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Indian Reconciliation in Insurance Sector with Special Reference to HDFC Life Insurance

Mohit Dhansukh Mamania[1], Dr. Bhawna Sharma Padroo[2]

MBA (Banking & Finance), 2025–2027, Amity Business School, Amity University Mumbai

ABSTRACT

Reconciliation is the day-to-day work that keeps an insurer honest. The paper examines the process of reconciliation in the Indian insurance sector, using HDFC Life Insurance as the reference company. The paper uses secondary data, such as published results of the reference company for FY2025-26 and prior quarters, and the researcher's observations of daily work such as bank to ledger, commission to TDS and books to Form 26AS. More than half of HDFC Life's premium in FY26 (approx. 54.5%) was from renewals, i.e. repeat, high-volume transactions, suitable for rule-based matching. The majority of errors found in practice are due to timing differences, incorrect references and tax-credit delays, and only a minority are actual errors. Such errors can be quickly resolved using SAP-type finance controls, mainly reconciliation accounts and automatic clearing. The paper concludes that system-supported reconciliation increases accuracy and compliance, but that there is still a need for people to own the exceptions.

Keywords: Reconciliation, Insurance, HDFC Life, Premium Matching, Commission and TDS, Form 26AS, Internal Control, SAP, General Ledger, Solvency Ratio.

1. INTRODUCTION

The management of human resources and financial processes in large organizations is a constant activity. In the case of an insurance company, this is even more critical as funds are received in small amounts over a long period of time and through numerous channels. Thus, the reconciliation process, which involves comparing two sets of records and explaining any differences between them, is more than a month-end process; it is a daily process.

Each life policy, for example, generates a stream of premium income over a period of up to 20 years, as well as associated agent commissions, GST and, ultimately, claims and maturity payments, each of which is typically recorded in a different system. Indian life insurers also report to the IRDAI, the tax department and their auditors, so any unexplained difference is likely to be escalated within the Finance function before long.

HDFC Life Insurance Company Limited was established in the year 2000. It is one of the large private life insurers in India offering protection, savings, pension, annuity, investment and health plans for individuals and groups. It is a listed company with HDFC Bank as its parent. For the FY2025-26, the company recorded total premium of ₹79,387 crore with value of new business at ₹4,034 crore. Its assets under management including its pension subsidiary stood at around ₹5.3 trillion with its solvency ratio being 177% as against the regulatory minimum of 150%. Money is collected from bank partners, agents, brokers, online platforms and group clients. Thus, reconciliation is a very regular activity for the Finance function of the company.

The following basic questions arise in view of the above:

- What is reconciliation in an insurance company and what are the various types of reconciliations that an insurer like HDFC Life has to carry out?
- What is the size and mix of the premium for renewal as well as for new business for matching purposes?
- Where do the differences in the reconciliation reports typically occur? Is it timing differences, incorrect references or tax-credit differences that are not yet received?
- How are system controls, especially SAP, utilized to identify, resolve and monitor differences?
- Does system-supported reconciliation support accurate reporting on a timely basis and in compliance with the relevant requirements?

2. PURPOSE OF RESEARCH

The study tries to answer the above questions by studying reconciliation in a large life insurer in India on the basis of public data and daily experience. The study also tries to explore the volume of renewal premium and its implications for the matching work as well as the system-supported controls (e.g. as provided by the finance modules in SAP) and their ability to resolve discrepancies without losing human ownership of the exceptions.

The objective of the entire exercise is to understand the impact of structured system supported reconciliation on financial reporting and compliance and to provide some practical tips for finance teams to implement.

3. STATEMENT OF PROBLEM

The amount of money received by the insurer in installments from many channels is paid out to many customers, intermediaries and the government over many years. It is then recorded in bank, policy, general ledger and tax portal systems. If these records do not match then finance teams can spend many hours trying to locate the discrepancy.

There is, to the best of the researcher's knowledge, very little literature on reconciliation in Indian insurance companies. This paper attempts to fill in part of the gap by describing the different types of reconciliations that are carried out by an insurer, locating the areas of the greatest number of discrepancies and showing how system controls can minimize these.

