

Nature of Financial Reporting Disclosure: An Analysis of Insurance Company in Bangladesh

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Abstract:

In business and human life lots of risks and uncertainty exists. For deducing the risks of business, insurance gives the monetary compensation for the insured risk and for human life and it gives assurance to pay certain amount of money for certain conditions. In another sense, People have to live and play with hazards and to some extent insurance policy can free people from those frustrations. Even if this is true, people of Bangladesh still don't prefer to insure themselves. Here, this study will try to find out the problems of insurance business in Bangladesh and will try to suggest some steps for overcoming these problems. The insurance industry faced a shock suddenly. One of the shock is an efficient financial reporting disclosure which is a nature in measuring the strength of any company. To reform & modernize the insurance sector in Bangladesh, the parliament of Bangladesh passed a new Insurance Act 2010 in March 2010. Since just after passing a new act to replace the old one, the previous Insurance Act 1938 became inactive due to pass Insurance Act 2010. At present, 75 companies are operating their business including foreign companies. Furthermore, this study has been tried to analyze very well to get the actual scenario of the financial reporting disclosure conditions of the life and non-life insurance companies. This revealed that most companies have poor financial reporting disclosure conditions. With proper evidence, this study also tried to determine the present level of the financial reporting disclosure and how to remove this poor condition efficiently.

Keywords: Financial Reporting, Nature of disclosure of Insurance Company, Framework

Introduction:

In almost every part of the world, Insurance industry developed to mitigate risk and uncertainty to business and human life but due to various key constraints insurance company is running to poor growth. This is especially true for Insurance industry of our country, as they are facing different types of problems for availing institutional and regulatory context. Though, insurance company plays dominantly important role in the national economy of Bangladesh by making of industrial safety, providing security of industrial value-added to gross domestic product (GDP). Further, as important sources of new business creation and developing new entrepreneurial talents, these industries provide the much-needed dynamism and vitality to the national economy. Besides, rapid and

sustainable growth of insurance industry is undoubtedly one vehicle for accelerating national economic growth to the point of having a measurable impact in the way of reduction of uncertainty and risk in business world. More than 90% of the industrial enterprises in Bangladesh are in the adopted insurance policy. Generally, the industry also possesses a character of risk taker effectively and comparative cost advantages in nature. Among the many compelling reasons why Insurance Company does fails to realize their full potential, inadequate access to international market? With limited reporting base of their own and little or no access to institutional professionalism they rely on inefficient market service traditionally from informal sources, which eventually proves unsustainable growth. Considering the above factors Government has

taken different steps and directed several guidelines for insurance company and makes to facilitate through formal development activities. Now the time has come when the impact of these initiatives on insurance industry must be evaluated. So that problems (if any) can be identified and necessary measures may be taken to eradicate these problems; also, some new opportunities may be revealed.

Background of the study:

Insurance is not a new business in Bangladesh. The development of insurance was started from after 1947. There was no any state-owned insurance company before 1957. In 1958, a new insurance was established for the state-owned insurance company. Mainly after liberation war in 1971, there started some insurance companies. Then the government of Bangladesh nationalized. Insurance industry in 1972 under the residence ordinance sec (95). By virtue of this order, save and except postal life insurance and foreign life insurance companies, all 49 insurance companies and organizations transacting insurance business in the country were placed in the public sector under five corporations. The basic idea behind the formation of four underwriting corporations, two in each main branch of life and general, was to encourage competition even under a nationalized system. But the burden of administrative expenses incurred in maintaining two corporations in each front of life and general and an apex institution at the top outweighed the advantages of limited competition. Consequently, on 14 May 1973, a restructuring was made under the Insurance Corporations Act 1973. Following the Act, in place of five corporations the government formed two: the Sadharan bima corporation for general business, and Jiban bima corporation for life business. Further, the Insurance Corporations Act 1973 was amended in 1984 to allow insurance companies in the private sector to operate side by side with Sadharan Bima Corporation and Jiban Bima Corporation. The Insurance Corporations Amendment Act 1984 allowed floating of insurance companies, both life and general, in the private sector subject to certain restrictions regarding business operations and reinsurance. Under the new act, all general insurance businesses emanating from the public sector were reserved for the state owned Sadharan Bima Corporation, which could also underwrite insurance business emanating from the private sector. The Act of 1984 made it a requirement for the private sector insurance companies to obtain

100% reinsurance protection from the Sadharan Bima Corporation.

