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# CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	AN INQUIRY INTO THE PRODUCTIVITY OF INDIAN PHARMACEUTICAL INDUSTRY: APPLICATION OF DATA ENVELOPMENT ANALYSIS <i>UMANG GUPTA &amp; ROHIT KAPOOR</i>	1
2.	GLOBALIZATION AND GROWTH OF INDIAN LIFE INSURANCE INDUSTRY <i>SUSHIL KUMAR, NIRAJ MISHRA &amp; SEEMA VARSHNEY</i>	7
3.	ASSESSMENT OF THE LEVEL AND FACTORS INFLUENCING ADMITTED CUSTOMERS' SATISFACTION WITH HEALTH CARE SERVICE IN UNIVERSITY OF GONDAR TEACHING HOSPITAL, NORTH WEST ETHIOPIA <i>DIGISIE MEQUANINT &amp; DR. ASSEGID DEMISIE</i>	10
4.	STOCK MARKET CRISIS AND VALUE RELEVANCE OF ACCOUNTING INFORMATION: IMPACT ON QUOTED CEMENT MANUFACTURING FIRMS IN NIGERIA <i>SAMAILA THOMPSON &amp; ABUH ADAH</i>	16
5.	SERVANT LEADERSHIP: A NEW PARADIGM OF LEADERSHIP IN BANGLADESH <i>MD. SAJJAD HOSSAIN &amp; ULLAH S M EBRAHIM</i>	20
6.	PERFORMANCE ANALYSIS OF INTERNALLY GENERATED REVENUE MOBILISATION IN ABURA-ASEBU-KWAMANKESE DISTRICT ASSEMBLY, GHANA <i>CHRISTOPHER DICK-SAGOE</i>	26
7.	AN EMPIRICAL STUDY OF ENVIRONMENTAL CONSTRAINTS FACED BY PUBLIC PRIVATE PARTNERSHIP (PPP) IN INDIA WITH SPECIAL REFERENCE TO UTTAR PRADESH <i>DR. ZEESHAN AMIR &amp; ANIS UR REHMAN</i>	32
8.	PERFORMANCE OF INDIAN BANK WITH REFERENCE TO NON PERFORMING ASSETS – AN OVERVIEW <i>B. SELVARAJAN, DR. G. VADIVALAGAN &amp; DR. M. CHANDRASEKAR</i>	38
9.	RELATIONSHIP BETWEEN CUSTOMER SATISFACTION AND LOYALTY AMONG PASSENGER CAR USERS (AN EMPIRICAL STUDY CONDUCTED IN BANGALORE CITY AMONG SMALL PASSENGER CAR USERS) <i>SRI.R.SRIVATS &amp; DR. R. K. GOPAL</i>	47
10.	INFLUENCE OF QUALITY CIRCLES ON ORGANISATIONAL PERFORMANCE: AN EMPIRICAL STUDY <i>DR. D. S. CHAUBEY, RANI RAMASWAMY &amp; NIDHI MAITHEL</i>	53
11.	PERFORMANCE OF TAX SAVING FUNDS OF SELECTED ASSET MANAGEMENT COMPANIES: A COMPARATIVE ANALYSIS <i>DR. K. V. S. N. JAWAHAR BABU &amp; DR. M.S. VASU</i>	60
12.	IMPACT OF MICRO - CREDIT TO WOMEN SHGS – A STUDY WITH REFERENCE TO NAGAPATTINAM DISTRICT, TAMIL NADU <i>K. MUTHU. &amp; DR. K. RAMAKRISHNAN.</i>	70
13.	MANAGERIAL EFFECTIVENESS AND COUNTERPRODUCTIVE WORK BEHAVIOUR: A COMPARISON AT DIFFERENT MANAGERIAL LEVEL <i>DR. RISHIPAL</i>	74
14.	A STUDY ON HEALTH INSURANCE PRODUCT PERFORMANCE AT HDFC, BANGALORE <i>V. CHANDRAMOHAN &amp; DR. K. RAMACHANDRA</i>	79
15.	A COMPARATIVE STUDY ON CUSTOMER RELATIONSHIP MANAGEMENT IN BANKING SECTOR IN INDIA (INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA AND STATE BANK OF INDIA) <i>DR. PONDURI.S.B. &amp; V. SAILAJA</i>	89
16.	WORK ETHICS AND ITS IMPACT ON JOB SATISFACTION OF INDIAN MANAGEMENT TEACHERS - AN EMPIRICAL STUDY <i>DR. RAJESHWARI NARENDRAN &amp; PREETI MEHTA</i>	98
17.	AN APPRAISAL OF QUALITY OF SERVICES IN URBAN HOSPITALS (A STUDY ON THREE URBAN HOSPITALS IN GUNTUR DISTRICT, ANDHRA PRADESH) <i>DR. T. SREENIVAS &amp; NETHI SURESH BABU</i>	103
18.	PERFORMANCE EVALUATION OF SOME SELECT EQUITY FUNDS FLOATED BY PRIVATE SECTOR BANKS <i>B. RAJA MANNAR &amp; DR. B. RAMACHANDRA REDDY</i>	113
19.	ANALYSING THE FINANCIAL PERFORMANCE OF IRON AND STEEL INDUSTRY WITH THE HELP OF MARKET VALUE ADDED APPROACH <i>E. LAVANYA &amp; DR. B. RAMACHANDRA REDDY</i>	117
20.	ACHIEVING CUSTOMER LIFETIME VALUE THROUGH CUSTOMER RELATIONSHIP MANAGEMENT <i>SHAKEEL-UL-REHMAN &amp; DR. M. SELVARAJ</i>	120
21.	COMPARATIVE ANALYSIS OF CAPITAL STRUCTURE OF BANKING COMPANIES WITH SPECIAL REFERENCE TO STATE BANK OF INDIA AND ICICI BANK <i>DR. ANURAG B. SINGH &amp; PRIYANKA TANDON</i>	124
22.	MANAGING BRAND EXTENSION <i>DR. C. MUTHUVELAYUTHAM &amp; T. PRABHU.</i>	132
23.	BEHAVIOURAL ISSUES IN EFFECTIVE IMPLEMENTATION OF CUSTOMER RELATIONSHIP MANAGEMENT <i>NISHI TRIPATHI &amp; RICHA SINHA</i>	135
24.	STATUTORY DISCLOSURE BY INDIAN LIFE INSURANCE COMPANIES <i>GAGANDEEP KAUR &amp; RAJINDER KAUR</i>	139
25.	PRODUCT LINE STRATEGY ADOPTED BY SMALL SCALE MOTOR AND PUMP INDUSTRY <i>DR. J. SUGANTHI</i>	144
26.	FACTORS OF CRM (A STUDY WITH SPECIAL REFERENCE TO BANKS) <i>DR. S. GAYATHRY</i>	149
27.	IMPACT OF GRIEVANCES AND REDRESSAL OF EMPLOYEES IN TEXTILE MILLS, COIMBATORE <i>P. DEEPA ANANDA PRIYA &amp; DIVYA.S</i>	156
28.	A STUDY OF EMPLOYEE COMPETENCY MAPPING STRATEGIES AT SELECT ORGANISATIONS OF BANGALORE <i>DR. Y. NAGARAJU &amp; V. SATHYANARAYANA GOWDA</i>	176
29.	COMPARATIVE STUDY OF ORGANIZATIONAL ROLE STRESS AMONG EMPLOYEES: PUBLIC VS PRIVATE BANKS IN INDIA <i>SHADMA PARVEEN</i>	182
30.	AN EMPIRICAL EXAMINATION OF NONWORK DOMAIN ON EMPLOYEE TURNOVER <i>L.R.K. KRISHNAN</i>	189
	REQUEST FOR FEEDBACK	201

