corporation is taxed, as well as the profits distributed to shareholders, whereas partnerships are not subject to this double taxation.

Disadvantages of Limited Liability Partnership

A Limited Liability Partnership removes the personal liability of its members from the mistakes that another member may make. So if an LLP partner has a lawsuit filed against him, other partners will not have any liability in the case even though he is one of the business partners of LLP. In addition, each member has an equal say in what goes on during the running of the business. This type of arrangement may create confusion and delay in decision making.

1. Importance of Trust : How much you can trust your partners is important when forming an LLP. First, if one partner backs out of the partnership, it is dissolved. This means any brand or clients you have worked for may disappear overnight. Secondly, a partner can enter the entire partnership into binding business agreements without consulting the other partners. It is important that one can trust other members not to do so. Thirdly, any money or assets one contributes to the partnership become owned by the partnership unless all the partners agree otherwise. The only way to get back money or assets from partners who want to keep them for partnership is to have a written agreement specifically stating when or what amount one plan to take back.

2. A Newer Concept : LLPs have not been around as long as companies and other business structures with which general public are more familiar. This could make potential clients or companies wary of entering into an agreement with the LLPs.

3. Limited Access : This type of business structure is not suitable for all types of businesses. It is mainly used by professionals such as lawyers, accountants or other service sectors.

Obligation to Maintain the Books of Accounts and Financial Disclosure

The LLP is required to maintain at its registered office such proper books of accounts as may be prescribed relating to its affairs for each year on cash /accrual basis. The LLP is required to prepare a "Statement of Accounts and Solvency (SAS)" for each financial year in the prescribed format within 6 months from the end of the financial year. The statement should be signed by the Designated Partners of LLP. The books of accounts should be preserved for eight years from the date on which they are made. According to Rule 24 of the LLP Rules, the accounts of an LLP shall be audited by a Chartered Accountant in Practice. The Chartered Accountant will also value the contribution of partners. The LLP shall be exempt from the requirement of Rule 24, if turnover does not exceed Rs. 40 lakh in a financial year or contribution does not exceed Rs. 25 lakh. In such cases, the accounts may be audited in the form or manner as decided by the partners.

Limited Liability Partnership and its Tax Implications

The Finance Bill, 2009, has given fillip to emergence of LLP and also clarified how LLPs should be taxed. LLP should be taxed at par with general partnership i.e. profits earned during the relevant financial year would be taxed in the hands of LLP and the share of profits would be exempt in the hands of partners. The Designated Partners of the LLP should sign the return of income. In the absence of Designated Partners, any other partner is authorized to sign the return. On conversion of partnership into LLP there would be no tax implication if the rights and obligations of the partners remain same and there is no transfer of assets and liabilities after conversion. On liquidation of LLP, the liability of the partners in respect of recovery of tax would be joint and several. However, liability can be ignored if the partner is able to prove that non-recovery of tax is not due to gross neglect or misconduct on the part of the partner.

MAT provisions are applicable to companies. Since an LLP is not classified as a company, MAT provisions would not be applicable. Similarly Dividend Distribution Tax (DDT), Deemed Dividend as per Income Tax Act would also be not applicable on distribution of profits by an LLP. With the Direct Tax Code (DTC) expected to become a law effective from 1st April 2012, the Government provides almost an 18 months window to allow the tax payers to relook at their business models, restructure them and be better prepared which will encourage private companies to convert into LLP model. The *'Flow Through'* taxation of LLP is proposed to be continued. This means that as an LLP it can save tax payment to the extent of almost 30%, which is worth consideration by the taxpayers. So restructured as LLP, private companies can reduce their tax outgo, as illustrated below :

Particulars	Company	LLP
Book Profit	100	100
MAT @ 20%	20	–
Profit After Tax (PAT)	80	100
DDT @ 15%	10.43	–
Profits Available	69.57	100

However, the Union Budget 2011, has shattered the tax planning and reduction of tax outgo in case of LLPs or conversion of firm or company into LLPs. In order to save revenue on account of companies converting into LLPs to take the benefit of tax exemption and to rationalize taxation of LLPs with companies, a new concept of Alternative Minimum Tax (AMT) is sought to be levied on LLPs in contrast to Minimum Alternate Tax (MAT) on companies with effect from April 1, 2012. This has been done to preserve the tax base vis-à-vis profit linked deductions and to remove arbitrage of tax saving between companies and LLPs.

LLPs shall be subject to AMT @ 18.5% on the **Adjusted Total Income** as per Income Tax provisions (as against Book Profit in case of MAT). Adjusted Total Income and AMT shall be calculated as :

Total Income (as per Income Tax provisions for regular tax)	X
Add: Deductions under Section 80A to 80W	Y
Add: Deductions under Section 10AA	Z
Adjusted Total Income	A

AMT will be charged @ 18.5% on Adjusted Total Income (A) + Education Cess @ 3% i.e. the effective rate of AMT will be 19.05% . In case of MAT the effective rate is 20% on company's Book Profit. So the savings of tax outgo in LLPs will be curtailed with effect from April 1, 2012. This may prove to be an inhibitor for LLP formation which was gradually picking up since the inception of LLP form (See Annexure I). Some of the big business houses last financial year also formed LLPs or converted companies into LLPs to their advantage accruing from tax planning. But the new concept of AMT may perhaps discourage that from the next financial year. However, LLPs will be able to enjoy the credit of AMT to be carried forward for a period of 10 years; though in the first financial year there will be an outgo of AMT tax @18.5% plus education cess. So the profit availability as shown in the table above will not be 100%, from the next financial year where only savings will be DDT.

Central Bank's Rules and Policies of LLPs

The *'Flow Through'* taxation policy on LLPs has given an impression that the government is now indirectly promoting more LLP form of business structure. Sections 56, 57 and 58 of the LLP Act, 2008, provide that a firm, a private limited company, or an unlisted public limited company may convert itself into an LLP form of business structure. However, Reserve Bank of India is disinclined to approve LLP proposals with investment motive only. The big corporate houses may take the advantages of escaping MAT and DDT. They may convert their holding and investment companies into LLPs. The tax benefits in the LLP Act would enable earning of higher amount of dividend which a holding company would eventually pass on to the promoter, if the holding company is converted into LLP. However, after the Union Budget 2011 the corporate houses will not get the advantage of escaping tax because of AMT. The Reserve Bank of India has issued a directive that corporate planning to convert their holding companies into LLPs must obtain a No Objection Certificate (NOC) from RBI. It is apparent that RBI is concerned about the fact that these core investment companies should be monitored by RBI like NBFCs. So to monitor the group holding companies and investment firms the RBI has issued new rules that these entities should get themselves registered with the RBI by fulfilling certain criteria and also have to provide information at regular interval. To avoid this rule many promoters are now coming up with the new idea of setting-up of investment-cum-operating entities. So provisions regarding NOC from RBI needs to be incorporated in the LLP Act.

