

## UNIT-2: ACCOUNTING TECHNIQUE OF GENERAL INSURANCE BUSINESS

### LEARNING OUTCOMES

**After studying this unit, you will be able to:**

- Understand the issues involved in the general insurance and learn the books of accounts/records which should be maintained at the divisional office of a general insurance company.
- Familiarise with the format of claim statement and try to understand how to compile the claim provisions.
- Understand the meaning of claims paid, co-insurance, outstanding premium and commission. Insurance companies debit all management expenses to a control account in the general ledger. Learn the technique of accounting of the management expenses and analysis thereof.
- Be familiar with the details of loans and investments of an insurance business and the books and records normally maintained in the investment department of an insurance company.
- Learn the technique of creating unexpired risks reserve in case of fire, marine, and miscellaneous insurance business.
- Understand the concept of re-insurance

## UNIT OVERVIEW

<b>Reinsurance</b>	if an insurer is not willing to bear the entire risk under insurance cover, it gets itself reinsured with another insurer for a part of the risk thereby reducing his risk itself. Some risk retains with some other insurer.
<b>Commission on Reinsurance Accepted or ceded</b>	the reinsurer generally allows commission to the reinsured (the insurance company which is seeking to get a risk reinsured) on part of business ceded. This is treated as an expense of the insurance company which is providing the reinsurance cover i.e. the reinsurer. The insurer who is getting reinsurance (reinsured) generally gets commission for giving the business under reinsurance contract to the reinsurer. It appears as an income in revenue account of the reinsured company.
<b>Coinsurance</b>	when a large risk is offered to an insurance company, then that insurance company retains certain percentage of sum insured and contracts other insurance company to underwriter the balance risk. In this way, all the companies jointly bear the risk. One is called as the leader who issues the policy and acts on behalf of others.
<b>Reserve for unexpired Risk:</b>	<p>For Marine Business = 100% of net premium income</p> <p>For others = Insurers have an option to create UPReither at 50 percent of Net Written Premium of preceding twelve months or on the basis of 1/365th method on the unexpired period of the respective policies.</p> <p><b>The insurers can follow either percentage or 1/365th method for computation of UP of the other segments. However, Insurers shall follow the method of provisioning of UP in a consistent manner. Any change in the method of provisioning can be done only with the prior written approval of the Authority</b></p>

## 2.1 FUNCTIONAL DIVISIONS AND BOOKS OF ACCOUNTS MAINTAINED THEREIN

With the General Insurance Business (Nationalisation) Amendment Act 2002 coming into force from 21 March 2003, GIC ceased to be a holding company of its subsidiaries. The ownership of the four erstwhile subsidiary companies and also of the General Insurance Corporation of India was vested with Government of India. GIC Re is a wholly owned company of Government of India.

The most important part of the business operations comprises the issuance of policies for risks assumed and to indemnify the insured for losses to the extent covered by such policies. In financial terms these operations get translated into—

- (a) the receipt/recording of premium income; and
- (b) the recording and settlement of claims for losses.

The business operations stated above are essentially confined to the divisional offices and the branches attached to these divisions. The accounting for these operations in these offices involve recording of premium income and provisions and payments in respect of claims under policies. Transactions related to operations at the branches are communicated for accounting thereof at the divisions. Generally, separate bank accounts are maintained for premium collections and for disbursement of expenditure. Normally, collections are transmitted to the relevant controlling office and the concerned account is not normally operated upon for expenditure etc. The branches of the divisions submit adequate information and evidence of transactions relating to their operations. The returns from the branches will include all transactions by way of documents relating to premium received, claims provisions and payments and operation of bank accounts.

The following books of account/records are normally maintained at a divisional office:

- (i) Cash Receipt Book.
- (ii) Cash Disbursement Book.
- (iii) Dishonoured Cheque Register.
- (iv) State Cheque Register.
- (v) Daily Cash Balance Book.
- (vi) Claims Disbursement Book.
- (vii) Premium Register.