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## STATUTORY DISCLOSURE BY INDIAN LIFE INSURANCE COMPANIES

**GAGANDEEP KAUR**  
**LECTURER OF COMMERCE**  
**GOVERNMENT BRIJINDRA COLLEGE**  
**FARIDKOT**

**RAJINDER KAUR**  
**READER**  
**DEPARTMENT OF COMMERCE**  
**PUNJABI UNIVERSITY**  
**PATIALA**

### ABSTRACT

*Insurance sector is an emerging sector in India as there is a large untapped market in the country. Entry of private and foreign insurance companies has created highly competitive and volatile environment in the insurance market. In such an environment, where private players are trying hard to take more market share in this industry and to protect the interests of policyholders, a transparent system of financial disclosure is very important. Insurance Regulatory Development Authority (IRDA) has issued separate regulations to prepare financial statements of insurance companies. Present study is an attempt to analyze the statutory disclosure practices of life insurance companies in India. Study is based on the annual reports of 17 life insurance companies comprising one public sector company i.e. Life Insurance Corporation (LIC) and sixteen private sector companies. Results of the study show that there is better disclosure in the annual reports of LIC than private sector life insurance companies. Over the period of study, there is improvement in the disclosure scores of both public and private sector life insurance companies.*

### KEYWORDS

Life insurance, statutory disclosure, policyholders, IRDA.