The RBI is also planning to amend its rule to pre-empt Non Banking Finance Companies (NBFCs) from misusing the liberal rules governing LLP form. If an NBFC wants to convert itself to LLP firm, it has to obtain a NOC from the central bank of India. RBI wants to ensure that the easier rules and regulations governing LLPs do not encourage unhealthy practices among NBFCs.

There is no mandate under current RBI rules to regulate LLP form. The apex banking regulator has called for a meeting with the Corporate Affairs Ministry's LLP team to frame sufficient guidelines and rules to incorporate LLP within the existing regulatory structure of RBI. In addition, RBI, SEBI and Foreign Investment Promotion Board (FIPB) are also co-coordinating with their administrative ministries to amend existing rules to bring LLPs under their regulatory preview.

Conversion and Capital Gains Tax

According to the LLP Act, the firms converting to LLP are enjoying the exemption from capital gains tax if they have a turnover of less than Rs. 60 lakhs in any of the preceding three years. Capital Gains tax is imposed on transfer of immovable property such as land, building etc. It is levied on the difference between the book value and market value of these assets. In case of partnership business, however, the conversion will have no tax implication if the rights and obligation of the partners remain the same after conversion and there is no transfer of any asset or liability after conversion. However, the Ministry of Corporate Affairs (MCA) has suggested to the Finance Ministry to relax tax norms, governing firms seeking to convert to a LLP. The MCA, GOI, has recommended raising the turnover limit to Rs. 3 crores. According to them lower limit of Rs. 60 lakhs for exemption for Capital Gains tax is a big deterrent in conversion from companies to LLP. The Finance Ministry is yet to decide on increasing the lower limit of turnover for exemption of Capital Gains tax. *(Source: The Economic Times, dated 28th October 2010)*

The methodology of valuation of assets at the time of conversion has not been prescribed in the LLP Act, 2008. It is not mentioned whether the assets are to be transferred at book value or market value or any other specified basis. The Act provides that the firm or company on conversion must notify the authority of the conversion in relation to property in the form and manner as prescribed by the competent authority. But the Act is not clear regarding stamp duty, conversion fees, etc. in relation to property.

Compulsory Insurance

A very important aspect of LLP laws across the world is the provision for compulsory insurance to protect the interests of persons claiming against the LLP and to ensure that they receive their dues. The state of West Virginia in the US requires carrying Liability Insurance of minimum one million dollars. Liability insurance is generally designed to cover different kinds of omissions, negligence, wrongful acts, malpractices and misconduct for which liability may arise. Insurance companies in U.K provide professional indemnity insurance to cover all reasonable costs incurred in the defense or settlement of claims arising from the above, as long as they are accidental or unintentional. In India there is no provision for compulsory insurance to protect the interests of claimants against LLPs.

Multi-Disciplinary Firm (MDF) and Government of India's Initiative

In view of the enactment of the LLP Act, 2008, and also to facilitate the professionals to form Limited Liability Partnerships for enjoying the full advantage of the LLP Act, 2008, the Ministry of Corporate Affairs has taken an initiative to introduce Bills to amend the existing three Acts :

- The Institute of Chartered Accountants of India Act, 1949,
- The Institute of Cost and Works Accountants Act,1959, and
- The Institute of Company Secretaries of India Act, 1980.

The amendments will remove obstacles that come in the way for members of ICAI, ICWAI and ICSI to jointly form LLPs. Accordingly, ICAI, ICWAI and ICSI have submitted their Amendments Bills, 2010, to the Government of India. The Central Government introduced the said Bills in Rajya Sabha on 28th April 2010, namely, The Chartered Accountants

(Amendment) Bill, 2010, The Cost and Works Accountants (Amendment) Bill, 2010, and The Company Secretaries (Amendment) Bills, 2010. According to the Amendment Bills, MDF will allow only members of such professional bodies which have been constituted under a statute, eligible to become partners. As and when the recommendations of the councils are approved by the Government and notified, the Chartered Accountants, the Cost Accountants, the Company Secretaries will be in a position to form MDF through a new business vehicle i.e LLP. The Rajya Sabha on consideration has referred the Bills to the Parliament Standing Committee on Finance for detailed scrutiny. The ICWAI (Amendment) Bill, 2010, contained a proposal regarding change of its name from The Institute of Cost and Works Accountants of India to The Cost and Management Accountants of India, which has been opposed by The Institute of Chartered Accountants of India. This could delay the amendments to their respective Acts, which are necessary for setting up of big and multifunctional professional firms in LLP form in India. The Company Secretaries (Amendment) Bill, 2010, also seeks to amend its name from Company Secretaries to Chartered Secretaries. However, there is no relationship between the changed names and formation of MDF in LLP forms, which sooner or later will be resolved and the objectives of popularity of LLP form of business in India will be fulfilled.

(*Source: http://taxguru.in/icai/icai-opposition-to-change-of-name-by-icwai-may-delay-amendment-to-llp-act.html*) [visited on 07.12.2010]

The Government of India has taken an initiative to promote LLP form of business by implementing LLP Act, 2008. Since then a large number of firms adopted LLP business structure, taking the number of registered LLPs to 4,085 as on 14th March 2011 *(source: http://www.llp.gov.in)*.

According to government data, consultancy and advisory services (code 74) led the number of registered LLPs in India which is 1,090 (i.e 26.69%) of total number of registered LLPs in India. Smaller companies in computer and related activities, real estate, wholesale and commission trade activities and construction companies are embracing the LLP business structure. However, larger firms stay away from the LLP form due to ambiguity on certain issues like Capital Gains tax, stamp duty, conversion fees, etc. It appears from the Annexure-I that western region led the total number of registered LLPs (1,871) followed by southern, northern and eastern regions. 1,549 firms registered as LLP in Mumbai alone which is the core business city in India. Also we have observed that many LLPs are registered in areas surrounding large cities. A large number of firms engaged in computer and related activities in Chennai, Bangalore and other parts of Tamil Nadu and Karnataka have also registered as LLP.