- (viii) Bank Transfer Journal.
- (ix) Journal.
- (x) Summary Books for incorporation of Branch Returns (Cash Receipt Statements, Cash Disbursement Statements and Premium Register after these are duly checked).
- (xi) General Ledger.
- (xii) Sub-Ledgers.
- (xiii) Register for Analysis of Management Expenses.
- (xiv) Cash Receipts, Cash Disbursement Vouchers and Journal Vouchers.
- (xv) Remittances Received Register.
- (xvi) Salvage Register.
- (xvii) Claims Recovery Register.
- (xviii) Stationary Register.
- (xix) Trunk Call Register.
- (xx) Assets Register.
- (xxi) Policy Stamp Register.
- (xxii) Excess/Shortage Register.
- (xxiii) Co-insurers Register.

Other major areas of accounting involve accounting for investments, reinsurance and other administrative matters which are dealt with at the Head Office.

## **2.2 CLAIMS PROVISION AT DIVISIONAL OFFICES**

The outstanding liability at the year-end is determined at the divisions/branches where the liability originates for outstanding claims. Thereafter, based on the total consolidated figure for all the divisions/branches, the Head Office considers a further provision in respect of outstanding claims.

Every division prepares a claims statement.

To cover the possibility of errors in judgement in estimation or in cases of under-estimation of liability (where full details are not available) as also for the possibility of liability not being considered for claims incurred but not reported due to the nature of risks being such (e.g., where communication is made after a considerable time lag or after the cut-off date for preparation of final accounts)

the company at its head office makes an additional provision over and above that made by Divisions/Branches on the Divisional Auditors' Reports.

In view of the above, total of outstanding claims comprises the estimated liability recorded at the Divisions/Branches and the further provision made on this account at head office. This provision is subject to the amount to be adjusted for re-insurances, which are dealt with at head office.

## 2.3 CLAIMS PAID

For each class of business, the insurance companies have to disclose, in the relevant revenue accounts, claims paid separately. The divisional offices first ascertain the genuineness of the claim and ensure completion of the necessary formalities to enable the settlement to be made. Relevant evidence in respect of each claim is retained in each claim file and the liability is discharged after obtaining sanction of the relevant authority on the basis of amounts involved.

The divisional offices are expected to submit to the Head Office, for re-insurance adjustments, statements at regular intervals as to claims paid or provided for. Sometimes a year-end statement is also prepared showing month-wise figures so communicated.

A liability for outstanding claims should be brought to accounts in respect of both direct business and inward reinsurance business.

The liability should include:

- (a) Future payments in relation to unpaid reported claims;
- (b) Claims Incurred But Not Reported (IBNR) including inadequate reserves [sometimes referred to as Claims Incurred But Not Enough Reported (IBNER)], which will result in future cash/asset outgo for settling liabilities against those claims. Change in estimated liability represents the difference between the estimated liability for outstanding claims at the beginning and at the end of the financial period.

At the end of each financial year, as required by IRDA the actuarial valuation of the claims liability of an insurer is made by the appointed actuary, and the shortfall, if any is provided as IBNR/IBNER.

## 2.4 CO-INSURANCE

In cases of large risks the business is shared between more than one insurer under co-insurance arrangements at agreed percentages. The leading insurer

issues the documents, collects premium and settles claims. Statements of Account are rendered by the leading insurer to the other co-insurers. Accounting for premium, claims etc. under co-insurance is done in the same manner as that of the direct business except in respect of the following peculiar features.

### ***Incoming Co-insurance***

- (i) Premium** - The co-insurer books the premium based on the statement received from the leading insurer usually by issuing dummy documents. Entries are made in the Premium Register from which the Premium Account is credited and the Leading Insurer Company's Account debited. In case the statement is not received, the premium is accounted for on the basis of advices to ensure that all premium in respect of risk assumed in any year is booked in the same year; share of premium relatable to further extension/endorsements on policies by the leading insurer are also accounted for on the basis of subsequent advices. Reference to the relevant communications should be made from the concerned companies to ensure that premium collected by them and attributable to the company is recorded.
- (ii) Claims Provisions** – Refer para 2.2.
- (iii) Claims Paid** - Normally, on the basis of claims paid, advices received from the leading insurer, the Claims Paid Account is debited with a credit to the co-insurer. All such advices are entered into the Claims Paid Register. It is a practice to treat all claims paid advices relating to the accounting year received upto 31st January of the subsequent year from leading insurer as claims paid.