Objective of the Study:

The major objectives of the study are to assess present status of financial reporting system and practiced issues by insurance company in Bangladesh. Though, insurance company is supposed to be playing a significant role in sustaining growth, whereas, a large number of companies did not achieve their goal in consistent with global economy and lag behind has been seen during last few years. This study will find out the cause behind this reality and eventually will prescribe some corrective measures. The general objective of this study is to devise some control mechanism for development activities of insurance company with studying impacts of the same rules and regulation.

The specific objectives are:

- a) To evaluate the overall reporting activities of insurance company in Bangladesh,
- b) To identify the reason for adopting of presentation of financial report for insurance company,
- c) To analyse the impact of the nature of current reporting system of insurance industry in Bangladesh,
- d) To formulate some specific suggestions to develop this industry in Bangladesh.

Literature Review:

The present that economic growth, expansion of infrastructure, industries, trade and commerce is leading to the expansion of the insurance market. The present low insurance penetration in the country points to the potential for future expansion. Uddin, (2010) presented that insurance company in Bangladesh is lagging to achieve international standard. transparency, accountability, as well as ethical and legal practices in the insurance business should be done. He also presented that they are lacking international benchmark of their service. Samina, (2012) examined the Investment Portfolio of Insurance Companies in Bangladesh: A Study on Selected Insurance Companies of Bangladesh. She argued that Insurance companies are such financial institutions which stand by us at our disaster moments and try to uphold us by providing a lump sum amount of claim. To accelerate this important role in the economy, insurance companies involve in different investments so that they can earn a good profit. And, here comes the importance of the construction of an efficient investment portfolio.

The number of companies has grown rapidly which has created a huge competition in the industry for which the companies have found investment as one of their income source. Ahmed, (2010) studied that the state of insurance industry in Bangladesh. The government has now embarked on a reform programme in the insurance sector to promote a vibrant insurance sector in the country. As a first step towards achieving the objective, the Insurance Act, 2010 in replacement of the Insurance Act, 1938, and the Insurance Development and Regulatory Authority.

Act, 2010 for establishing the Insurance Development and Regulatory Authority (IDRA). A Review of insurance sector: The life insurance sector has shown remarkable growth in recent years. Ahmad and Khanal, (2007) examined that Services Trade in Developing Asia: A case study of the Banking and Insurance Sector in Bangladesh. With liberalization of the insurance sector, the private sector is increasingly occupying a major share of the insurance business. The general insurance industry witnessed continuous growth. High economic growth rate accompanied by expansion in trade and commerce is leading to the expansion of insurance market in Bangladesh. They identified that, still there are many barriers to both foreign and domestic investment in the insurance sector.

Accounting Regulatory Frameworks for Insurance Company:

The Bangladesh Bank Order, 1972, states that: “Central Bank in Bangladesh [is] to regulate the issue of currency and the keeping of reserves and manage the monetary and credit system in Bangladesh with a view to stabilizing domestic monetary value; preserving the par value of the Bangladesh Taka; promoting and maintaining a high level of production, employment and real income in Bangladesh; and fostering growth and development of the country’s productive resources in the best national interest. The following underlying laws, rules, and regulations have been considered in presenting the financial statement

The Insurance Act 2010 The Insurance Act 1938
The Insurance Rule 1958
Bangladesh Bank Order No. 127, 1972 Banking
Companies Act No. 14, 1991
The Bangladesh Securities and Exchange Rules
1987 Companies Act No. 18, 1994
The Income Tax Ordinance 1984

The listing regulations of Dhaka and Chittagong Stock Exchange the Bangladesh Accounting Standard (BAS)

The Bangladesh Financial Reporting Standards (BFRS)

The Generally Accepted Accounting Principles (GAAP)

Major Institutions involved in accounting regulatory frameworks:

The Securities and Exchange Commission (SEC): The Commission was established in 1993 under the provisions of the Securities and Exchange Ordinance 1969. The functions of the Commission as laid down in the SEC Act 1993 are to ensure proper issuance of securities, to protect the interests of investors in securities, and to promote the development of, and regulate, the capital and securities market (Akhtaruddin, 2005).
The Institute of Chartered Accountants of Bangladesh (ICAB): The ICAB is the national professional accounting body of Bangladesh. The Institute was established in 1973 and given its legal status by the Bangladesh Chartered Accountants Order 1973 (Presidential Order No. 2 of 1973). The ICAB is an active member of various International and Regional accounting bodies such as The International Federation of Accountants (IFAC), The International Accounting Standards Board (IASB), The Confederation of Asian and Pacific Accountants (CAPA) and The South Asian Federation of Accountants (SAFA). The institute circulates all IFAC releases in relation to IFRSs to its members.

The Institute of Cost and Management Accountants of Bangladesh (ICMAB): The ICMAB was established in 1973 under the Cost and Management Accountants Ordinance (1977) and is attached to the Ministry of Commerce (MOC). The primary objective of the institute is to develop and train cost and management accountants. The fellows qualifying from ICMAB are not required to go through practical accounting and auditing training with a professional accounting firm (Solaiman, 2006). The ICMAB’s capacity is constrained by the shortage of well-trained instructors and resources. The institute has no auditing power, and hence does not play any role regarding financial accounting standards.

The Dhaka Stock Exchange (DSE): The Dhaka Stock Exchange (DSE) is registered as a Public Limited Company and its activities are regulated by its Articles of Association rules & regulations and bye-laws along with the Securities and Exchange Ordinance 1969, the Companies Act 1994 and Securities and Exchange Commission Act 1993. The volumes of transactions and the number of quoted companies in the DSE have increased significantly (Siddiqui, 2010).

The Registrar of Joint Stock Companies (RJSC): The function of the Registrar is to grant registration to new incumbents (Hasan et al., 2008). The Companies Act 1994 requires that every joint stock company obtains a registration from the Registrar and files a copy of their annual report. However, the Registrar's role is reduced to one of routine licensing of companies, in exchange of a specified fee and housing the files of companies' accounts.

The National Board of Revenue (NBR): The NBR was established by President's Order No. 76 of 1972, under the Internal Resources Division (IRD) of the Ministry of Finance (MOF). The NBR is the central authority for tax administration in Bangladesh and is responsible for the formulation and continuous re-appraisal of tax-policies and tax-laws, negotiating tax treaties with foreign governments and participating in inter-ministerial deliberations on economic issues which have a bearing on fiscal policies and tax administration (Ahmed, 2006). The main task of the NBR is to collect domestic revenue (primarily Import Duties and Taxes, VAT and Income Tax) for the government (source: <http://www.nbr-bd.org/>).

Methodology of the Study:

This study based on secondary information. Secondary data has been collected from different published documents like book journals, brochures, audit reports, web sites of different insurance company. And, this study has been conducted on literature based and information gathered from secondary sources to identify on usage behavior of insurance company in Bangladesh. Furthermore, some secondary information collected from the annual reports (2014) of the company & web information from the related companies and regulatory authorities. Consequently, this is grounded data from related companies in the country and regulatory authority. The basic method

used in analysing financial reporting disclosures is to scrutinize the Annual Reports of the non-life insurance companies using checklists. Scoring the items of disclosure index gives tick mark (√) if it is disclosed and gives cross mark (x) if it is not disclosed. Bhuiyan and Kamal (2003) argued that the focus of determining whether to use this system is preferable.

Findings of the Study:

This study has found out some difficulty in assessing real scenario in accounting policies and explanatory notes. It also has found that the surveyed the annual report of insurance companies and have prepared their financial statement as per contains those requirements;

1.The Insurance Act 2010: The Insurance Act 2010 was promulgated on 2010 and IDRA Act also. But necessary rules and regulations have not yet been gazetted by the Government for the application of the said Acts. As a result, in the absence of any formats, the balance sheet and revenue account have been prepared in accordance with the prescribed formats in the Insurance Act 1938. It can be seen (Appendix A) that 93.75% of selected companies have followed this Act in presenting financial statement in annual report.