Conclusion and Future Perspective

The LLP model has the potential to contribute to the growth of economic development in India. It has the potential to encourage the growth of professional service sectors and entrepreneurs. The flexibility

(ANNEXURE I)

REGION-WISE REGISTRATION OF LLPs IN INDIA (as on 14-03-2011)

Eastern Region		Northern Region		Southern Region		Western Region	
Name of the States	**No. of Firms**	**Name of the States**	**No. of Firms**	**Name of the States**	**No. of Firms**	**Name of the States**	**No. of Firms**
Assam	28	Chandigarh	12	Andaman & Nicobar	02	Chhattisgarh	33
Bihar	27	Delhi	515	A.P.	168	Goya	25
Jharkhand	17	Haryana	127	Karnataka	544	Gujarat	242
Manipur	02	H.P.	04	Kerala	156	M.P.	22
Meghalaya	04	J& K	04	Puducherry	01	Maharashtra	1,549
Mizoram	01	Punjab	23	Tamil Nadu	254		
Orissa	13	Rajasthan	71				
Tripura	02	U.P.	84				
West Bengal	146	Uttaranchal	09				
TOTAL	**240**	TOTAL	**849**	TOTAL	**1,125**	TOTAL	**1,871**

Source : Compiled and computed from data available in : http://www.llp.gov.in (visited on 18.03.2011)

provisions in formation and exit in the law has created an enormous encouragement in the field of business community and the provisions relating to liability being similar to that of a company is another incentive which has also prompted the encouragement in the international arena. The observation of the study smacks the necessary initiatives taken by the Government by enacting LLP Act, 2008, will be conducive to the growth of small and medium scale of business in emerging economy like ours. The concept behind LLPs is to encourage corporate culture in India by creation of LLPs by small and medium business enterprise, corporatizing the professional and consultancy firms including Chartered Accountants, Cost Accountants, Advocates etc. so as to make them competitive and at par with global peers and also allows conversion of companies into LLPs. But after the introduction of AMT in the Union Budget 2011, the growth of LLPs may not be in leaps and bound as witnessed earlier. One needs to wait and watch, as there are other benefits like limited liability, no DDT tax, no capital gain tax on conversion, which will encourage the growth of LLPs. The LLP Act, 2008, has opened up new horizons for professionals, especially the Chartered Accountants, Cost Accountants, and Company Secretaries. But there are some emerging issues that need to be taken care of. There is no proper clarification on Foreign Direct Investments in LLPs. The budget has also missed the opportunity to announce FDI in LLPs which is waiting since long now. The absence of FDI policy along with AMT may dampen the growth and future prospects of LLP in India. The very purpose for which LLP Act was legislated has received a setback. It is expected that RBI will soon come out with clarifications regarding FDIs in LLPs. The government in the recent past has given a proposal to allow Foreign Direct Investment in LLPs, benefiting sectors like manufacturing, IT, hospitality, advertising and consultancy where LLP form of business is very popular. An official with the Department of Industrial Policy and Promotion has commented that a Cabinet note has been circulated to allow FDI in LLPs. So it is expected that the proposal would be taken up by the cabinet for approval soon. If the proposal is approved it will attract foreign capital in LLPs *(source: The Economic Times dated 17th March 2011)*. But still there are some unanswered questions like whether cash basis of accounting is allowable for LLPs. The absence of proper guidelines regarding accounting and contents of Audit Report, applicability of Accounting Standards also needs to be taken care of. The methodology to value assets on conversion has not been mentioned. It remains to be seen how the law-makers would address certain relevant issues before LLP form of business gains full momentum. The acceptance and popularity of this hybrid form of corporate entity in India in the short span of about one year can be seen from the large number of LLP registrations in the recent past. Guidelines should be there to assess the ability to pay dues in the normal course of business. The Ministry of Corporate Affairs is hopeful of a major increase in the number of registration in this sector, as major issues like FDI policy and stamp duty on conversion are more or less settled. The Ministry of Corporate Affairs through its regulatory body like the Institute of Company Secretaries of India has been reaching out to small and medium enterprises segment to adopt the LLP form of business giving them easy access to resource apart from the advantage of operational flexibility. The Act should have been passed long before under the backdrop of socio-economic scenario of India. Of late, the desired Act has become a reality and the said Act as enacted in India, though the concept was in operation in UK, USA and Singapore long before, envisages the positive direction of the Government of India in the field of emerging economy towards the growth and solution of unemployment problem. The LLP Act, 2008, will definitely bring a remarkable difference in existing law related to the company laws in India. ❐

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Convergence with IFRSs : Challenging, Interesting and Rewarding

CMA Pramod Jain*

Introduction

IFRS is not a monster which is going to gobble up the existing Financial Reporting System practiced by the corporates in India. Rather, it is a much refined system of Financial Reporting which is going to benefit all the stakeholders in the years to come, together with improved Corporate Governance and increased free flow of capital across the globe.

Likewise, implementation of convergence with IFRS is not at all a complex exercise giving tension, stress and sleepless nights to the CEOs and CFOs. On the contrary it is an excellent opportunity of learning an advanced system of Financial Reporting for everyone engaged in the Accounting, Financing and Auditing functions at every level in every business organisation.

At the same time, IFRS is not an entirely new Financial Reporting System for us in India. Generally speaking, the current Indian GAAP covers 75-80% of IFRS already. Therefore, one only needs to learn this remaining 20-25% portion of the IFRS to facilitate IFRS compliance by his/her organisation and continue Financial Reporting under IFRS thereafter.

What is IFRS?

The term IFRS has both, a narrow and a broad meaning. Narrowly, IFRS refers to the new numbered series of pronouncements that the IASB is issuing, as distinct from the IAS series issued by its predecessor IASC.

- More broadly, IFRS refers to the entire body of IASB pronouncements, including Standards and Interpretation approved by the IASB, IASC, and SIC.
- IFRS is principle based Standards, drafted lucidly and easy to understand and apply. However, the application of IFRS requires an increased use of fair values for measurement of assets and liabilities.
- The focus in IFRS is more towards getting the balance sheet right and hence brings significant volatility in the income statement.

Objectives behind IFRSs

- To develop a single set of high quality, understandable and enforceable global accounting standards that will form the stable platform for international accounting.
- The correct adoption of IFRSs will bring more transparency and a higher degree of comparability, both of which promise many benefits for the organisations as well as economies.

Structure of IFRS vis-à-vis Indian GAAP

Indian Pronouncements	IFRS Pronouncements
1. 28 (29) Accounting Standards mandatory (minus AS-8)	1. 29 (41)–IASs issued by IASC
2. 3 Standards on Financial Instruments; AS 30, AS 31 and AS 32 still not mandatory	2. 9–IFRSs issued by IASB
3. Accounting Standards Interpretations	3. 18 (19)–Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC).
4. Guidance Notes	4. 11 (34)–Interpretations issued by the former Standing Interpretations Committee (SIC).
5. Expert Advisory Opinions	

Note : Figures inside brackets are numbers of pronouncements made so far and figures outside the brackets are the number of pronouncements which are in force at present.

Convergence with IFRS : Indian Scenario

- Since Indian accounting standards are based on IFRSs, Indian companies have been experiencing lesser difficulties to tap the capital markets of foreign countries.
- **Now India as a country has decided to converge with the IFRSs effective from 1st April, 2011.**
- In India , the Accounting Standards Board (ASB) of ICAI, while formulating accounting standards in India considers the IFRSs and tries to integrate them, to the extent possible, **in the light of the laws, customs, practices and business environment** prevailing in India.

* Head of Training-Finance Academy, Arcelor Mittal, Luxembourg.

• Besides, the **ICAI has been revising the existing** accounting standards and issuing new accounting standards **corresponding to the IFRSs**.