### ***Outgoing Co-insurance***

The share of the insurer only for both premium and claims has to be accounted under respective accounts. The share of other co-insurers is credited or debited, as the case may be, to their personal accounts and not routed through revenue accounts.

## **2.5 OUTSTANDING PREMIUM**

This should normally comprise amounts due for uncollected premium where the company is allowed relaxation to the provisions of the Insurance Act. The outstanding balances are expected to be temporarily outstanding and should be recovered within the stipulated period after the year-end. There may however be cases of premium otherwise receivable and due but which remains uncollected at the year-end.

- (a) **Bank guarantee limits available** - Premium in respect of risk accepted under Bank Guarantee and Cash Deposit received either directly or through agents is accounted for with reference to the limits available. Normally, monthly statements are prepared and submitted to every party and the balances of outstanding premium are recovered before the close of the following month. Outstanding premium in excess of bank guarantee available should be reported.
- (b) **Cash Deposit** - The balance of this account is always credit except in cases where the premium due exceeds the cash deposits resulting in debit balance recoverable from the party. Debit balance in the cash deposit account is shown separately since they are classified separately with the debit balance under outstanding premium on the assets side of the balance sheet.

## 2.6 COMMISSION

Insurance Act, 1938 and Insurance Amendment Act ( 2015) deal with and prescribes the basis and rates of commission payable to agents. However, under the provisions of General Insurance Nominalisation Act, the G.I.C. is empowered to regulate the commission structure.

It may be noted that all expenses of management are debited to a control account in the general ledger under "Expenses of Management" with a supporting subsidiary ledger viz., "Analysis of Management Expenses" wherein expenses for each classified category are posted and reconciled with the control account. Management Expenses Accounts Classification Schedule is normally annexed to the Trial Balance and forms a part thereof. Such expenses are shown separately under fire, marine and miscellaneous revenue accounts. and as to the basis of such apportionment, a note is appended to the accounts. Provision for outstanding expenses is made at the divisional office level.

## 2.7 LOANS

the following items to be disclosed in the balance sheet under Schedule of IRDA (Preparation of Financial Statement and Auditors' Report of Insurance Companies) Regulations, 2002:

*Loans:*

On mortgages of property within India.

On mortgages of property outside India.

- On security of municipal and other public rates.
- On stocks and shares.
- On Insurer's policies within their surrender value.
- On personal security.
- To Subsidiary Companies (other than Reversionary).
- Reversions and Life Interests purchased.
- Loans on Reversions and Life Interests.
- Debentures and Debenture stocks of Subsidiary Reversionary Companies.
- Ordinary stocks and share of Subsidiary Reversionary Companies.
- Loans to Subsidiary Reversionary Companies.

Besides the above items the present practice is also to disclose loans to industrial undertakings in India on consortium basis with the General Insurance Business (Nationalisation) Amendment Act 2002 coming into force from 21 March 2003, GIC ceased to be a holding company of its subsidiaries. The ownership of the four erstwhile subsidiary companies and also of the General Insurance Corporation of India was vested with Government of India. GIC Re is a wholly owned company of Government of India and/or other financial institutions. Term loans may often be preceded by bridge loans to such undertakings pending completion of all formalities.

Except for housing and other loans to staff which may be recorded at the Divisions/Regional level other loans are usually dealt with at Head Office.

## 2.8 INVESTMENTS

Investments in general insurance companies are governed by the provisions of Section 27B of the Insurance Act, 1938 as well as by the guidelines issued from time to time by the Ministry of Finance through General Insurance Corporation of India.