4. OBJECTIVES OF THE STUDY

1. Explain reconciliation in the context of an insurance company and the reconciliations that are carried out at HDFC Life.
2. Analyze HDFC Life's premium (renewal and new business) size and mix, as publicly disclosed, and understand the matching required.
3. The main sources of differences in reconciliation are timing differences, incorrect references and delays in tax-credits.
4. How system controls, in particular SAP, can be used to resolve differences as well as to keep them under control.
5. Evaluate system-supported reconciliation in terms of reporting and compliance with respect to indicators and examples.

5. SIGNIFICANCE OF THE STUDY

1. Explaining the checks that the accounting system performs in order to match the transactions on the Insurer's books, for the benefit of new joiners and trainees within the finance department.
2. For management: It pinpoints where the differences occur and hence can direct effort to resolve the underlying issue(s) as opposed to repeatedly fixing the same problem.
3. For compliance and audit: reliable reconciliation supports the IRDAI financial statements, TDS filings and the audit trail behind them.
4. For students and researchers: This case study brings together accounting, tax and the ERP system used by the insurer in one case, using only public figures from HDFC Life.
5. For policyholders and intermediaries: Ensures receipts reach the correct policy and commission with its corresponding TDS credit reaches the correct agent, minimizing disputes and delays.

6. LITERATURE REVIEW & DISCUSSIONS

Reconciliation work within the insurance sector is fairly limited. As such, the review in the following sections is based on three related areas of work: internal control and accounting information systems; ERP systems and general ledger; and the legal framework for the Indian insurers. Most of the authors on reconciliation have studied the same as a detective control i.e. as a control to find errors after the event as opposed to a preventive control i.e. as a control to prevent errors from occurring at the point of entry.

This literature review establishes a framework for the discussion of the accounting information system, the internal control system and the general ledger for the current study. Romney and Steinbart (2018) describe reconciliation of the bank statement with the cash ledger as a control activity in an accounting information system. A control activity is an independent check on recorded transactions to detect errors and fraud. It is only as good as the person who is checking the transactions. Therefore, the person who is reconciling the bank statement with the cash ledger should not be the person who recorded the transactions or the person who handled the money.

Under the COSO (2013) Internal Control Framework, reconciliation is listed under control activities used to address risks identified by the risk assessment. All of these activities must be followed up and any exceptions noted must be addressed, owned and closed off. This is particularly relevant for long-lived policies of insurers with thousands of small receipts.

Gordon and Dyer's paper on the implementation of the general ledger of SAP in organizations provides insight into the design of an insurer's accounting information system. The paper lists key rules for the design of the general ledger and the reasons why many ERP implementations fail to understand the function of the general ledger (Gordon and Dyer 2014).

Commission paid to agents and brokers is subject to TDS u/s 194D of the Income-tax Act, 1961. This section is covered under section 393 of the Income-tax Act, 2025 w.e.f. 1 April 2026. The TDS credit can be viewed by the deductee in Form 26AS which is then carried forward as Form 168 under the Income-tax Rules, 2026.

In order to investigate the actual reconciliation work that is being done on a daily basis by a large Indian life insurer, the study analyzes the various aspects of reconciliation observed using public data. This work can be performed effectively using ERP systems for the controls of reconciliation, provided the general ledger is designed properly.

7. HYPOTHESIS

H0: Structured, system-supported reconciliation has no significant impact on the accuracy and the timeliness of the financial reports and the compliance at HDFC Life.

H1: Structured, system-supported reconciliation has a significant positive effect on the accuracy and timeliness of financial reporting and compliance at HDFC Life.

These hypotheses are analyzed in this study using public data and observations, rather than conducting a statistical test.

8. RESEARCH METHODOLOGY

This study is descriptive in nature.

Secondary data. Premium, new business, assets and solvency figures are taken from HDFC Life's press releases for 9M FY26 (January 2026) and FY26 (April 2026). The legal aspects are based on the IRDAI financial statement regulations, Income-tax Act, 2025 and Income-tax Rules, 2026. Control and SAP aspects are discussed based on the textbooks and the single journal article cited. No internal HDFC Life data has been used for the purpose of this study.

Observational findings. The researcher noted down, over several weeks, the kinds of differences that came up while matching receipts to ledger entries, commission to TDS and books to Form 26AS in an insurance finance setting. The notes were grouped by cause of difference. No customer or personal data is reported, and this is not a sample survey, so the observations show patterns and cannot be generalised to every insurer.