• **AS 25 on Interim Financial Reporting is the latest example.**

Structure of Financial Statements under Indian GAAP and IFRS :

Under the current Indian GAAP	Under the IFRS
1. Balance Sheet	1. Statement of financial position as at the end of the period
2. Profit & Loss Account	2. Statement of comprehensive income for the period 1. In one part 2. In two parts
3. Cash flow Statement	3. Statement of changes in equity for the period
4. Notes, comprising of significant accounting policies and other explanatory information	4. Statement of cash flows for the period
	5. Notes, comprising of significant accounting policies and other explanatory information
	6. Statement of financial position at start of earliest period presented, when—Accounting policy is changed, items are retrospectively restated, items are reclassified

How to begin the process of Convergence with IFRSs?

• Identify the first IFRS financial statements

• Prepare an opening balance sheet

• Select accounting policies that comply

• Consider the 14 optional exemptions

• Apply the 5 mandatory exceptions

• Make disclosures

• Entities need to develop the work plan for smooth transition to IFRS.

• The staff needs to be trained for IFRS to allow them to effectively implement IFRS.

• Certain areas in IFRS will have impact on the entity in a significant way. These areas need to be identified.

Issues & Challenges in Convergence with IFRSs

• Awareness need to brought about extensively through out the organisation

• Not an accounting project

• Understand impact on financial position & performance

• Changes in regulations

• External evaluation agencies must also understand IFRS

• Manage transition & dual reporting

• Unlearning and Training in IFRS is must for all concerned

• Fair market valuers will be in demand but are scarce today

• Attrition & competition

• Changing ERP, SAP and other softwares will be required

• IFRS is a moving target

• Impact on financial position & performance as a consequence of IFRS Convergence would need to be understood by the organisations well in advance

• Manage transition & dual reporting

• Managing and communicating the changes

• Aligning different policies, practices and system across the group having presence in multiple jurisdictions and having different reporting requirements including tax and statutory reporting

• Conforming accounting with changes in business

• Aligning the business practices considering IFRS accounting requirements

• Lack of availability of appropriately skilled resources in the market at present

IFRS—a big opportunity for accounting professionals

There is myth in the minds of some people that Convergence with the IFRSs is a fantastic opportunity for only big firms or for those who are Chartered Accountants. In fact it is not so at all. IFRS is an excellent opportunity for anyone and everyone who is committed to learn this vast area of accounting knowledge. It appears complex and time consuming to begin with. However, as one starts delving into it, he starts realizing that not only it is challenging but interesting and rewarding as well. ❐

Frequently Asked Questions on Appointment of Cost Auditor by Companies

Q.1. Has the Government prescribed a new procedure for appointment of cost auditor by the companies?

Ans. Yes. The procedure has been modified by the Cost Audit Branch of the thMinistry of Corporate Affairs vide General Circular No. 15/2011 dated 11 April 2011. The circular shall be effective from the financial year commencing on or stafter the 1 day of April, 2011.

Q.2. What is the difference between new and old procedures of Appointment of Cost Auditor by Companies?

Ans. Existing procedure for appointment of cost auditor required prior approval of the Central Government under Section 233B (2) of the Companies Act, 1956. However, under the present procedure, the prior approval would be deemed to have been granted if the Central Government does not raise any query within 1 month of filing of Form 23C.

Q.3. Will this procedure supercede the previous order issued in this regard?

Ans. Yes, with the issue of this new procedure, all earlier circulars issued with respect to the Appointment of Cost Auditor by Companies will be superceded.

Q.4. Who can act as cost auditor?

Ans. The Company required to get its cost records audited under Section 233B(1) of the Companies Act, 1956 shall appoint a cost auditor who is a Cost Accountant as defined in clause (b) of sub-section (1) of Section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under sub-section (1) of Section 6 of that Act and includes a Firm of Cost Accountants.

Q.5. Who is competent authority in companies to appoint cost auditor?

Ans. The first point of reference will be the Audit Committee and the Board of Directors will appoint Cost Auditor on the basis of recommendation of the Audit Committee. The Audit Committee shall ensure that the cost auditor is free from any disqualification as specified under Section 233B(5) read with Section 224 and sub-section (3) or sub-section (4) of Section 226 of the Companies Act, 1956. [Draft model letter in this regard is given after FAQs at Annexure-1]

In those companies where constitution of an Audit Committee of the Board is not required by law, the words "Audit Committee" shall stand substituted by the words "Board of Directors".

Q.6. Is a cost auditor required to give any certificate in respect to his independence and arm's length relationship with the appointing company?

Ans. Yes, the cost auditor is required to give a separate certificate to the audit committee in respect to his/its independence and arm's length relationship with the company. [Draft model letter in this regard is given after FAQs at Annexure-2]

Q.7. How many cost audits can be allotted in the name of one practicing cost accountant?

Ans. One cost accountant can get 20 cost audits. In case he is a partner in a firm then the firm can get 20 cost audits per partner. Section 224 (1B) imposes a ceiling on the numbers of audits that an auditor or firm of auditors can undertake. Accordingly, the ceiling on the number of cost audits would operate as follows:

(a) In case a firm of cost accountants : Twenty companies (other than private companies) for every such partner of the firm who is not in full time employment. Not more than ten out of twenty companies should have a paid up share capital of Rs. 25 lakh or more.

(b) In case of individual cost accountant who is in full time employment:- Twenty companies (other than private companies) of which not more than ten should have a paid up share capital of Rs. 25 lakh or more.

Q.8. What procedure is required to be followed by a company in respect of appointment of cost auditor?

Ans. The Company shall e-file its application with the Central Government on www.mca.gov.in portal, in the prescribed Form 23C within ninety (90) days from the date of commencement of each financial year, along with the prescribed fee as per the Companies (Fees on Application) Rules, 1999 as amended from time to time and other decuments as per existing practice i.e.

(i) certified copy of the Board Resolution proposing appopintment of cost auditor; and

(ii) copy of the certificate obtained from the cost auditor regarding compliance of section 224 (1-B) of the Companies Act, 1956. [Draft Letter as per Annexure 1]

Q.9. What will happen if Central Government doesn't give its approval within 30 days of submission/ re-submission of the application?

Ans. After filing the online application by the Company, the same shall be deemed to be approved by the Central Government, unless contrary is heard within thirty (30) days from the date of filing such application.

However, if within thrity(30) days from the date of filing such application, the Central Government directs the Company to re-submit the said application

with such addtional information or explanation, as may be specified in that direction, the period of thrity days for deemed approval of the Cenntral Government shall be counted from the date of re-submisson by the Company.

Q.10. How cost auditor will be appointed?

Ans. After compliance of the matters hereinabove described, the Board of Directors of the Company shall issue formal letter of appointment to the cost auditor, as approved by the Board of Directors.

Q. 11. What is the obligation of appointed cost auditor with respect to the information to Central Government

Ans. The Cost Auditor shall inform the Central Government within thrity days of receipt of formal letter of appointment from the Company. Such intimation shall be done in the prescribed form alongwith a copy of such appointment. An e-form is being developed by the Ministry and the same will be notified shortly.