The various types of investments normally included in the Balance Sheet are given below as per categories under Schedule of IRDA (Preparation of Financial Statement and Auditors' Report of Insurance Companies) Regulations, 2002:

1. Deposit with the Reserve Bank of India (Securities to be specified)
2. Indian Government Securities/State Government Securities
3. British, British Colonial and British Dominion Government Securities

4. Foreign Government Securities
5. Indian Municipal Securities
6. British and Colonial Securities/Foreign Securities
7. Bonds, Debentures, Stocks and other securities whereon Interest is guaranteed by the Indian Government or State Government
8. Bonds, Debentures, Stocks and other Securities whereon Interest is guaranteed by the British or any Colonial Government
9. Bonds, Debentures, Stocks and other Securities whereon Interest is guaranteed by any Foreign Government
10. Debentures of any Railway in India
11. Debentures of any Railway out of India
12. Preference or guaranteed Shares of any Railway in India
13. Preference or guaranteed Shares of any Railway out of India
14. Railway Ordinary Stocks (i) in India (ii) out of India
15. Other Debentures and Debenture Stock of Companies incorporated (i) in India (ii) out of India
16. Other Guaranteed and Preference Stocks and Shares of Companies incorporated (i) in India (ii) out of India
17. Other Ordinary Stocks and Shares of Companies incorporated (i) in India (ii) out of India
18. Holdings in Subsidiary Companies.

As per the Guidelines presently applicable, the investible funds have to be invested on the following pattern (as per Insurance Regulatory & Development Authority (Investment) (fifth amendment) Regulations, 2013:

No.	Type of investment	Percentage of Investment Assets
(i)	Central Government Securities	Not less than 20%
(ii)	Central Government Securities, State Government Securities and other approved securities	Not less than 30% (including (i) above)
(iii)	Approved investments as specified in Section 27B of the Act and and Other Investment as specified in Section	Not exceeding 70%

	27B(3) of the Act and Schedule II to these Regulations, (all taken together) subject to Exposure /Prudential Norms as specified in Regulation 9.	
(iv)	Other investments as specified under Section 27B (3) of the Act, subject to Exposure I Prudential Norms as specified in Regulation 9.	Not more than 25%
(v)	<p>Housing and loans to State Government for Housing and Fire Fighting equipment, by way of subscription or purchase of</p> <p><b>A. Investments in Housing</b></p> <p>a. Bonds / Debentures issued by HUDCO, National Housing Bank</p> <p>b. Bonds/Debentures of Housing Finance Companies either duly accredited by National Housing Banks, for house building activities, or duly guaranteed by Government or carrying current rating of not less than 'AA' by a credit rating agency registered under SEBI (Credit Rating Agencies)Regulations,1999 .</p> <p>c. Asset Backed Securities with underlying Housing loans, satisfying the norms specified in the Guidelines issued under these regulations from time to time. I</p> <p><b>B. Investment in Infrastructure</b></p> <p>(Explanation: Subscription or purchase of Bonds Debentures, Equity and Asset Backed Securities with underlying infrastructure assets would qualify for the purpose of this requirement.</p> <p>'Infrastructure facility' should have the meaning as given in clause (h) of regulation 2 of Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) (Amendment) Regulations. 2008 as amended from time to time.</p>	<p>Total Investment in housing (i.e.,) investment in categories (i), (ii), (iii) and (iv) above taken together. should not be less than 5% of the investment Assets.</p> <p>Total investment in Infrastructure (i.e.,) investment in categories (i), (ii),(iii) and (iv) above taken together should not be less than 10% of the Investment Assets</p>

<p><b>Note:</b> Investments made under category (i) and (ii) above may be considered as investment in housing or infrastructure, as the case may be. provided the respective government issues such a security specifically to meet the needs of any of the sectors specified as 'infrastructure facility'</p>	
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On the basis of estimates made at the beginning of the year, the investments are made accordingly in each category. The estimates are reviewed and revised periodically if necessary.

The following books and records are normally maintained in the Investment Department of the Head Office of a company carrying on general insurance business.

- (1) Contracts (Bought/Sold Notes)
- (2) Copies of the Delivery Instructions
- (3) Purchase Registers
- (4) Application Money Registers
- (5) Allotment and Call Money Registers
- (6) Rights Issue/Bonus Issue Registers
- (7) Sales Redemption Registers
- (8) Term Loans Registers
- (9) Fixed Deposits/Participation Certificates/Bills Register
- (10) Underwriting Registers
- (11) Dividend Reconciliation Register
- (12) Interest Reconciliation Register
- (13) Safe-custody Receipts issued by banks
- (14) Cash Book/Bank Book
- (15) Investments sub-ledgers
- (16) General Ledgers
- (17) Investment Schedules, classified as to nature of investments.