### INTRODUCTION

Insurance sector is an emerging sector in India with large population and untapped market. Prior to liberalization of this sector, Life Insurance Corporation of India (LIC) was the only life insurance company in India. Passing of the Insurance Regulatory and Development Authority (IRDA) Act, 1999 resulted in the entry of private life insurance companies and foreign companies (maximum share of 26 percent). Consequently the number of life insurance companies in the private sector increased to 22 till 2011 and still increasing gradually. With the entry of private companies, there is a tough competition in the insurance industry. To compete with the public company, which is having a long track record of good faith and is still dominating the market in terms of market share, private companies need to disclose all the material information in their annual reports. In such an environment of market instability, companies must ensure transparency in their financial statements to win public trust (Rao, 2004). To protect the interests of policyholders and to ensure accountability and credibility of companies, IRDA has issued separate disclosure norms to be followed by all the insurance companies.

### REVIEW OF LITERATURE

**Prakash (2004)** explained that the accounting function of life insurance companies is quite different from that of other companies and involves a lot of complexities. Financial statements of insurance companies are prepared in conformity with the accounting standards issued by ICAI. As per the IRDA regulations the life insurance companies should have joint auditors and IRDA maintains panel of auditors for the insurance companies. **Wielligh and Den Berg (2005)** evaluated the financial statements of five insurance companies of South Africa in order to assess the comparability in the companies disclosure practices. A checklist was developed to be used as a measuring instrument for items that can be expected to be disclosed in the annual financial statements of South African long term insurers. Findings showed that there was non-comparability in the companies presentations and disclosure practices in different areas. **Singh (2005)** made a comprehensive attempt to compare the financial reporting practices of the public and private sector banking companies in India for the year 1996-97 to 2001-02. Study revealed that most of the public sector and private sector banking companies were disclosing only that information which was statutory in nature and voluntary disclosure was also increasing in these companies. He found that overall corporate governance disclosure was better in case of public sector banking companies as compared to the private sector banking companies. **Riaz Uddin et al. (2006)** examined the disclosure practices of 10 insurance companies and 10 banking companies listed on the Dhaka Stock Exchange (DSE), selected on random basis for the year 2001 and 2004. Findings of the study showed that commercial banks and insurance companies were not complying with all the mandatory requirements in the annual reports. Also they were not disclosing adequate voluntary items in their annual reports. However the reporting practices are becoming more comprehensive overtime because of increasing awareness of corporate governance. Insurance companies lag behind the banks in compliance with disclosure due to lack of proper regulations in this sector. **Hossain (2008)** analyzed the extent of both mandatory and voluntary disclosure by listed banking companies in India. Association between company specific characteristics and total disclosure of the sample companies was also analyzed. Results showed that size, profitability, board composition and market discipline variables were significant and other variables such as age, complexity of business and assets in place were insignificant in explaining the level of disclosure. Indian banks were complying with the rules regarding mandatory disclosure, but they were far behind in disclosing voluntary items. **Singh (2009)** made a comparative analysis of the corporate disclosure behavior of the large and mid cap companies in India over a period of seven years from 1999-00 to 2005-06. Results of his study revealed that corporate disclosure behavior of large companies was better as compared to mid-cap companies. Effect of company attributes on the extent of disclosure was also studied and found that impact of all the seven attributes (total assets, sales, market capital, net profit, age, sectors and listing status) on corporate disclosure was higher in large companies as compared to mid-cap companies. The timeliness analysis done by the researcher reflected that both large and mid-cap companies preferred the month of March to balance their annual accounts and also preferred 12 months period to report their annual accounts. **Sarkar (2011)** analyzed the mandatory and voluntary disclosure practices of public limited companies in India for the year 2009-10. For the purpose of the study published annual reports of 12 companies selected on the basis of 10 BSE Sensex stocks in descending order of their market capitalization as on 31-3-11 were scanned. The author identified 22 items of mandatory disclosure and 32 items of voluntary disclosure. Findings of the study showed that there was 100 percent disclosure for mandatory items but wide diversity in the type and presentation of voluntary disclosure among companies. He suggested a common framework for presentation of information in the annual reports to meet the test of comparability and said that failures should also be reported in the annual reports.