Q. 12. Is there any obligation on the part of companies regarding disclosure of appointment of cost auditor?

Ans. The Company shall disclose full particulars of the cost auditor along with the due date and actual date of filing of the Cost Audit Report by the cost auditor, in its Annual Report for each relevant financial year. Since the notification has come into effect from April 1, 2011, companies under cost audit will be required to furnish the details in its Annual Report from the financial year 2010-11.

Since the cost audit report of a particular financial year may not have been submitted before publication of the Annual Report, relevant details of due and actual date of filing for the last financial year may be published in the Annual Report.

Q. 13. Is there any penalty provision for non-compliance of provisions of the said circular?

Ans. Yes, the circular states penal provisions both for companies and cost auditor as under :

• Non compliance by Companies

If a Company contravenes any provision of this circular, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of Section 209 of the Act shall be punishable as provided under sub-section (2) of Section 642 read with sub-section (5) and (7) of Section 209 and sub-section (11) of Section 233B of Companies Act, 1956.

Relevant provisions of Section 209 of the Companies Act, 1956 are as follows :

Sub- section (5) of Section 209 provides that if any of the persons referred to in sub-section (6) fails to take all reasonable steps to secure compliance by the company with the requirements of this section, or has by his own wilful act been the cause of any default by the company thereunder, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to ten thousand rupees, or with both :

Provided that in any proceedings against a person in respect of an offence under this section consisting of a failure to take reasonable steps to secure compliance by the company with the requirements of this section, it shall be a defence to prove that a competent and reliable person was charged with the duty of seeking that those requirements were complied with and was in a position to discharge that duty :

Provided further that no person shall be sentenced to imprisonment for any such offence unless it was committed wilfully.

Sub-section (6) of Section 209 provides that the persons referred to in sub-section (5) are the following, namely :—

(a) where the company has a managing director or manager, such managing director or manager and all officers and other employees of the company; and (d) where the company has neither a managing director nor manager, every director of the company;

Sub- section (7) of Section 209 provides that if any person, not being a person referred to in sub-section (6), having been charged by the managing director, manager or Board of directors, as the case may be, with the duty of seeing that the requirements of this section are complied with makes default in doing so, he shall, in respect of each offence, be punishable with imprisonment for a term which my extend to six months, or with fine which may extend to ten thousand rupees, or with both.

Relevant provision of Section 642 of the Companies Act 1956 is as under :

Sub-section (2) of Section 642 provides that any rule made under sub-section (1) may provide that a contravention thereof shall be punishable with fine which may extend to five thousand rupees and where the contravention is a continuing one, with a further fine which may extend to five hundred rupees for every day after the first during which such contravention continues.

- Non compliance by Cost Auditor

If default is made by the cost auditor in complying with the aforesaid provisions, he shall be punishable with fine, which may extend to five thousand ruppees

***

DRAFT Letter Annexure-1

Ref. No.

Date :

To
The Chairman
Audit Committee of Board of Directors
.... Limited,

Dear Sir,

Sub : Cost Audit of XXX Limited for the year ending 31st March 201_ .

This has reference to my/our proposed appointment/reappointment as Cost Auditor of your company for the financial year ending on 31st March 201_. I/We shall be happy to accept the appointment/ re-appointment as Cost Auditor of your Company, if so made by your Board of Directors.

We would like to inform you that we are free from any disqualifications as specified under Section 233B (5) read with Section 224 and sub-section (3) or sub-section (4) of Section 226 of the Companies Act, 1956.

We would like to further inform you that the appointment, if made, will be within the limits prescribed under Section 224(1B) read with sub-section (2) of Section 233B of the Companies Act, 1956.

We would also like to inform you that the Partners are holding Certificate of Practice issued by the Institute of Cost and Works Accountants of India and are in whole time practice.

We request you to please send us the formal appointment letter as per clause (i) of General Circular No. 15/2011 [52/5/CAB-2011] dated April 11, 2011 issued by the Ministry of Corporate Affairs, Cost Audit Branch to enable us to do the needful at our end.

We would like draw your attention towards clause (k) of the above circular, wherein it is obligatory on the part of the Company to disclose full particulars of cost auditor, alongwith the due date and actual date of filing of the Cost Audit Report by the cost auditor, in your Annual Report for each relevant financial year.

Thanking you,

Yours faithfully,

(................................)

DRAFT Letter

Annexure-2

Ref. No.

Date :

To
The Chairman
Audit Committee of Board of Directors
.... Limited,

Dear Sir,

Sub : Certificate of Independence—Cost Audit of your Company for the year ending 31st March 201_ reg.

With reference to para (e) of the General Circular No. 15/2011 dated 11.04.2011 issued by the Cost Audit Branch of the Ministry of Corporate Affairs, Government of India, we hereby certify that we are an independent firm of Cost Accountants and are at arm's length relationship with your Company.

Thanking you,

Yours faithfully,

(................................)

MANAGEMENT DEVELOPMENT PROGRAMMES 2011-12

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament)

Management Development Programmes 2011-12

Dates	Topic	Venue	Status & Fee (Rs.) Non-Residential	Residential
	May, 2011			
04 - 08	Certificate Course on IFRS and Coverged Indian Accounting Standards	Mumbai	25,000	
	June, 2011			
08 - 11	Internal Auditing for Effective Management Control	Manali		33,000
08 - 11	Contract Management	Manali		
21 - 24	Management of Taxation – Service Tax, VAT, Excise &	Ooty		33,000
	Customs, TDS and Proposed GST & DTC			33,000
21 - 24	Finance for Jr. Finance and Accounts Officers and Non-	Ooty		
	Executives (F & A)			33,000
22 - 26	Certificate Course on IFRS and Converged Indian Accounting Standards	New Delhi	25,000	
	July, 2011			
8th	Cost Accounting Standards	Delhi	3,000	
13 - 15	Cost Control & Cost Effectiveness	Chennai	15,000	
13 - 15	Corporate Tax-Planning, Compliance and Management	Chennai	15,000	
	August, 2011			
03 - 05	Management of Taxation – Service Tax, VAT, Excise & Customs, TDS and Proposed GST & DTC	Kolkata	15,000	
09 - 12	Finance for Jr. Finance and Accounts Officers and Non-Executives (F & A)	Madurai		33,000
09 - 12	Advance Tax, TDS & Tax Planning	Madurai		33,000
18th	Proposed DTC	New Delhi	4,000*	
19th	Proposed GST	New Delhi	4,000*	
24 - 28	Certificate Course on IFRS and Converged Indian Accounting Standards	Hyderabad		33,000
	September, 2011			
06 - 09	Internal Auditing for Effective Management Control	Port Blair		35,000
06 - 09	Recent Trends in Financial Management including IFRS and new Schedule VI of Companies Act.	Port Blair		35,000
21 - 25	Certificate Course on IFRS and Converged Indian Accounting Standards	Bangalore	25,000	
22nd	Proposed DTC	Chennai	4,000*	
23rd	Proposed GST	Chennai	4,000*	
	October, 2011			
18 - 21	Contract Management	Goa		33,000
18 - 21	Corporate Tax-Planning, Compliance and Management	Goa		33,000
	November, 2011			
02 - 06	Certificate Course on IFRS and Converged Indian Accounting Standards	Kolkata	25,000	
15 - 18	Advance Tax, TDS & Tax Planning	Hyderabad	15,000	33,000
15 - 18	Recent Trends in Financial Management including IFRS and new Schedule VI of Companies Act.	Hyderabad	15,000	33,000
15 - 25	International Programme on 'Emerging Trends in Financial Management.	Singapore Kualalumpur & Bangkok		2,50,000