## 2.9 UNEXPIRED RISKS RESERVE

Insurance Company, close their accounts on 31<sup>st</sup> March but not all risks under different policies expire on that date. Many policies extend into the following accounting year during which the risk continues. Therefore on the closing date there is an unexpired liability under various policies which may occur during the remaining term of the policy beyond the year and therefore, a provision for unexpired risks is made. This reserve is based on the Net Premium income earned by the insurance company during the year.

The effort involved in calculating unexpired portion of premium under each policy is very time consuming. Therefore, a simple formula to derive a percentage of premium income to be allocated to reserve for unexpired risks is adopted.

According to the requirements of the Insurance Act, it is sufficient if the provision is made for unexpired risks at 50<sup>1</sup> per cent for Fire, Marine Cargo and Miscellaneous business except for Marine Hull which has to be 100 per cent.

It may be mentioned that the insurance companies are governed by the provisions of Section 44 of the Income-tax Act, 1961. In this regard, Rule 5 of the First Schedule to the Income-tax Rules — computation of Profit & Loss of General Insurance Business — provides for creation of a reserve for unexpired risks as prescribed under Rule 6E of the said Rules. According to this Rule, the insurance companies are allowed a deduction of 50 per cent of net premium income in respect of Fire and Miscellaneous Business and 100 per cent of the net premium income relating to Marine Insurance business. In view of this the reserves are created at the rates allowed under the Income-tax Act.

### **Additional reserve for unexpired risk**

- In a particular year the management may feel that the percentage of premium recommended by the General Insurance Council is not sufficient to meet the unexpired risks. In such a situation they may provide additional reserve. Such additional reserve for unexpired risk will also be debited to the revenue account.

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<sup>1</sup> : Insurers have an option to create UPR either at 50 percent of Net Written Premium of preceding twelve months or on the basis of 1/365th method on the unexpired period of the respective policies. The insurers can follow either percentage or 1/365th method for computation of UPR of the other segments. However, Insurers shall follow the method of provisioning of UPR in a consistent manner. Any change in the method of provisioning can be done only with the prior written approval of the Authority.

- The balance will be shown in the balance sheet as in the case of normal reserve for unexpired risk, and will be transferred to the credit of next year's revenue account.

### Illustration 1

*Indian Insurance Co. Ltd. furnishes you with the following information :*

- On 31.12.20X1 it had reserve for unexpired risk to the tune of ₹ 40 crores. It comprised of ₹ 15 crores in respect of marine insurance business : ₹ 20 crores in respect of fire insurance business and ₹ 5 crores in respect of miscellaneous insurance business.
- It is the practice of Indian Insurance Co. Ltd. to create reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous income policies.
- During 20X2, the following business was conducted :

	Marine	Fire	Miscellaneous (₹ in crores)
<i>Premia collected from :</i>			
(a) <i>Insureds in respect of policies issued</i>	18	43	12
(b) <i>Other insurance companies in respect of risks undertaken</i>	7	5	4
<i>Premia paid/payable to other insurance companies on business ceded</i>	6.7	4.3	7

*Indian Insurance Co. Ltd. asks you to :*

- Pass journal entries relating to "Unexpired risks reserve".
- Show in columnar form "Unexpired risks reserve" a/c for 20X2.

### Solution

#### (a) Journal of Indian Insurance Co. Ltd.

(₹ in crores)

20X2		Dr.	Cr.
Dec. 31	Marine Revenue A/c	Dr.	3.30
	To Unexpired Risks Reserve A/c		3.30

(Being the difference between closing provision of ₹ 18.30 crores (18 + 7 – 6.7) and opening provision of ₹ 15 crores charged to marine revenue account)			
Fire Revenue A/c	Dr.	1.85	
To Unexpired Risks Reserve A/c			1.85
(Being the difference between closing provision of ₹ 21.85 crores [(43 + 5 – 4.3)/2] and opening provision of ₹ 20 crores charged to fire revenue account)			
Unexpired Risks Reserve A/c	Dr.	0.50	
To Miscellaneous Revenue A/c			0.50
(Being the excess of opening balance of ₹ 5 crores over the required closing balance of ₹ 4.5 crores [(12 + 4 – 7)/2] credited to miscellaneous revenue account).			