### NEED OF THE STUDY

It has been seen while reviewing the literature on disclosure practices that different aspects of disclosure have been studied by various research scholars in India and abroad, but no attempt has so far been made to study the disclosure practices of life insurance companies in India. Insurance sector has vital importance for

economic growth of our country as it provides important financial services and generates funds for infrastructure development. Reporting requirements of insurance companies are different from that of other companies. IRDA has issued separate regulations in 2002, for preparing financial statements of insurance companies. These regulations are known as (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 (Anonymous, 2002). According to these regulations accounts of insurance companies are prepared according to the prescribed formats given by the authority. To protect the interests of policyholders and to increase transparency and credibility of companies, there is a need to have an effective regulatory system of disclosure in the annual reports of insurance companies. Therefore the need was felt to study this so far untouched area. The present study "Statutory Disclosure by Indian life insurance companies" is an attempt in this direction.

## OBJECTIVES OF THE STUDY

- To study the compliance of IRDA Regulations 2002, by life insurance companies in India.
- To make a comparative study of the statutory disclosure practices of public and private sector life insurance companies.

## HYPOTHESES

To compare the statutory disclosure practices of public and private sector life insurance companies following null hypotheses has been formulated.

Ho- There is no significant difference in the disclosure score of an item in the public and Private Sector Company

## RESEARCH METHODOLOGY

The sample of the study includes Life Insurance Corporation of India and 16 private life insurance companies. This study is purely based on secondary data. The annual reports of the selected companies were the major source of data collection. To analyze the statutory disclosure practices of life insurance companies an index of 24 items is constructed after scanning the annual reports of selected companies and considering the IRDA Regulations 2002, relating to preparation of financial statements of insurance companies. Extent of disclosure has been measured as item-wise disclosure and company-wise disclosure. Study is conducted for 8 years i.e. from 2002-03 to 2009-10. To measure the extent of disclosure, unweighted disclosure score has been used. If a company is disclosing an item 'score 1' is given and if a company is not disclosing an item 'score 0' is given. Disclosure score has been calculated in percentage by dividing the actual score of an item by its total scores. In order to interpret the data, mean disclosure, standard deviation, and percent change in disclosure score over the year have been calculated separately for both public and private sector companies. To test the hypotheses t-test has been applied. Company-wise statutory disclosure practices of life insurance companies are calculated in percentage by dividing the actual score of an individual company for a particular year by the total disclosure score of that year and multiplying it with hundred.

## RESULTS AND DISCUSSIONS

### ITEM-WISE DISCLOSURE

Results shown in Table 1 highlight that there is 100 percent disclosure for 20 items in Life Insurance Corporation. These 20 items are balance sheet, revenue account, profit and loss account, schedules forming part of financial statements, significant accounting policies, notes to accounts, receipts and payments account, auditors report, contingent liabilities, claim settlement and age wise analysis, summary of financial statements of last five years, sector wise details of policies issued, employee benefit plans, allocation of income and expenditure, managerial remuneration, accounting and performance ratios, basis of allocation of investment, commitment in respect of loans and investments, encumbrances on assets, shareholders and policyholders fund. Two items i.e. certificate as per schedule C and premium deficiencies are not disclosed for any of the years by LIC. Results of private life insurance companies reveal that only four items (balance sheet, revenue account, profit and loss account and schedules forming part of financial statement) are having 100 percent disclosure (Table 2). Eight items i.e. receipts and payment account (89.51), auditor's report (87.45), management report (86.22), sector wise details of policies issued (81.87), commitment in respect of loans and investments (83.82), accounting and performance ratios (93.08), encumbrances on assets (87.00) and shareholders and policyholder's funds (93.25) are disclosed by more than 80 percent companies in their annual reports. Only 3.12 percent companies in private sector are showing information relating to premium deficiency in their annual reports. Other items are having moderate disclosure scores.