Tools used. MS Excel (VLOOKUP and pivot tables) for matching and grouping, Tally ERP ledger exports, and Form 26AS downloaded from the TRACES portal. SAP finance functions are discussed from published descriptions and not from hands-on access to HDFC Life's system.

9. CONCEPTUAL FRAMEWORK

The process of reconciliation in an insurer can be viewed as a series of checks between money coming in and numbers reported in financial statements and tax filings. There are four main checks that appear repeatedly in practice:

R1 – Bank to policy system: money received in the bank is matched against the receipt on the policy.

R2 – Policy system to ledger: Policy administration system totals are compared with the general ledger for the period.

R3 – Commission to TDS: Commission as booked is compared with tax deducted on the Commission.

R4 – Books to Form 26AS / Form 168: TDS as shown in the accounts is compared with the credit as shown in the tax statement.

With the support of system rules such as automatic clearing, reconciliation accounts and locked posting periods, and with each open difference assigned to an owner, the path from receipt to reported figure can be made as short as possible and also very reliable. The framework of this study is as follows: volume and nature of receipts → common sources of difference → system-supported clearing → accuracy and compliance of reported figures.

10. DATA ANALYSIS AND FINDINGS

10.1 Finding 1: The money is large, and more than half of it is repeat business

HDFC Life's Total Premium for FY26 amounted to approximately Rs. 79,387 Crores. Renewal Premium

contributed Rs. 43,290 Crores (Approx. 54.5%) of the total, while New Business Premium accounted for Rs. 36,096 Crores. New Business Premium increased from Rs. 33,365 Crores in FY25. Payment for Renewal Premium is received via Auto Debit Mandates, Online Payments and Agent Collections, with different reference formats and Settlement Times.

At the end of FY26, the Solvency Ratio stood at 177%, which was down from 194% in the previous year, although it remains significantly higher than the Regulatory Minimum Solvency of 150%. In addition, the Company raised Rs. 749 Crores of Subordinated Debt during Q3 FY26 and obtained Board Approval to raise up to Rs. 1,000 Crores from HDFC Bank to help maintain the Solvency Ratio. Reconciliation does not determine the Solvency Ratio; however, the Ratio is calculated using Ledger Balances and therefore the Ledgers must be accurate before calculating the Ratio.

See Table 1 below for a summary of the Key Figures referred to in this Paper.

Item	Figure
Total premium (FY26)	about ₹79,387 crore
Renewal premium (FY26)	₹43,290 crore (about 54.5% of total)
New business premium (FY26)	₹36,096 crore
New business premium (FY25)	₹33,365 crore
Value of new business (FY26)	₹4,034 crore
Assets under management (FY26)	roughly ₹5.3 trillion (incl. pension subsidiary)
Solvency ratio (FY26)	177 per cent
Solvency ratio (FY25)	194 per cent
Regulatory minimum solvency	150 per cent

Source: HDFC Life press releases (15 Jan 2026 and 16 Apr 2026); author's compilation

10.2 Finding 2: Most differences come from timing, references and tax credit

The daily matching work was mainly done with 4 checks. Most of these checks could be cleared up by finding the timing gap (e.g. TDS entered into Form 26AS one quarter after it was entered into the books). There were only very few cases where a correcting entry had to be made or a query had to be sent to the other party (e.g. bank, agent or deductor). Real losses were extremely rare.

The Table 2 below provides examples of some of the discrepancies encountered during reconciliation and the reasons for them.

Table 2: Common mismatches and their causes

Check How the mismatch appears Common reason

- Bank vs. policy system (R1)Money is in bank but not recorded as received or matched to wrong policy.Reference number missing or wrong; payment delay at gateway.
- Policy system vs. ledger (R2)The totals in the policy system and the ledger totals are different for the same period.Entries stopped at month end; interface file uploaded late or only partially.
- Commission vs. TDS (R3)The TDS deducted does not match with the commission booking.Wrong section or rate applied; threshold crossed during the year; PAN issue.
- Books vs. Form 26AS / 168 (R4) TDS recorded in the books does not show up in the tax statement.Quarterly return filed late, so credit appears after a delay; entry booked in another year.

