

Solution

	₹
Total claims paid in 2011-12	3,87,000
Add: Claims outstanding on 31-3-12 (30,000 + 24,000)	54,000
	4,41,000
Less: Claims outstanding at the beginning (45,000 + 36,000)	81,000
	3,60,000
Less: Reinsurance claim	1,75,000
Claim to be charged to revenue a/c	1,85,000

Determination of Profit of Life Insurance Business

Before the implementation of the new system of accounting prescribed by Insurance Regulatory and Development Authority (IRDA), the profit of a life insurance company was determined as follows:

1. Compute life assurance fund at the end of the year.
2. Determine the net liability as on that date. (Net liability is the difference between the present value of future premiums and the present value of estimated future liability on all policies in force. This is done by expert called actuary).
3. Find out the surplus or deficiency by preparing a valuation balance sheet.

Valuation Balance Sheet

Valuation balance sheet is a statement prepared by a life insurance company to find out the profit or loss by comparing its life assurance fund with the net liability. The form of valuation balance sheet is as follows:

Valuation Balance Sheet as on

To Net Liability as per actuary's valuation	x x x x	By Life assurance fund	x x x x
" Surplus (bal. fig.)	x x x	" Deficiency (bal. fig)	x x x
	x x x x		x x x x

Treatment of Profit

According to Section 28 of the Life Insurance Corporation Act, 95% of the profit of a life insurance company is declared as bonus to policyholders and only 5% is available to the shareholders of the company. Distribution of profit is done as follows:

1. Prepare valuation balance sheet and ascertain profit.
2. Add back any interim bonus already paid.
3. Deduct any provision or expense or dividend payable.
4. The balance of profit is distributed @ 95% to policyholders.
5. Deduct any interim bonus already paid.
6. The resultant figure is the amount available to policyholders as bonus.

Illustration 12: A life insurance company gets its valuation made once in every two years. Its life assurance fund on 31-3-2017 amounted to ₹ 60,00,000 before providing 60,000 dividend to shareholders for the year 2016-17. Its actuarial valuation disclosed a net liability of ₹ 52,72,000 on 31-3-2017. An interim bonus of ₹ 3,50,000 was paid to policyholders during the last two years.

Prepare a statement showing the amount now available as bonus to policyholders.

Solution

Valuation Balance Sheet as on 31-3-2017

	₹		₹
To Net Liability as per actuary's valuation	52,72,000	By Life assurance fund	60,00,000
" Surplus (bal. fig.)	7,28,000		
	60,00,000		60,00,000

Statement showing bonus due to Policyholders

Surplus as per valuation balance sheet		₹	7,28,000
Add: Interim bonus paid			3,50,000
			10,78,000
Less: Dividend payable			60,000
	Net Profit		10,18,000
95% to policyholders			9,67,100
Less: Bonus already paid			3,50,000
	Amount due to policyholders		6,17,100

Illustration 13: The life assurance fund of a life insurance company as on 31-3-2020 is ₹ 86,48,000. The interim bonus paid during the period was ₹ 1,48,000. The net liability as per actuarial valuation is ₹ 74,25,000. Surplus brought forward from the previous valuation period was ₹ 8,50,000. The directors of the company proposed to carry forward ₹ 9,31,000 and to divide the balance between the shareholders and the policyholders in the ratio of 1:10.

- Show
1. Valuation balance sheet
 2. Net profit for the valuation period
 3. The distribution of surplus

Solution

Valuation Balance Sheet as on 31-3-2020

		₹			₹
To	Net Liability	74,25,000	By	Life assurance fund	86,48,000
"	Surplus	12,23,000			
		86,48,000			86,48,000

Statement showing net profit

	₹
Surplus as per valuation balance sheet	12,23,000
Add: Interim bonus paid	1,48,000
	13,71,000
Less: Surplus b/f from previous period	8,50,000
Profit for the period	5,21,000

Statement showing distribution of profit

	₹
Total profit available	13,71,000
Less: Profit to be carried forward	9,31,000
Divisible profit	4,40,000
Less: Share of shareholders $4,40,000 \times \frac{1}{11}$	40,000
Share of policyholders	4,00,000
Less: Amount already paid	1,48,000
Amount now available to policyholders	2,52,000