The highest variation (35.4) is found for two items i.e. management report and performance of social sector schemes for last five years in LIC (Table 1). As these two items have been disclosed by LIC only in the last year of the study. Standard deviation results of private sector companies (Table 2) show that there is greater variation in the disclosure scores of summary of financial statements of last five years (17.75) followed by certificate as per schedule C (15.70) and sector-wise details of policies issued (15.08).

Results of percentage change in the year 2009-10 over 2002-03 depicts that the highest percentage change is for item, summary of financial statements of last five years (337.67). But there is only 9.38 percentage change for items, auditor's report and shareholders and policy holders' fund. There is good disclosure score for both these items in the initial year of the study.

### COMPANY-WISE DISCLOSURE

Company-wise disclosure results show that there is the highest mean disclosure (84.37) in case of Life Insurance Corporation of India (Table 3). Among private sector companies the highest disclosure is found (79.26) in case of Future Generali India Life Insurance Co. Ltd., which is a new entrant in the private life sector. Max New York Life Insurance Co. Ltd, which has got the lowest disclosure score, is disclosing only 24 percent items in their annual reports. Other companies having higher disclosure scores are Reliance Life Insurance Co. Ltd. (74.22), Shriram Life Insurance Co. Ltd. (70.67), Sahara India Insurance Co. Ltd. (70.37), Bajaj Allianz Life Insurance Co. Ltd. (65.34), ICICI Prudential life insurance Co. Ltd. (65.00), Bharti AXA life insurance Co. Ltd. (64.44) and HDFC Standard Life Insurance Co. Ltd. (63.61). Two companies which were originally private limited companies but changed their status to public limited in recent years are having very good disclosure scores i.e. ING Vysya Life Insurance Co. Ltd. (63.89) and Aviva Life Insurance Co. India Ltd. (71.55).

Standard deviation results show that maximum variation is found in the disclosure values of Kotak Mahindra Old Mutual Life Insurance Co. Ltd. (21.92) and the minimum variation is found in Birla Sun Life Insurance Co' Ltd (2.06). Other companies having larger standard deviation values are Bajaj Allianz Life Insurance Co. Ltd. (21.64) and Shriram Life Insurance Co. Ltd. (15.43). Disclosure values of life insurance company in the public sector is comparatively consistent as the value of standard deviation is only 2.95 in case of Life insurance Corporation of India.

There is more than 100 percent growth in disclosure score in the year 2009-10 over the year of its starting operations, in case of Kotak Mahindra Old Mutual Life Insurance Co. Ltd (244.5), Bajaj Allianz Life Insurance Co. Ltd. (183.31) and SBI Life insurance Co. Ltd. (111.1).

### COMPARATIVE ANALYSIS OF DISCLOSURE PRACTICES OF PUBLIC AND PRIVATE SECTOR COMPANIES

In order to compare the item-wise results of mandatory disclosure of public and private sector companies, t-values have been shown in Table 2. A bird's eye-view of the table depicts that there is a significant difference in the mean disclosure scores of 17 items out of total 24 items. So,  $H_0$  is rejected for 17 items as significant difference is found in the mean disclosure scores of public and private sector life insurance companies for these items. Public sector company, LIC is having better disclosure scores for all the items except two items i.e. management report, and certificate as per schedule C, in which private sector companies are having better mean disclosure scores. As there is insignificant difference in the mean disclosure scores of public and private sector life insurance companies for 3 items  $H_0$  has been accepted for these items.



## CONCLUSIONS

From the above discussion of disclosure practices of life insurance companies measured in terms of item-wise and company-wise disclosure, following can be concluded:

1. LIC is having better disclosure than private sector companies. There is more variation and higher percentage change over the period of time in the disclosure scores of private sector companies.
2. Company-wise disclosure is also higher in LIC. Among private sector companies 'Future Generali India Life Insurance Co. Ltd., a new entrant is on the top. Higher percent change in disclosure score over the year is in Kotak Mahindra Old Mutual Life Insurance Co. Ltd (244.5).
3. Comparative results of public and private sector companies highlight that there is a significant difference in the mean disclosure scores of majority of the items and there is better disclosure by LIC.

