

8th December, 2004

C I R C U L A R

All Non-life insurers
General Insurance Corporation

Re.: Accounting treatment of the Alternate Risk Transfer Agreements

It has been brought to the notice of the Authority that some of the non-life insurers are entering into Alternate Risk Transfer (ART) agreements as a substitute to/form of re-insurance. A broad assessment of the types of agreements being entered into by the insurers indicates that while at best these arrangements may be a combination of reinsurance and financing arrangements, in other instances ART may be purely in the nature of a financing agreement, entered into with a view to smoothening the Balance Sheets over a period of time.

Any ART arrangement has to be accounted for based on the principle of “Substance over Form”. If the agreement is in the nature of re-insurance coupled with financing arrangement, and the components are capable of separation, each element should be accounted for as per the Generally Accepted Accounting Principles (GAAP). However, in cases where the aforesaid components are not separable, the entire arrangement should be treated as a financial transaction and should be accounted for accordingly. All non-life insurers are required to account for the ART arrangements by looking into the “Substance over Form”, and account for the same as per the GAAP.

While the Authority is examining the various aspects relating to accounting of the ART arrangements in the books of the insurers with a view to issuing comprehensive guidelines, you are requested to revert to us indicating whether the insurer has entered into ART agreements, in which case details of the same may be furnished with the Authority. Copies of such agreements may also be furnished for our perusal. Insurers who have not opted for ART arrangements are also requested to confirm their stance with the Authority. Insurers who have entered into ART agreements are requested to ensure compliance of the instructions as indicated above, while accounting for the same in their books of accounts.

Sd/-
(C. S. Rao)
Chairman

CC: President, **Institute of Chartered Accountants of India** with a request that the instructions may be brought to the notice of its members.

(C. S. Rao)
Chairman