

CIRCULAR – LIFE INSURERS

29th April, 2003

Re: Preparation of financial statements by the insurers - Life

The insurers have, from time to time, raised issues for clarification on the preparation of financial statements. With a view to providing an opportunity to the insurers to discuss the same, a meeting of the accountants and appointed actuaries of all insurers was held on 21st March, 2003. Based on the points which emerged at the said meeting, and on the queries raised by insurers through follow up letters, the Authority hereby clarifies the following which should be taken into account by the insurers while finalizing the financial statements for the financial year 2002-03:

1. Segment Reporting

As per the Regulations, separate financial statements - Revenue Account and Balance Sheet, are required to be prepared for participating and non participating policies, and linked and non linked business. Further, for non linked business, separate statements are required for ordinary life, general annuity, pension and health insurance.

The Authority requires the segments to be reported on the basis of line of business, and on the basis of business within and outside India. Other geographical connotations are not perceived by the Authority.

Insurers can lay down accounting policies in line with the Accounting Standard - 17 and the Regulations issued by the Authority in this regard, and consistently follow the same.

Separate Balance Sheets need to be prepared for each business segment

2. Revenue Account:

In case of deficit in the Revenue Account, where under the same is made up through a transfer from the Profit and Loss Account, as “Transfer from the Shareholders’ account”, it shall be depicted as under:

In the Revenue Account the following modification is made:–

After the Row:

“SURPLUS/(DEFICIT) (D) = (A)-(B)-(C)”

Insert another Row as below:

Amount transferred from Policy holders Account (Technical Account)

3. Managerial remuneration – Applicability of sections 198, 349 and 350 of the Companies Act:

Other than the sections which have been specifically made inapplicable to the insurance companies, all other sections are applicable to them. Further, the managerial remuneration is to be decided by the Authority.

4. Related party transactions:

All related party transactions as required by the Accounting Standard are required to be disclosed.

5. Transfer of securities to the Policy holders' Account

All securities are required to be transferred to the policy holders Account at market price or cost price, whichever is lower.

In respect of debt securities, the transfers are to be carried out at the net amortized cost.

6. Guidelines for recognition of claims:

The date for recognition of claims is the date of intimation of death/ date of maturity.

7. Bank reconciliation as at 31st March

Each insurer is required to lay down internal guidelines on the same based on Generally Accepted Accounting Principles, and consistently follow the same.

8. Provision for Free Look period

The insurers are required to evolve principles for provisioning for free look period based on assumptions and experience. Further, the same are required to be certified by the appointed actuary.

9. Catastrophe reserve

No reserves have been prescribed by the Authority till now.

10. Investments of Policy holders and Shareholders

All insurers are required to maintain separate investment accounts for the shareholders and the policy holders and the income/ losses accrued / capital gains/losses on the investments is to be credited /debited to the Revenue Account/ Profit & Loss Account, as the case may be.

11. Social Sector business:

Point C (4) of Part II of the Regulations require the percentage of business sector – wise to be given. Along with the total business and rural business, the social sector business underwritten by the insurer should also be furnished, indicating the gross premium underwritten, no. of policies issued and No. of lives covered (both actuals and percentages).

12. Preliminary expenses

he insurers are required to deduct the preliminary expenses from the paid up equity share capital as indicated in Schedule 5 of the Regulations

- 13.** The format of the summary of the financial statement for the last five years and the ratios required to be furnished by the insurers are given at Annexure I and II.

14. General

All insurers are advised to furnish the returns to the Authority as per the regulations notified in this regard. In particular, it must be ensured that all information pertaining to the points indicated in the regulations is furnished. In case there is no information available on a particular point the insurer should indicate Not applicable or Nil, as the case may be, rather than deleting the said point from the Returns filed with the Authority.

Further, the regulations prescribe that certain points are required to be certified by a specified professional. Kindly ensure that the Regulations are followed both in word and spirit in the said context. Any exceptions should be clearly brought out in the relevant certificate.

The above are required to be incorporated in the Returns filed with the Authority for the financial year 2002-03.

(N. RANGACHARY)
Chairman

Annexure I
(Rs. in lakhs)

Summary of Financial Statements

Sl.No.	Particulars	2002-03	2001-02	2000-01	1999-00	1998-99
	<i>POLICYHOLDERS' A/C</i>					
1.	Gross premium income					
2.	Net premium income#					
3.	Income from investments (Net)@					
4.	Other income (Pl. specify)					
5.	Total income					
6.	Commissions					
7.	Brokerage					
8.	Operating Expenses related to insurance business					
9.	Total Expenses					
10.	Payment to policy holders*					
11.	Increase in actuarial liability					
12.	Surplus/Deficit from operations					
	<i>SHAREHOLDERS' A/C</i>					
13.	Total income under Shareholders' Account					
14.	Profit/ (loss) before tax					
15.	Provisions for tax					
16.	Profit / loss after tax					
17.	Profit / loss carried to Balance Sheet					
	<i>MISCELLANEOUS</i>					
18.	(A) Policyholders' account: Total funds Total investments Yield on investments (%) (B) Shareholders' account: Total funds Total investments Yield on investments (%)					
19.	Yield on total investments					
20.	Paid up equity capital					
21.	Net worth					
22.	Total Assets					
23.	Earnings per share (Rs.)					
24.	Book value per share (Rs.)					

Net of reinsurance

@ Net of losses

* Inclusive of interim bonuses, if any

Annexure II

RATIOS FOR LIFE INSURERS

1. New business premium income growth (segment-wise)
(New business premium for current year divided by new business premium for previous year)
2. Net retention ratio
(Net premium divided by gross premium)
3. Ratio of expenses of management
((Expenses of management divided by the total gross direct premium)
4. Commission ratio
(Gross Commission paid to Gross premium)
5. Ratio of policy holders' liabilities to shareholders' funds
6. Growth rate of shareholders' funds
7. Ratio of surplus to policy holders' liability
8. Change in net worth
9. Profit after tax / Total income
10. (Total Real Estate + Loans)/ Cash & invested assets
11. Total Investments/(Capital + Surplus)
12. Total affiliated Investments/(Capital + Surplus)