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## APPENDIX

TABLE 1: STATUTORY DISCLOSURE OF LIFE INSURANCE CORPORATION OF INDIA (IN PERCENTAGE)

S.No.	Description of Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Mean	SD	% change
1	Balance sheet	100	100	100	100	100	100	100	100	100	0	0
2	Revenue account	100	100	100	100	100	100	100	100	100	0	0
3	Profit and loss account	100	100	100	100	100	100	100	100	100	0	0
4	Schedules forming part of financial statements	100	100	100	100	100	100	100	100	100	0	0
5	Significant accounting policies	100	100	100	100	100	100	100	100	100	0	0
6	Notes to accounts	100	100	100	100	100	100	100	100	100	0	0
7	Receipts and payments account	100	100	100	100	100	100	100	100	100	0	0
8	Auditors report	100	100	100	100	100	100	100	100	100	0	0
9	Management report	0	0	0	0	0	0	0	100	12.50	35.4	-
10	Contingent Liabilities	100	100	100	100	100	100	100	100	100	0	0
11	Claim Settlement and Age wise Analysis	100	100	100	100	100	100	100	100	100	0	0
12	Summary of Financial Statements of last five years	100	100	100	100	100	100	100	100	100	0	0
13	Sector wise Details of Policies Issued	100	100	100	100	100	100	100	100	100	0	0
14	Employee Benefit Plans	100	100	100	100	100	100	100	100	100	0	0
15	Allocation of Income and Expenditure	100	100	100	100	100	100	100	100	100	0	0
16	Managerial Remuneration	100	100	100	100	100	100	100	100	100	0	0
17	Accounting and performance Ratios	100	100	100	100	100	100	100	100	100	0	0
18	Basis of allocation of investment	100	100	100	100	100	100	100	100	100	0	0
19	Certificate as per schedule C	0	0	0	0	0	0	0	0	0	0	0
20	Premium Deficiency	0	0	0	0	0	0	0	0	0	0	0
21	Performance of Social Sector Schemes for Last Five years	0	0	0	0	0	0	0	100	12.50	35.4	0
22	Commitment in Respect of Loans and Investments	100	100	100	100	100	100	100	100	100	0	0
23	Encumbrances on Assets	100	100	100	100	100	100	100	100	100	0	0
24	Shareholders and Policyholders funds	100	100	100	100	100	100	100	100	100	0	0

TABLE 2: STATUTORY DISCLOSURE OF PRIVATE SECTOR LIFE INSURANCE COMPANIES (IN PERCENTAGE)

S.No	Description of Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2009-10	Mean	SD	% change
1	Balance sheet	100	100	100	100	100	100	100	100	0	0
2	Revenue account	100	100	100	100	100	100	100	100	0	0
3	Profit and loss account	100	100	100	100	100	100	100	100	0	0
4	Schedules forming part of financial statements	100	100	100	100	100	100	100	100	0	0
5	Significant accounting policies	57.14	57.14	62.50	57.14	80.00	81.25	87.50	71.27	14.03	53.13
6	Notes to accounts	57.14	57.14	62.50	57.14	80.00	81.25	87.50	71.27	14.03	53.13
7	Receipts and payments account	71.43	71.43	87.50	85.71	100	100	100	89.51	12.61	39.99
8	Auditors report	85.71	85.71	75.00	78.57	93.33	93.75	93.75	87.45	7.50	9.38
9	Management report	71.43	71.43	75.00	78.57	93.33	100	100	86.22	13.32	39.99
10	Contingent Liabilities	42.86	42.86	50.00	57.14	66.67	62.50	75.00	59.00	13.03	74.99
11	Claim Settlement and Age wise Analysis	42.86	42.86	62.50	57.14	60.00	75.00	81.25	62.08	14.49	89.57
12	Summary of Financial Statements of last five years	14.28	14.28	25.00	14.28	26.67	31.25	62.50	30.56	18.98	337.67
13	Sector wise Details of Policies Issued	57.14	57.14	87.50	78.57	93.33	93.75	93.75	81.87	16.13	64.07
14	Employee Benefit Plans	42.86	42.86	37.50	50.00	60.00	68.75	75.00	55.71	14.27	74.99
15	Allocation of Income and Expenditure	57.14	57.14	62.50	71.43	86.67	87.50	81.25	73.89	13.55	42.19
16	Managerial Remuneration	57.14	57.14	62.50	64.28	80.00	81.25	81.25	70.60	11.32	42.19
17	Accounting and performance Ratios	71.43	85.71	87.50	100	100	100	100	93.08	10.65	39.99
18	Basis of allocation of investment	57.14	71.43	75.00	85.71	80.00	87.50	87.50	78.97	10.78	53.13
19	Certificate as per schedule C	42.86	42.86	62.50	64.28	80.00	81.25	81.25	67.03	16.78	89.57
20	Premium Deficiency	0	0	0	0	0	6.25	12.50	3.125	4.72	-
21	Performance of Social Sector Schemes for Last Five years	0	0	0	7.14	6.67	18.75	25.00	9.54	9.97	-
22	Commitment in Respect of Loans and Investments	57.14	85.71	100	78.57	86.67	87.50	87.50	83.82	12.27	53.13
23	Encumbrances on Assets	57.14	85.71	100	78.57	93.33	93.75	93.75	87	13.68	64.07
24	Shareholders and Policyholders funds	85.71	100	100	85.71	93.33	93.75	93.75	93.25	5.42	9.38