Dates	Topic	Venue	Status & Fee (Rs.)	
			Non-Residential	Residential
	December, 2011			
13 - 16	Finance for Jr. Finance and Accounts Officers and Non-Executives (F & A)	Shirdi		33,000
13 - 16	Management of Taxation – Service Tax, VAT, Excise & Customs, TDS and Proposed GST & DTC	Shirdi		33,000
22nd	Proposed DTC	Kolkata	4,000*	
23rd	Proposed GST	Kolkata	4,000*	
	January, 2012			
03 - 06	Internal Auditing for Effective Management Control	Mahabaleshwar		33,000
03 - 06	Recent Trends in Financial Management including IFRS and new Schedule VI of Companies Act.	Mahabaleshwar		33,000
5th	Proposed DTC	Hyderabad	4,000*	
6th	Proposed GST	Hyderabad	4,000*	
17 - 20	Strategic Financial Management	Agra		33,000
17 - 20	Advance Tax, TDS & Tax Planning	Agra		33,000
	February, 2012			
09 - 10	Valuation Management	New Delhi	15,000	
21 - 24	Corporate Tax–Planning, Compliance and Management	Bhubaneshwar		33,000
21 - 24	Strategic Cost Management	Bhubaneshwar		33,000
23 - 24	Financial Risk Management	New Delhi	15,000	

Note : * Rs. 7000/- if any nomination is for both the programmes together.

For Non-Residential Programmes — **Fee includes course fee, course material, lunch, tea/ coffee etc.**

For Residential Programmes — **Fee includes course fee, course material, accommodation on Single Room basis, all meals and visits. The charges for accompanying spouse would be Rs. 1000/- (Rupees one thousand only) towards accommodation, all meals and visits for all the three days excluding International programmes.**

CEP Credit Hours — [For 1 Day Prog. – 4 Hours] [For 2 Days Prog. – 6 Hours] [For 3 Days more Prog. – 10 Hours]

For Kind Information

- For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. If any participant reaches the venue for the postponed/cancelled programme without getting the confirmation from the Institute, the Institute will not be held responsible for the same. The cancellation/postponement of the programme, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.
- For residential programmes normally the first day check-in at 12.00 noon and last day check-out at 12.00 noon.
- For International programmes, Faculty will be from the respective countries apart from the Indian Faculty.
- The Payment of the Fee is to be made by Cheque / DD in favour of 'The Institute of Cost and Works Accountants of India' payable at New Delhi.
- Details for ECS Payment: State Bank of India (60321), Andhra Association Building, Institutional Area, Lodhi Road, New Delhi -110003 Current A/c No.: 30678404793 MICRCode : 110002493 IFSCCode : SBIN0060321

For further details and Registration please contact :

Shri D. Chandru, Addl. Director (CEP)
The Institute of Cost and Works Accountants of India
ICWAI Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110 003
Phones : 011-24622156-57-58, 24618645 (D) 011-24643273 (M) 09818601200
Tele-Fax : 011-43583642/24622156/24618645
E-mail : mdp@icwai.org, cep.chandru@icwai.org Website : www.mdp.icwai.org, www.icwai.org

President
Shri Brijmohan Sharma

GOVERNMENT NOTIFICATION
Ministry of Corporate Affairs

New Delhi, dated the 26th May 2011

NOTIFICATION

G.S.R. (E.) — In exercise of the powers conferred by sub-section (1) of section 642 read with section 610B of the Companies Act, 1956 (1 of 1956), the Central Government hereby makes the following rules further to amend the Companies (Central Government's) General Rules and Forms, 1956, namely :—

1. (1) These rules may be called the Companies (Central Government's) General Rules and Forms (Amendment) Rules 2011.

   (2) They shall come into force with effect from 29th May, 2011.

2. In the Companies (Central Government's) General Rules and Forms, 1956, in Annexure 'A' for Form 23D the following Form shall be substituted, namely :—

FORM 23D — **Information by cost auditor to Central Government**

[Pursuant to Section 233B of the Companies Act, 1956]

Note — All fields marked in are to be mandatorilly filled.

1. (a) *Corporate identity number (CIN) of Foreign company registration number (FCRN) of company [ ] **Pre-fill**

   (b) Global location number (GLN) of company [ ]

2. (a) Name of the company [ ]

   (b) Address of the registered officer or of the principal place of business in India of the company [ ]

3. Service Request Number (SRN) of Form 23C (Application to the Central Government for appointment of cost auditor by the company) [ ]

4. (a) *Number of the Central Government's order directing cost audit 52/ [ ] / CAB / [ ] **Pre-fill**

   (b) Category of cost audit order ◯ Company specific order ◯ Industry-wise general order

   (c) Date of the Central Government's order directing cost audit [ ] (DD/MM/YYYY)

   (d) Name of Industry to which cost audit order relates [ ]

5. Details of the cost auditor

   (a) *Category of cost auditor ◯ Individual ◯ Cost auditor's firm

   (b) *Income-tax permanent account number of cost auditor or cost auditor's firm [ ]

   (c) *Name of the cost auditor or cost auditor's firm

   [ ]

(d) *Membership number of cost auditor or cost auditor's firm's registration number [ ]

(e) Address of the cost auditor or cost auditor's firm

(i) *Line I [ ]

Line II [ ]

(ii) *City [ ]

(iii) *State [ ]

(iv) Country [ ]

(v) *Pin code [ ]

(f) 'e-mail ID of the cost auditor or cost auditor's firm

[ ]

(g) 'Whether the cost auditor is subject to any disqualification under section 233B(5) of the companies Act, 1956 ◯ Yes ◯ No

(h) Whether appointment of auditor is within the limits specified in sub-section 1B of section 224 (applicable in case of appointment in public company) ◯ Yes ◯ No

(i) *Scope of audit for the cost auditor as per the appointment letter

[ ]

6. Financial year to be coverded by the cost auditor

(a) *From [ ] (DD/MM/YYYY) (b) *To [ ] (DD/MM/YYYY)

7. Date of filing Form 23C for appointment of cost auditor by the company [ ] (DD/MM/YYYY)

8. Date of receipt of intimation of appointment by the cost auditor [ ] (DD/MM/YYYY)

9. Whether appointment was accepted ◯ Yes ◯ No

Attachments

List of attachments

1. Copy of the intimation received from the company [Attach]

2. Optional attachment(s) — if any [Attach]

[Remove attachment]

Verification

I hereby confirm that the information given in this form and its attachments is correct and complete. I am duly authorised to sign and submit this form.