2.The Insurance Act 1938: The accompanied statements have been prepared in accordance with Insurance Act 2010. In certain cases where rules and regulations are yet to be framed by the Insurance Development and regulatory Authority (IDRA), the relevant provisions of the Insurance Act 1938 have been resorted to. Accordingly, the balance sheet has been prepared in accordance with the regulations contained in part I of the First Schedule and as per Form "A" as set forth in part II of that Schedule and revenue account. It can be seen from appendix table-A that the frequency of following level is 56.25% out of selected 16 insurance companies.

3.The Insurance Rule 1958: The formats of the balance sheet and revenue account have been prepared in accordance with the prescribed formats in the Insurance Act 1938 and provision in the Insurance Rules 1958. It can be seen (Appendix A) and presents that the frequency of adoption level is 37.5% in the annual reports over the study period.

4.The Company Act 1994: This is the highly followed regulation for all types of companies in

Bangladesh and the Board of Directors is responsible for the preparation and presentation of financial statements under Section 183 of Companies Act, 1994. It can be seen from the appendix table that the frequency level is 100% of selected insurance companies.

Table 1: Frequency of disclosure level of insurance company with regulatory framework

Sl. No.	Required Compliance Status	Sample Company	Disclosures level	Percentages (%)
1	The Insurance Act 2010	16	15	93.75
2	The Insurance Act 1938	16	9	56.25
3	The Insurance Rule 1958	16	6	37.5
4	The Company Act 1994	16	16	100
5	The Bangladesh Securities and Exchange Rules 1987	16	14	87.5
6	The Income Tax Ordinance 1984	16	6	37.5
7	The listing regulations of Dhaka and Chittagong Stock Exchange	16	10	62.5

8	The Bangladesh Accounting Standard (BAS)	16	13	81.25
9	The Bangladesh Financial Reporting Standards (BFRS)	16	5	31.25
10	The Generally Accepted Accounting Principles (GAAP)	16	2	12.5

5.The Bangladesh Securities and Exchange Rules 1987: In Bangladesh, the annual report of company has been prepared on underlying this regulations and accounting pronouncement. It can be seen from the appendix table A that the disclosure level is 87.5 % in the annual reports out of 16 companies.

6.The Income Tax Ordinance 1984: The financial statement has been prepared on underlying this regulations and accounting pronouncement have been considered in presenting the financial statement for all types company in Bangladesh. It can be seen (Appendix A) that the frequency level of disclosure is 37.5% of selected companies under this ordinance.

7.The Listing Regulations of Dhaka and Chittagong Stock Exchange: The financial statement has been prepared on underlying this regulations and accounting pronouncement have been considered in presenting the financial statement. Appendix table A has presented that the level of disclosures of this regulation is 62.5% in the annual reports among 16 insurance companies.

8.The Bangladesh Accounting Standard (BAS): Bangladesh Accounting Standards is applicable standard in Bangladesh which have been approved by regulatory authority ICAB for preparing

financial statements. Appendix table A has shown that the frequency level disclosure is 81.25% out of 16 selected companies.

9.The Bangladesh Financial Reporting Standards (BFRS): Bangladesh Financial Reporting Standards is applicable in Bangladesh which has been approved by regulatory authority ICAB for preparing financial statements. The finding of checklist in appendix table A has presented that there 31.25% companies have been disclosed by among selected companies.

10.The Generally Accepted Accounting Principles (GAAP): This is the ground rules of accounting principles. Company makes account under GAAP. The finding of checklist in appendix table A presented that 12.5% of selected companies prepared financial report following GAAP.

The professional bodies' engagement with stakeholders, the ICAB is responsible for accounting standard setting in Bangladesh but does not engage the stakeholders in the setting of standards; there has even been a lack of any published exposure drafts and/or consultation papers on standards. This is possibly because the ICAB is directly linked with the Ministry of Commerce and their decisions are political and based on closed door policy making rather than being engagement based.

