Class: B.Com Part II
Subject: Corporate Accounting
Paper: IV
unit: V
Topic: Accounts of Insurance Companies.
Lecture Sequence No: 1

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Accounts Of Insurance Companies.
(Including Instructions Issued by IRDA).

Meaning:

Insurance company a financial institution that provides a range of Insurance policies to protect individuals and Businesses against the RISK of financial losses in return for regular payment of PREMIUMS. An insurance company operates by pooling risks amongst a large number of policy-holders.

Insurance company which underwrites the risk of loss of, or damage to personal and business assets (general Insurance) and life and limb (Life and accident insurance). It issues insurance policies to cover a variety of contingencies (fire flooding, breakage, theft, death etc) involving potential financial loss to policy holders or their dependants in return for regular payment of a premium. Insurance companies use the premium they receive not only to settle day to-day claims but also to generate additional income and profit by investing their funds in Financial securities. Their portfolios attempts to maintain a careful balance between immediate liquidity needs and longer term investment returns.

The contracts of insurance are uberrimae fidei, ie the utmost good faith. It means that the proposer must disclose every such material fact known to him to the insurer which may effect the insurance. In same way insurer should also of utmost good faith in his dealings with insured.

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Diffence Between Life Insurance and General Insurance.

	Life Insurance:	General Insurance.
1.	In Life Insurance the sum assured along with benefits is paid either on the event of death of the policy holder or on maturity of the policy.	General insurance is a contract of indemnity which promises to make good your losses.
2.	In life insurance, the sum assured along with benefits is paid either on the event It is a long-term contracts runing over the number of years.	The amt of actual loss or claim is reimbursed as happening of certain even. They are only for one year through renewable after a year.
3.	Life insurance policy has surrender value.	General insurance policy has no surrender value.
4.	The insurable interest ie the individual who is taking the policy must be present at the time of contract.	The insurable interest must be present both at the time of contract and at the time of loss.
5	Life insurance is also known as 'Assurance'	Other policies are known as Insurance.
6.	No such reserve is made in life Insurance business.	Such reserve is compulsory in general insurance business
7.	It also create wealth in the long-term apart from securing you life.	The amt payable is confined to the losses suffered or the max. cover amt of the policy There is No savings.

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Financial Statements of Insurance Companies and Provisions of IRDA Act 1999.

Financial Statement of insurance companies were prepared under the provision of Insurance Act 1938 Life Insurance Corporation Act 1956 and General Insurance Business (Nationalisation) Act 1972. To protect the interest of holders of insurance policies and to regulate, promote and insurance orderly growth of Insurance Industry. The Insurance Regulatory and Development Authority Act 1999 was passed.

Important Amendments made to the Earlier Act by the IRDA Act 1999.

1. ~~Ist~~ ~~is~~ The Regulatory Authority has the power to direct the insurers to invest funds in infra-structure and social sectors subject to certain conditions.
2. Every Insurers must keep separate accounts relating to funds of shareholders and policyholders.
3. Every Insurer carrying on general insurance business is required to create a 'Catastrophe Reserve' to meet the future potential Liability against the insurance policies in force.
4. It is mandatary for every Insurer once after the commencement of this Act, to prepare a Balance sheet, a profit & loss a/c, a separate receipts and payment a/c a revenue a/c, in respect of insurance business transacted by him and in respect of his shareholder funds. The accounts are to be prepared for every financial year instead of the calender year.
5. Insurers are prohibited from investing either directly or indirectly their funds outside India
6. There is a necessity for insurers to keep a required solvency margin. The margin refers to the excess of assets over liabilities.
7. Every Insurers are prohibited from Investing either

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