To be digitally signed by

Cost Auditor [ ] *Whether associate of fellow ◯ Associate ◯ Fellow

*Membership number [ ]

[Modify] [Check Form] [Prescrutiny] [Submit]

This Form has been taken on file maintained by the Central Government through electronic mode and on the basis of statement of correctness given by the cost auditor.

Activities of Dubai Overseas Center of ICWAI

Council of ICWAI approved the opening of Dubai Overseas Centre in 1988. Over these years, the centre has been actively developing the profession by helping Students, undertaking Coaching activities and supporting to conduct ICWAI exam in Dubai. Dubai Overseas Center also undertakes regular seminars, members meet, and Study Circle Meet etc. which falls under continuous professional education. In 2011, the centre got association with Indian Consulate in Dubai, to do its activities for the interest of more than 500 Members and Students in this region.

THE INSTITUTE OF COST & WORKS ACCOUNTANTS OF INDIA

12, Sudder Street, Kolkata - 700 016

CANCELLATION OF REGISTRATION UNDER REGULATION 25(1) OF CWA ACT, 1959
REGISTRATION NUMBERS CANCELLED
FOR JUNE-2011 EXAMINATION
UPTO

ERS/002184, NRS/ 001793-2546,2601-3012 (except 3007,3008,3009),3101-3103,3141-3175
SRS/ 007040, WRS/005094, RSW/ 077028, RAF/005848

RE-REGISTRATION

The students whose Registration Numbers have been cancelled (inclusive of the students registered upto 31st December-2003) as above but desire to take the Institute's Examination in June-2011 must apply for DE-NOVO Registration and on being Registered DE-NOVO, Exemption from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, shall remain valid as per prevalent Rules.

For DE-NOVO Registration , a candidate shall have to apply to Director of Studies in prescribed Form (which can be had either from the Institute's H.Q. at Kolkata or from the concerned Regional Offices on payment of Rs.5/-) along with a remittance of Rs.2000/- only as Registration Fee through Demand Draft drawn in favour of THE I C W A OF INDIA , payable at KOLKATA.

With Season's Greetings.

Date : 21st December, 2010

Arnab Chakraborty
Director of Studies

ANNOUNCEMENT

The Management Accountant — July, 2011 will be a special issue on **'TOTAL COST MANAGEMENT'.** Articles, views and opinions on the topic are solicited from readers to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.sumita @icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th June, 2011.

ANNOUNCEMENT

The Management Accountant — August, 2011 will be a special issue on **'RISK MANAGEMENT IN FINANCIAL SERVICES'.** Articles, views and opinions on the topic are solicited from readers to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.sumita @icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th July, 2011.

ANNOUNCEMENT

The Management Accountant —September, 2011 will be a special issue on **'CMAs IN HOSPITALITY MANAGEMENT'.** Articles, views and opinions on the topic are solicited from readers to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.sumita @icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th August, 2011.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Established by an Act of Parliament)

12, Sudder Street, Kolkata - 700 016

Elections to the Council and Regional Councils, 2011

Kolkata, the 6th May, 2011

NOTIFICATION

Reissue of Postal Ballot Papers

No. EL-2011/24 : This is for information of all concerned that in pursuance of applicable provisions of the Cost and Works Accountants (Election to the Council) Rules, 2006 as amended (the Rules), the postal ballot papers and other connected papers have been sent to the voters eligible to vote by post.

Further, in pursuance of Clause 2 of Schedule 7 of the said Rules, where a ballot paper and other connected papers sent by post are damaged in transit or are for any reason returned undelivered or the Returning Officer is satisfied that the ballot papers have been sent incorrectly by post, the Returning Officer may reissue the same by speed or registered post or deliver them to the voter on his applying for the same, and submitting sufficient proof of damage or non-delivery.

Accordingly, in case of the non-receipt of the postal ballot papers and other connected papers, the voter concerned may apply for reissue of the same by sending a duly signed application along with proof of damage or non-delivery in pursuance of the said Rules, which may also be sent to fax no. 91-33-22521723.

Encl : For information of all concerned

Kaushik Banerjee
Returning Officer

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Established by an Act of Parliament)

12, Sudder Street, Kolkata - 700 016

Elections to the Council and Regional Councils, 2011

NOTIFICATION

Ref. No. : EL-2011/Count/5/2011 (1) Kolkata, the 19th May, 2011

Appointment of dates, place and time for the counting of votes

In pursuance of Rule 32 of the Cost and Works Accountants (Election to the Council) Rules, 2006 as amended, notice is hereby given that the following dates, place and time are hereby appointed for the counting of votes for election to the Council and four Regional Councils at the Headquarters of the Institute at 12, Sudder Street, Kolkata - 700 016 which was earlier published in the Gazette of India vide Notification No. EL-2011/1 dated 3rd March, 2011.

Dates of counting of votes	Friday, the 10th June, 2011 Saturday, the 11th June, 2011 Sunday, the 12th June, 2011
Place of counting of votes	Auditorium of the Headquarters of The Institute of Cost and Works Accountants of India 12, Sudder Street, Kolkata - 700 016.
Time of counting of votes	Counting of votes will commence from 10.00 a.m. on each day.

Kaushik Banerjee
Returning Officer

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Established by an Act of Parliament)

12, Sudder Street, Kolkata - 700 016

Elections to the Council and Regional Councils, 2011

NOTICE

Ref. No. : EL-2011/Count/5/2011 (1) Kolkata, the 23rd May, 2011

In pursuance of Rule 34 of the Cost and Works Accountants (Election to the Council) Rules, 2006 as amended, this is for information of all concerned that a candidate for election shall be entitled to be present in person or to appoint a member as a representative to be present on his behalf at the time of counting of votes to be held in accordance with the notice issued vide Ref. No.: EL-2011/Count/5/2011 dated 19th May, 2011.

The name of the representative may be informed to the undersigned latest within 7th June, 2011.

Kaushik Banerjee
Returning Officer

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Established by an Act of Parliament)

12, Sudder Street, Kolkata - 700 016

Elections to the Council and Regional Councils, 2011

Kolkata, the 24th May, 2011

NOTIFICATION

Extension of last date and time for receipt by post of ballot papers back from voters

No. EL-2011/25 : In pursuance of Clause 1 of Schedule 7 of the Cost and Works Accountants (Election to the Council) Rules, 2006 as amended and Notification No. EL-2011/1 dated 3rd March, 2011 published in the Gazette of India, postal ballot papers and other connected papers were sent by registered post to the voters permitted to vote by post in India and outside India on 21st April, 2011.

However, complaints have been received from many voters permitted to vote by post from India and outside India that they are yet to receive postal ballot papers and other connected papers.