Recommendations:

In Bangladesh the insurance companies follow the laws, rules, and regulations just to meet the requirement of national regulatory authority. So, due to following these rules, companies do not clearly to provide related parties adequate information and ignore international standard. There is needed to take steps to ensure that the legal and regulatory requirements on accounting and financial reporting fully protect the public interest. This recommendation might necessitate the enactment of a new Financial Reporting Act and the repeal of the provisions on accounting and financial reporting in Companies Act 1994, Insurance Companies and other related regulations. It will be easy to update accounting and financial reporting requirements from time to time by simply amending the single Financial Reporting Act. Considering the present nature of the financial reporting disclosures of insurance companies of Bangladesh the following guidelines are recommended:

- Insurance companies should increase their willingness towards the disclosure of explanatory and easily understandable financial information in their Annual Reports.
- The IDRA should make the explanatory disclosure mandatory so that all of the companies publish easily understandable financial information.
- Provide guidelines for Corporate Governance issued by IDRA, and independence requirements for the auditor reference should be made to the Code of ethics for Professional Accountants as issued by the accounting regulator.
- Companies should follow the international financial reporting standards strictly to ensure quality financial reporting disclosures.
- The Annual Reports, other related explanatory financial information and qualitative information should be available in their website for all of the companies so that information can easily be accessible.
- The companies should increase their concentration on the information disclosures for the researchers and other stakeholders.
- The various regulatory authorities have to be active in ensuring quality financial reporting disclosures by the insurance company for efficient financial reporting.
- To define what auditing standards will be utilized in the performance of an audit.
- Insurance Act should to include the publishing of the statement of comprehensive income for members of the public to get a complete picture of the Insurance companies' performance in consistent with international standard.
- In addition to publishing in the daily newspapers of wide circulation, insurers should for effective disclosure also be required to make their audited financial reports readily available in their websites.

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Appendix A: A checklist, compliance with regulation of Financial Disclosure of Insurance Company (Annual Report- 2014)

Sl. No.	Required Compliance Status	PIC L	UI C	CI L	NGI C	MI C	GIL	DI L	SI L	AI L	APG I	PLI C	FIL I	MLI C	SLI C	SI C	RLIC
1	The Insurance Act 2010	√	√	√	√	×	√	√	√	√	√	√	√	√	√	√	√
2	The Insurance Act 1938	√	√	√	√	√	×	√	√	√	×	×	√	×	×	×	×
3	The Insurance Rule 1958	×	√	×	×	×	×	√	×	√	×	×	√	√	×	×	√
4	The Company Act 1994	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
5	The Bangladesh Securities and Exchange Rules 1987	√	×	√	√	√	×	√	√	√	√	√	√	√	√	√	√
6	The Income Tax Ordinance 1984	×	×	×	×	×	×	×	×	×	×	√	√	√	√	√	√
7	The listing regulations of Dhaka	×	×	√	×	√	×	√	×	√	×	√	√	√	√	√	√

	and Chittagon g Stock Exchange																
8	The Banglade sh Accounti ng Standard (BAS)	√	×	×	×	√	√	√	√	√	√	√	√	√	√	√	√
9	The Banglade sh Financial Reportin g Standards (BFRS)	√	×	×	√	×	√	√	×	×	×	×	×	×	√	×	×
10	The Generally Accepted Accounti ng Principle s (GAAP)	×	√	×	√	×	×	×	×	×	×	×	×	×	×	×	×

Appendix B: Abbreviation

- PICL People Insurance Company Ltd.
- UIC United Insurance Company
- CIL Continental Insurance Ltd.
- NGIC Northern General Insurance Company
- MIC Mercantile Insurance Company
- GIL Global Insurance Ltd.
- DIL Dhaka Insurance Ltd.
- SIL Standard Insurance Ltd.
- AIL Asia Insurance Ltd.
- APGI Asia Pacific General Insurance
- PLIC Popular Life Insurance Company
- FLIC Fareast Life Insurance Company
- MLIC Meghna Life Insurance Company
- SLIC Sandhani Life Insurance Company
- SIC Sunlife Insurance Company
- RLIC Rupali Life Insurance Company