**(b) Unexpired Risks Reserve A/c***(₹ in crores)*

20X2		Marine	Fire	Miscellaneous	20X2		Marine	Fire	Miscellaneous
		₹	₹	₹			₹	₹	₹
Dec. 31	To Revenue A/c	–		0.5	Jan 1	By Balance b/d	15.00	20.00	5.00
	To Balance c/d				Dec. 31	By Revenue A/c			
		<u>18.30</u>	<u>21.85</u>	<u>4.50</u>			<u>3.30</u>	<u>1.85</u>	<u>—</u>
		<u>18.30</u>	<u>21.85</u>	<u>5.00</u>			<u>18.30</u>	<u>21.85</u>	<u>5.00</u>

**Note :** Alternatively, the opening balances of unexpired risk reserves may be reversed in the beginning of year by transfer to Revenue account and fresh reserve of full required amount may be created at the end of the year which will be carried forward as closing balances.



To Claims (on reinsurance ceded) xxxx

(Being claims receivable from Y Co. for part of insurance business ceded)

Z Insurance company cedes reinsurance business to X:-

1. Z Insurance Co A/c Dr. xxxx

To Re-Insurance premium (on reinsurance accepted) xxxx

(Being premium on business ceded by Z insurance company recorded)

2. Commission (on Reinsurance ceded) Dr. xxxx

To Z Insurance Co xxxx

(Being commission due on re-insurance business ceded to Z company debited)

3. Claims (on reinsurance accepted) A/c Dr. xxxx

To Z Insurance Co xxxx

(Being claims on re-insurance business accepted from Z company recorded)

### Illustration 1

Janani Assurance Co. Ltd. received ₹ 5,90,000 as premium on new policies and ₹ 1,20,000 as renewal premium. The company received ₹ 90,000 towards reinsurance accepted and paid ₹ 70,000 towards reinsurance ceded. How much will be credited to Revenue Account towards premium?

	₹
Premium received in respect of new policies	5,90,000
Add: Renewal premium	<u>1,20,000</u>
	7,10,000
Add: Re-insurance premium accepted	<u>90,000</u>
	8,00,000
Less: Re-insurance ceded	<u>(70,000)</u>
Premium amount to be credited to Revenue A/c	<u>7,30,000</u>

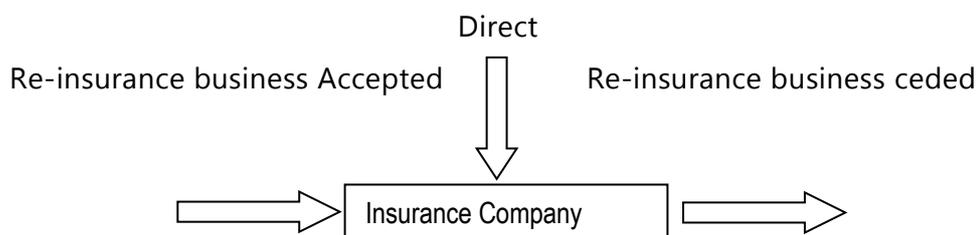
**Broadly speaking, there are two types of reinsurance contracts:**

**1. Facultative Reinsurance :** It is that type of reinsurance whereby the contract relates to one particular risk and is expressed in a reinsurance policy.. Each transaction under Facultative Reinsurance has to be negotiated individually and each party to the transaction has a free choice, i.e. for the ceding company to offer and

the reinsurer to accept. The main drawback of this type of insurance is the volume of work involved and time taken to cover the risk.

**2. Treaty Insurance:** Under this type of reinsurance a Treaty agreement is entered into between ceding company and the re-insurer(s) whereby the reinsurances are within the limits of the Treaty. These limits can be monetary, geographical, section of business, etc. Under this contract it is obligatory for the re-insurer to accept all risks within the scope of this Treaty and it is obligatory for the ceding company to cede risks in accordance with the terms of the Treaty.

Treaties can also be divided into two categories, viz. proportional treaties and non-proportional treaties.