In order to enable the voters permitted to vote by post exercise their franchise and to ensure free and fair elections, the last date and time for receipt by post of ballot papers back from voters [Rule 4 (2) (f)] hereby stands extended from Friday, the 27th May, 2011 up to 6:00 P.M. as published in the Gazette of India vide Notification No. EL- 2011/1 dated 3rd March, 2011 to Thursday, the 9th June, 2011 upto 6:00 P.M. in pursuance of sub-rule (3) of Rule 4 of the Cost and Works Accountants (Election to the Council) Rules, 2006 as amended.

Kaushik Banerjee
Returning Officer

For Attention of Practising Members

GUIDELINES FOR RENEWAL OF CERTIFICATE OF PRACTICE

The members of the Institute holding Certificate of Practice having validity upto 30th June, 2011 are requested to comply with the following guidelines for renewal of their Certificate of Practice :

1. The following changes consequent to amendment to the Cost and Works Accountants Regulations, 1959 vide Notification dated 4th February, 2011 published in the Gazette of India may be noted:

- The validity of a Certificate of Practice (COP) henceforth would be for the period **1st April to 31st March** every year unless it is cancelled under the provisions of the Act and these Regulations.
- The Certificate of Practice issued shall automatically be renewed subject to payment of renewal fees.
- From the year 2011-12, no fresh certificate would be issued every year unlike the practice being followed till now. The COP issued from the year 2011-12 would be in a different form.
- The COP issued during 2010-11 having validity upto 30th June 2011 would remain valid till that date. Renewal of the same has to be done anytime during 1st April 2011 to 30th June 2011 and the renewed COP will be valid till 31st March 2012.

2. It may please be noted that under amended Section 6 of the Cost and Works Accountants Act, 1959, both the **Annual Membership Fee** and **Fee for Renewal of Certificate of Practice** falls due on 1st April each year.

3. Special attention is invited to the fact that the validity of a Certificate of Practice expires on **31st March** each year (coming into effect from 31/03/2012) unless it is renewed on or before the date of expiry in terms of amended Regulation 10 of the Cost and Works Accountants Regulation, 1959. Hence, a member will be required to renew his certificate before 31st March every year from the year 2012.

4. It may please be noted that mere payment of fees alone will not be sufficient for renewal of Certificate of Practice. Application in prescribed Form for Renewal of Certificate of Practice duly filled in and signed on **both sides is absolute necessary.** Soft copy of prescribed Form for Renewal of Certificate of Practice can be downloaded from Institute's website www.icwai.org under the option Members->Download->Forms**.**

5. It is also essential to furnish a certificate from the employer in the following form or in a form as near thereto as possible if the practicing member has undertaken any employment or there has been a change in employment :

"Shri ………………………………………………......................... is employed as (designation)

…………………………….............. in (name of Organisation) ………………………………….

and he is permitted , notwithstanding anything contained in the terms of his employment, to engage himself in the practice of profession of Cost Accountancy in his spare time in addition to his regular salaried employment with us.

Signature of Employers
under seal of Organisation"

6. In order to enhance professional competence and evolve a systematic mechanism to update knowledge of members in practice, a scheme of Continuing Education Programme (CEP) was introduced in the year 2003.

A revision of the said scheme has been made by the Council of the ICWAI in 2009 as follows :

i. The member should undergo minimum mandatory training of 10 hours per year w.e.f. 2009-10.

ii. The certificate of attendance for training will have to be enclosed with the application for renewal of certificate of Practice

The detailed revised guidelines in this connection are available on Institute's website www.icwai.org under the option Members->Guidelines/Procedures->For Mandatory Training For all Members of ICWAI under Continuing Education Programme.

The requirement specified above does not apply to a member in practice who has attained the age of 65 years as on 1st April, 2011.

Further, in accordance with proviso to sub-regulation (1) of Regulation 10 of the Cost and Works Accountants Regulations, 1959 as amended, no Certificate of Practice and renewal thereof shall be issued unless a member has undergone minimum number of hours of such training to be undergone every year or such block of years or such other alternative conditions as may be determined by the Council by notification from time to time.

Hence, all practising members are requested to send their application for renewal for the year 2011-12 along with other requirements as indicated herein above immediately.

Other Relevant Issues for Renewal of COP valid upto 31st March 2012 :

- Application for renewal of Certificate of Practice upto **31st March, 2012** has to be made in the prescribed Form for Renewal of Certificate of Practice duly filled in and signed on both sides together with Renewal Certificate of Practice fee for Rs. 500/- and all other dues to the Institute on account of annual membership fees and entrance fees.
- The annual membership for Associate and Fellow Members are Rs. 500/- and Rs. 1000/- respectively. The entrance fee for Associate and Fellow Members are Rs. 600/- and Rs. 500/- respectively payable at a time at the time of application for admission.
- The fees may be paid by Demand Draft/Pay Order/Cheque payable at Kolkata if remitted by post to the Headquarters of the Institute. In case remittance is made through an outstation cheque, Rs.30/- is to be included towards bank charges. The fees may also be paid directly by cash at the Headquarters or by Cash/Demand Draft/Pay Order/ Cheque at the Regional Councils or Chapters of the Institute.
- Certificate of Practice renewed upto 30th June, 2011 shall have validity till that date. Practicing members concerned may send their application for renewal of the same in prescribed manner within **30th June, 2011.**
- Further, the credit hours for Continuing Education Programme (CEP) for renewal of Certificate of Practice upto 31st March, 2012 shall be considered upto 30th June, 2011. However, the Certificate of Practice so renewed shall have validity upto **31st March, 2012** only.

For Attention of Members

Payment for Annual Membership Fee for 2011-2012

The Annual Membership Fee for 2011-2012 for all Associate and Fellow Members of the Institute has become due and payable on 1st April, 2011 at the following rates:

Associate Annual Membership Fee : Rs. 500/- (Rs. 125/- for members entitled to pay at reduced rate)

Fellow Annual Membership Fee : Rs. 1000/- (Rs.250/- for members entitled to pay at reduced rate)

All members are requested to pay their respective membership fees along with arrears, if any, immediately and **not later than 30th September, 2011**.

The fees may be paid by Cash/Demand Draft/Cheque at the Headquarters/Regional Council offices/ Chapters of the Institute. The Demand Draft/Cheque should be drawn in favour of "The ICWA of India" and payable at Kolkata. In case of outstation cheque Rs.30/- is to be added towards Bank Charges.

NOTE : MEMBERS SHOULD ENSURE TO INDICATE THEIR NAME AND MEMBERSHIP NO. ON THE REVERSE OF CHEQUE/DEMAND DRAFT TO BE DRAWN IN FAVOUR OF "THE ICWA OF INDIA" PAYABLE AT KOLKATA IN CASE PAYMENT IS RENDERED BY CHEQUE/DEMAND DRAFT, IT SHOULD ALSO BE ENSURED NOT TO ENCLOSE ANY OTHER INTIMATION ETC. ALONG WITH THE REMITTANCE OF MEMBERSHIP FEE.