Life Insurance Company Final Accounts

Life Insurance Final Accounts (IRDA 2000)

Life insurance companies in India prepare their final accounts as per the Insurance Regulatory and Development Authority (IRDA) Regulations, 2000. These financial statements follow a prescribed vertical format.

1. Important Accounting Terms

- **Premium:** Consideration paid by the policyholder for risk cover.
- **Claims:** The liability arising due to death or policy maturity.
- **Annuity:** Periodic payments made to the insured after retirement.
- **Surrender Value:** The sum paid if a policy is terminated voluntarily before maturity.
- **Life Assurance Fund:** Accumulated operational surplus earmarked to meet future claim liabilities.

2. Short Note: Bonus in Reduction of Premium

A 'Bonus in Reduction of Premium' occurs when a life insurance company discovers an operational surplus during its actuarial valuation and distributes it to 'With-Profit' policyholders. Instead of receiving this bonus as a cash payment or a reversionary addition to the maturity amount, the policyholder opts to apply the bonus against their next due premium payment.

This effectively decreases the immediate out-of-pocket premium cost for the policyholder while keeping the full insurance cover active.

Dual Accounting Treatment in Revenue Account (Form A-RA):

- **Premium Income (Schedule 1):** The bonus amount must be added to the premium income because the premium is treated as fully paid up.
- **Benefits Paid / Claims (Schedule 4):** The same amount must be simultaneously added to benefits paid, as it represents a return of surplus profit to the policyholder.

Note on Problem Solving: If this item appears in a practical exam adjustment list, add it to **both Schedule 1 and Schedule 4**. If it is already listed inside the Trial Balance column itself, it has already been added to your premium collection totals; therefore, you only need to enter it under **Schedule 4**. (Only for Examples)

3. Types of Policy

- **Term Insurance:** Pure risk cover; pays out only upon death during the term.
- **Whole Life:** Covers the insured's entire lifetime; pays out upon death whenever it happens.

- **Endowment:** Dual savings and risk plan; pays on maturity or death, whichever is earlier.
- **ULIPs:** Hybrid market-linked plan balancing insurance and capital market mutual investments.

4. Prescribed Financial Statements & Schedules

- Revenue Account (Form A-RA): Schedules 1 to 4

- Profit & Loss Account (Form A-PL): Non-operating corporate balances

- Balance Sheet (Form A-BS): Schedules 5 to 15

- **Schedule 1:** Premium Income (Net)
- **Schedule 2:** Commission Expenses
- **Schedule 3:** Operating Expenses
- **Schedule 4:** Benefits Paid / Claims
- **Schedule 5:** Share Capital
- **Schedule 6:** Reserves and Surplus
- **Schedule 7:** Borrowings
- **Schedule 8 / 8A:** Investments (Shareholders / Policyholders)
- **Schedule 9:** Loans
- **Schedule 10:** Fixed Assets
- **Schedule 11:** Cash and Bank Balances
- **Schedule 12:** Advances and Other Assets
- **Schedule 13:** Current Liabilities
- **Schedule 14:** Provisions
- **Schedule 15:** Miscellaneous Expenditure

FORM A-RA

REVENUE ACCOUNT FOR THE YEAR ENDED 31STMARCH, 20…..

Policy holder’s Account (Technical Account)

No.	Particulars	Schedule	Current Year	Previous Year
	Premiums earned– net	1		
	(a) Premium			
	(b) Re-insurance ceded			
	(c) Reinsurance accepted			
	Income from Investments			
	(a) Interest, Dividends & Rent – Gross			
	(b) Profit on sale/redemption of investments			
	(c) (Loss on sale/redemption of investments.)			
	(d) Transfer/Gain on revaluation/change in fair value’			
	Other income(to be specified)			
	Total (A)			
	Commission	2		
	Operating Expenses related to insurance Business	3		
	Provision for doubtful debts Bad debts written off			
	Provisions (other than taxation)			
	(a) For diminution in the value of investments (Net)			
	(b) Others (to be specified)			
	Total (B)			
	Benefits Paid (Net)	4		
	Interim Bonuses Paid			
	Change in valuation of liability in respect of life policies			
	(a) Gross”			
	(b) Amount ceded in Reinsurance			
	(c) Amount accepted in Reinsurance			
	Total (C)			
	Surplus(Deficit)(D)=(A)–(B)–(C)Appropriations			
	Transfer to Shareholders’ Account			
	Transfer to Other Reserves (to be specified) Balance			
	being Funds for Future Appropriation			
	Total (D)			

FROM A-PL

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

Shareholder's Account (Non-technical Account)

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Amounts transferred from/to the Policy holders account (Technical Account)			
	Income From Investments			
	(a)Interest, Dividends &Rent – Gross			
	(b)Profit on sale/redemption of investments			
	(c)(Loss on sale/redemption of investments)			
	Other Income (To be specified)			
	Total(A)			
	Expenses other than those directly related to the insurance business			
	Bad debts written off			
	Provisions(Other than taxation)			
	(a)For diminution in the value of investments(Net)			
	(b) Provision for doubtful debts			
	(c) Others (To be specified)			
	Total (B)			
	Profit(Loss) before tax Provision for Taxation			
	Profit/(Loss after tax Appropriations			
	(a) Balance at the beginning of the year			
	(b) Interim dividends paid during the year			
	(c) Proposed final dividend			
	(d) Dividend distribution tax			
	(e) Transfer to reserves/other account (to be specified)			
	Profit carried .... to the Balance Sheet			

Balance Sheet Proforma (Form A-BS)

PARTICULARS	Schedule	Current Year (Rs. '000)	Previous Year (Rs. '000)
SOURCES OF FUNDS			
1. Shareholders' Funds:			
(a) Share Capital	5	XXX	XXX
(b) Reserves and Surplus	6	XXX	XXX
(c) Credit Balance in Profit & Loss Account	--	XXX	XXX
2. Borrowings	7	XXX	XXX
3. Policyholders' Funds:			
(a) Credit Balance in Life Insurance Fund	--	XXX	XXX
(b) Discontinued Policy Fund	--	XXX	XXX
(c) Fund for Future Appropriations	--	XXX	XXX
TOTAL SOURCES OF FUNDS		**XXX**	**XXX**
APPLICATION OF FUNDS			
1. Investments:			
(a) Shareholders' Investments	8	XXX	XXX
(b) Policyholders' Investments	8A	XXX	XXX
(c) Assets held to cover linked liabilities	8B	XXX	XXX
2. Loans	9	XXX	XXX
3. Fixed Assets	10	XXX	XXX
4. Current Assets:			
(a) Cash and Bank Balances	11	XXX	XXX
(b) Advances and Other Assets	12	XXX	XXX
Sub-Total (A)		XXX	XXX
5. Less: Current Liabilities & Provisions:			
(a) Current Liabilities	13	XXX	XXX
(b) Provisions	14	XXX	XXX
Sub-Total (B)		XXX	XXX

6. Net Current Assets (C = A - B)		XXX	XXX
7. Miscellaneous Expenditure (To the extent not written off)	15	XXX	XXX
8. Debit Balance in Profit & Loss Account	--	XXX	XXX
TOTAL APPLICATION OF FUNDS		**XXX**	**XXX**