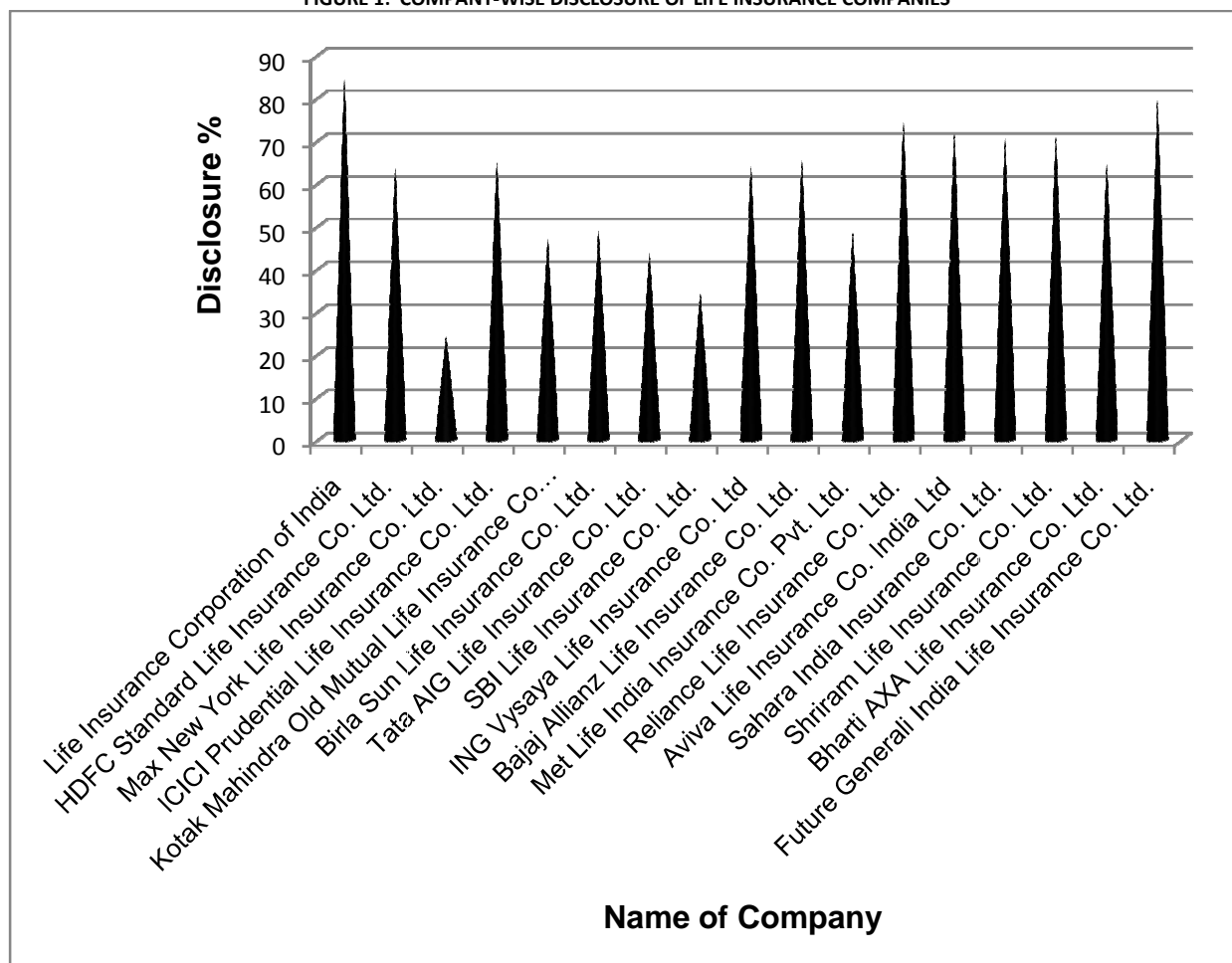
\* indicates that these values are significant at 5% level of significance and 14 degrees of freedom having table value of  $t = 2.15$

