

CIRCULAR – NON LIFE INSURERS

29th April, 2003

Re.: Preparation of financial statements by the insurers – Non 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 IRDA Regulations for preparation of Financial Statements & Auditors' Report, all non life insurers are required to prepare separate revenue accounts for fire, marine and miscellaneous business. Further, separate Schedules are required to be prepared for Marine Cargo and Marine – Others. In addition, in respect of miscellaneous business, separate Schedules are required to be furnished for 1. Motor, 2. Workmen's Compensation/ Employer's liability, 3. Public/ Product Liability, 4. Engineering, 5. Aviation, 6. Personal Accident, 7. Health insurance and 8. Others.

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.

As regards, preparation of the Balance Sheet, the insurers are advised to indicate Investments pertaining to Shareholders and Policyholders separately, where feasible – in which case, the Investments Schedules shall be as under:

Schedule 8	Investments – Shareholders
Schedule 8a	Investments – Policyholders

2. Cash Flow Statement:

All insurers are required to furnish the Cash Flow Statement as per the Direct Method.

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 by the insurers.

5. **Transfer of securities to 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 consulting 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 (separate business segments) and the income/ losses accrued / capital gains/losses on the investments is to be credited /debited to the respective Revenue Account/ Profit & Loss Account, as the case may be.

However, in case of practical difficulties, the consulting Actuary and the Investment Head can take a view on the subject, and consistently follow the same. The policy on this matter should be spelt out in the Significant Accounting policies.

11. Social Sector business:

Point C (3) of Part II of the Regulations requires 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

The 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 Annexures I and II.

14. Actuarial valuation of Claims payment for more than 4 years

Such claims should be certified by the consulting actuary.

15. Treatment of Premium Deficiency

Premium deficiency arises when an underwriter notices that in each individual segment, on the basis of the claims that have arisen or on the basis of a study of factors prevalent, it is felt that the premium charged on the risk will be deficient, and provides for it in the accounts.

Unexpired reserve is in respect of contracts that have still time to run through.

UPR need not be certified by the consulting actuary. What we require is that provisions for claims should be certified.

16. Treatment of the Charge on the credit Card:

The expense is to be treated as part of the operating expenses, subject to provisions of Section 64V of the Insurance Act, 1938 not being violated.

17. Unallocated Premium

Unallocated premium refers to premium which has been received but not allocated to any of the risks

18. Premium received in advance

Premium received in advance is the premium received prior to commencement of the risk, where the period of cover sought falls clearly outside the accounting period and is shown under current liabilities.

19. Contingent Liabilities

Underwriting Commitments Outstanding:

Commitments to underwrite the subscription to a new issue of shares, but the liability for which is contingent upon the issue not being fully subscribed. (It is, however, clarified that insurers are presently not permitted to underwrite issues).

Re-insurance obligations not provided for:

Obligations under reinsurance contracts with the insurer in respect of which, there are subsisting obligations as at the balance sheet date but for valid reasons, the insurer has not made any provision.

20. Permission to open SGL a/c with RBI at the head quarters of the insurer

The insurers can be permitted to do so, as the RBI's consent on the matter has been received.

21. 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 under the IRDA (Preparation of Financial Statements and Auditors' report of Insurance Companies) Regulations, 2002, with the Authority for the financial year 2002-03.

(N. RANGACHARY)
Chairman

Annexure I

Summary of Financial Statements

(Rs. in lakhs)

Sl.No.	Particulars	2002-03	2001-02	2000-01	1999-00	1998-99
	<i>OPERATING RESULTS</i>					
1.	Gross Premiums Written					
2.	Net Premium Income #					
3.	Income from investments (net) @					
4.	Other income (Pl. specify)					
5.	Total income					
6.	Commissions					
7.	Brokerage					
8.	Operating Expenses					
9.	Claims, increase in Unexpired Risk Reserve and Other outgoes					
10.	Operating Profit/loss					
	<i>NON-OPERATING RESULT</i>					
11.	Total income under shareholders' account					
12.	Profit/ (loss) before tax					
13.	Provision for tax					
14.	Profit / (loss) after tax					
	<i>MISCELLANEOUS</i>					
15.	Policy holders' Account: Total funds Total Investments Yield on investments					
16.	Shareholders' Account: Total funds Total Investments Yield on investments					
17.	Paid up equity capital					
18.	Net worth					
19.	Total assets					
20.	Yield on total investments					
21.	Earnings per share (Rs.)					
22.	Book Value per share (Rs.)					
23.	Total Dividend					
24.	Dividend per share (Rs.)					

Net of reinsurance

@ Net of losses

Points 15&16 may be given separately, it feasible.

Annexure - II

RATIOS FOR NON - LIFE COMPANIES

Sl. No.	PERFORMANCE RATIO
1.	Gross premium growth Rate (segment wise) (Gross premium for the current year divided by the gross premium for the previous year)
2.	Gross Premium to shareholders' fund ratio: (Gross premium for the current year divided by paid up capital plus free reserves)
3.	Growth rate of shareholders' funds: (Shareholders' funds as at the current balance sheet date divided by shareholders' funds as at the previous balance sheet date)
4.	Net retention ratio (segment wise) Net premium divided by gross premium)
5.	Net commission ratio (segment wise): (Commission net of reinsurance for a class of business divided by net premium)
6.	Expenses of management to gross direct premium ratio (Expenses of management divided by the total gross direct premium):
7.	Combined ratio: (Claims paid plus expenses divided by gross premium)
8.	Technical reserves to net premium ratio (Reserve for unexpired risks plus premium deficiency reserve plus reserve for outstanding claims divided by net premium)
9.	Underwriting balance ratio (segment wise) (Underwriting profit divided by net premium for the respective class of business)
10.	Operating profit ratio (Underwriting profit plus investment income divided by net premium)
11.	Liquid assets to liabilities ratio (Liquid assets of the insurer divided by the policy holders' liabilities)
12.	Net earnings ratio: (Profit after tax divided by net premium)
13.	Return on net worth (Profit after tax divided by net worth)
14.	Reinsurance ratio: (Risk reinsured divided by gross premium)