## SUMMARY

- **Commission on Reinsurance Accepted:** The reinsurer generally allows commission to reinsured on apart of business ceded. This is treated as expense of the company.
- **Commission on Reinsurance ceded:** Reinsurance generally gets commission for giving the business under reinsurance contract. It appears as an income in revenue account.
- **Coinsurance:** when a large risk is offered to an insurance company, then that insurance company retains certain percentage of sum insured and contracts other insurance company to underwriter the balance of risk. In this way, all the companies jointly bear the risk. One is called as the leader who issues the policy and acts on behalf of others.
- **Reserve for unexpired Risk:**

For Marine Business = 100% of net premium income

For others = 50% \*of net premium income



- (b) Ayushman Insurance Co. Ltd. creates reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous income policies.
- (c) During 20X2, the following business was conducted:

	Marine	₹ in crores	
		Fire	Miscellaneous
Premium collected from:			
(a) Insured in respect of policies issued	18.00	43.00	12.00
(b) Other insurance companies in respect of risks undertaken	7.00	5.00	4.00
Premium paid/payable to other insurance companies on business ceded	6.70	4.30	7.00

## ANSWERS/HINTS

### Theoretical Questions

#### Answer 1

(i) Refer para 2.9

- (ii) *Coinsurance*: when a large risk is offered to an insurance company, then that insurance company retains certain percentage of sum insured and contracts other insurance company to underwriter the balance of risk. In this way, all the companies jointly bear the risk.

### Practical Questions

#### Answer 1

#### General Insurance Company (Abstract showing the amount of claims)

#### Net Claims incurred

	₹
Claims paid - Direct (46,70,000 + 35,000 + 45,000)	47,50,000
Add: Re-insurance accepted (7,00,000+53,000-87,000)	<u>6,66,000</u>

	54,16,000
Less : Re-insurance ceded (2,30,000+1,13,000-65,000)	<u>(2,78,000)</u>
	51,38,000
Add : Claims outstanding at the end of the year	<u>8,12,000</u>
	59,50,000
Less : Claims outstanding at the beginning of the year	<u>(7,63,000)</u>
Total claims incurred	<u>51,87,000</u>

**Note :** The expenses incurred on settlement of claims such as surveyor's fee, legal expenses etc should be shown under "claims incurred during the year"

### Answer 2

#### In the books of Ayushman Insurance Co. Ltd.

#### Journal Entries

Date	Particulars	₹ in crores	
		Dr.	Cr.
1.1.20X2	Unexpired Risk Reserve (Fire) A/c Dr.	20.00	
	Unexpired Risk Reserve (Marine) A/c Dr.	15.00	
	Unexpired Risk Reserve (Miscellaneous) A/c Dr.	5.00	
	To Fire Revenue Account		20.00
	To Marine Revenue Account		15.00
	To Miscellaneous Revenue Account		5.00
	(Being unexpired risk reserve brought forward from last year)		
31.12.20X2	Marine Revenue A/c Dr.	18.30	
	To Unexpired Risk Reserve A/c		18.30
	(Being closing reserve for unexpired risk created at 100% of net premium income amounting to ₹ 18.3 crores i.e.18+7-6.70)		
	Fire Revenue A/c Dr.	21.85	
	To Unexpired Risk Reserve A/c		21.85
	(Being closing reserve for unexpired risk created at 50% of net premium income of ₹ 43.7 crores i.e.43+5-4.30)		

Miscellaneous Revenue A/c	Dr.	4.50	
To Unexpired Risk Reserve A/c			4.50
(Being closing reserve for unexpired risk created at 50% net premium income of ₹ 9 crores i.e. 12+4-7)			

### Unexpired Risk Reserve Account

Date	Particulars	Marine (₹)	Fire (₹)	Misc. (₹)	Date	Particulars	Marine (₹)	Fire (₹)	Misc. (₹)
1.1.20X2	To Revenue A/c	15.00	20.00	5.00	1.1.20X2	By Balance b/d	15.00	20.00	5.00
31.12.20X2	To Balance c/d	<u>18.30</u>	<u>21.85</u>	<u>4.50</u>	31.12.20X2	By Revenue A/c	<u>18.30</u>	<u>21.85</u>	<u>4.50</u>
		<u>33.30</u>	<u>41.85</u>	<u>9.50</u>			<u>33.30</u>	<u>41.85</u>	<u>9.50</u>