TABLE 3: COMPANY-WISE DISCLOSURE RESULTS (IN PERCENTAGE)

S No.	Name of Company	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Mean	SD	% change
<b>Public Sector</b>												
1	Life Insurance Corporation of India	83.33	83.33	83.33	83.33	83.33	83.33	83.33	91.67	84.37	2.95	10.00
<b>Private Sector</b>												
2	HDFC Standard Life Insurance Co. Ltd.	51.11	51.11	60.00	62.22	62.22	71.11	75.56	75.56	63.61	9.79	47.84
3	Max New York Life Insurance Co. Ltd.	-	-	-	22.22	24.44	24.44	24.44	24.44	24.00	0.99	9.99
4	ICICI Prudential Life Insurance Co. Ltd.	57.78	57.78	62.22	64.44	66.67	68.89	71.11	71.11	65.00	5.41	23.07
5	Kotak Mahindra Old Mutual Life Insurance Co. Ltd.	20.00	28.89	28.89	28.89	64.44	66.67	68.89	68.89	46.95	21.92	244.45
6	Birla Sun Life Insurance Co. Ltd.	46.67	46.67	46.67	48.89	48.89	51.11	51.11	51.11	48.89	2.06	9.51
7	Tata AIG Life Insurance Co. Ltd.	31.11	33.33	40.00	42.22	46.67	46.67	53.33	55.56	43.61	8.73	78.59
8	SBI Life Insurance Co. Ltd.	20.00	26.67	31.11	35.56	37.78	37.78	42.22	42.22	34.17	7.78	111.10
9	ING Vysaya Life Insurance Co. Ltd.	53.33	60.00	60.00	64.44	64.44	77.78	64.44	66.67	63.89	7.00	25.01
10	Bajaj Allianz Life Insurance Co. Ltd.	-	-	-	26.67	73.33	75.56	75.56	75.56	65.34	21.64	183.31
11	Met Life India Insurance Co. Pvt. Ltd.	-	-	-	46.67	46.67	46.67	51.11	51.11	48.45	2.43	9.51
12	Reliance Life Insurance Co. Ltd.	-	-	-	66.67	66.67	71.11	82.22	84.44	74.22	8.55	26.65
13	Aviva Life Insurance Co. India Ltd	-	-	-	68.89	68.89	73.33	73.33	73.33	71.55	2.43	6.45
14	Sahara India Insurance Co. Ltd.	NA	NA	66.67	64.44	66.67	73.33	73.33	77.78	70.37	5.20	16.66
15	Shriram Life Insurance Co. Ltd.	NA	NA	NA	44.44	71.11	75.56	77.78	84.44	70.67	15.43	90.01
16	Bharti AXA Life Insurance Co. Ltd.	NA	NA	NA	NA	51.11	64.44	68.89	73.33	64.44	9.60	65.21
17	Future Generali India Life Insurance Co. Ltd.	NA	NA	NA	NA	NA	75.56	80.00	82.22	79.26	3.39	8.81

Source: Annual Reports of Bajaj Allianz life insurance co. Ltd., Max New York Life Insurance Co. Ltd., Met Life India Insurance Co. Pvt. Ltd., Reliance Life Insurance Co. Ltd. and Aviva Life Insurance Co. India Ltd. for the year 2002-03 -2004-05 were not made available.

FIGURE 1: COMPANY-WISE DISCLOSURE OF LIFE INSURANCE COMPANIES



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