Source: based on the author's experience, grouped by cause

10.3 Finding 3: Operational insights from SAP

This paper does not explain how HDFC Life is using their SAP system. However, the next section explains how the SAP finance module works generally in large insurance companies.

Sub-ledgers update the ledger. Postings to the customer and vendor accounts automatically update the reconciliation accounts in the general ledger. These accounts cannot be posted to. Therefore the sub-ledger and ledger will always be in agreement.

Bank statements can be uploaded and cleared based on business logic. The system automatically clears postings with the same reference and amount. If there are any postings that do not match then they are placed in an exception list for review by a person.

Each posting is recorded as a document. All documents have a unique document number, user name and date. These are used by reviewers and auditors to identify who posted the entry and when.

Interfaces are the weak link. SAP can only clear what it receives. If the policy administration system is separate and linked via interface files, then partial or late loads will likely result in out-of-balance conditions.

11. OBSERVATIONS AND DISCUSSION

The majority of HDFC Life's collections are repeat payments. Since repeat payments are mostly patterned, matching them by rules is faster and less prone to errors than matching them manually. Hence, exceptions can be left for manual processing. Solvency has fallen from 194% to 177% as a result of business and capital decisions made by the company. As the company is already raising capital to meet its solvency requirements, the buffer is tighter than last year's and hence the reliability of ledger figures is more important.

The observations and the system design (SAP type) support H1. However, the effect cannot be measured because days to close books and number of open items are not public. Thus, the H1 is supported by the indications and not proven by the test.

One final point to make is that the transition from section 194D to section 393 and the switch from Form 26AS to Form 168 will result in a change to the references for mapping tables and checks in the first year under the new legislation, resulting in additional differences between old and new codes.

12. RECOMMENDATIONS

Based on the results of the study into system supported reconciliation in practice we make the following recommendations:

- Focus on renewal premiums for matching collections in the system, i.e. rule based matching on reference and amount for more than half of collections being repeat receipts and human effort being restricted to the exceptions.
- Focus on the three usual causes of open items, i.e. timing gaps, wrong references and tax-credit lags, as opposed to treating every open item as a potential loss.
- Keep the interface between the policy system and the general ledger as clean as possible. Even with SAP-type controls there can be frequent breaks in the interface caused by partial or late loads.
- The mapping tables for the change from section 194D to section 393 and the change from Form 26AS to Form 168 should be updated as early as possible in order to avoid the same mismatches in the first year of the new tax law.

- Assign a named owner to each open difference. A reconciliation only completed to the point of generating a list of open differences is not yet complete.
- Use the already existing audit trail of system postings. Document number, user and date are sufficient for reviewing and external auditing and the need for separate manual logs is eliminated.

13. CONCLUSION

Indian insurance companies have to do more than one check for reconciliation. They have to reconcile bank accounts with policy systems, policy systems with ledger, commission with TDS and books with tax statement. For a company of the size of HDFC Life with premium of close to Rs.79,400 crore in a year with more than half of it being from renewals, the work has to be steady and well organized. Most of the differences are on account of timing, wrong references and tax-credit lags and can be cleared with no loss. As insurers such as HDFC Life use system controls such as those in SAP to reduce routine work, they also need to ensure that interfaces are clean and that each exception is being owned by named individuals. Insurers also need to update their mapping tables for the new tax law as soon as possible.

The study has certain limitations, as public data of only one company has been used for a short period of time. However, the data reveals a trend that with structured, system supported reconciliation accurate and timely reporting and compliance can be achieved, provided exceptions are owned by individuals.

14. LIMITATIONS AND FUTURE STUDIES

The study is based on public data from one insurer (HDFC Life) and a short period of observational notes.

- No internal HDFC Life data was used, so the paper cannot show how the company actually runs or measures its reconciliations.
- The study is based on one company and a few weeks of observation, so patterns may not hold for every insurer.
- The differences come from the researcher's own notes grouped by cause. This is not a sample survey.
- SAP is discussed from published descriptions, not from hands-on access to HDFC Life's system.
- Figures such as days taken to close the books or the number of open items are not public, so H1 rests on indications and not on a statistical test.

The future work could consist of conducting interviews with finance departments of several life insurers and measuring the closing time of accounts and the ageing of open items. The study could also be extended to cover other life insurers (private and public sector) and general insurers, and to cover a longer period of observation including the year-end and the tax-filing period.

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