

## **CIRCULAR**

Ref: 12/IRDA/F&A/CIR/ MAY- 09

May 26, 2009

The CEOs of  
All Non Life Insurers/ Re-insurer

### **Reconciliation of Amounts Due to/Due from Entities Carrying on Insurance Business**

The IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 (The Regulations, 2002) require annual submission of accounts as per the formats prescribed by the Authority. In addition, the Authority has, vide circular no. 45/IRDA/F&A/Nov-07, prescribed quarterly submission of financial statements within 45 days of the end of the respective quarter. Similar stipulations are also applicable to submission of solvency position of the insurers.

2. While the IRDA (Assets, Liabilities and Solvency Margins of Insurers) Regulations, 2000 (The Regulations, 2000) lay down the manner of computation of solvency margin, clause 2(1) of Schedule I lays down the value to be placed on the assets of the insurer. Further, clause 2(1)(h) of the said Schedule prescribes that "reinsurer's balances outstanding for more than three months should be placed with value zero"

3. As part of the annual review of the financials of the insurance companies, it was observed that significant amounts of balances appear in the respective Balance Sheets of non-life insurers under Schedules 12 and 13 pertaining to 'Advances and Other Assets' and 'Current Liabilities' respectively of Part V of Schedule 'B' of the Regulations, 2002 where under details of "Due from other entities carrying on insurance business (including reinsurers)" and "Balances due to other insurance companies" are furnished. On the basis of the additional information furnished to the Authority, it is observed that such balances have remained un-reconciled for long period and such assets are also taken into account while computing the solvency margin of the insurance companies.

4. With a view to ensuring that insurers initiate steps to put in place processes for reconciliation of the outstanding entries (defined as the 'Stock' position as at 31<sup>st</sup> March 2009) and systems to ensure that the reconciliation of the same is done on a regular basis (defined as the 'flow' position effective 1<sup>st</sup> April, 2009), the Authority has decided the following steps shall be taken to ensure compliance on the stock and flow position for 'amount due from other entities carrying on insurance business (including reinsurers)' and 'balances due to other insurance companies':

P/2....

|                                                                                                                                                       |                                 |                                 |                                                                                                                    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <b>I. For the stock position as at 31<sup>st</sup> March 2009:</b>                                                                                    |                                 |                                 |                                                                                                                    |
| a. Reconciliation of balances:                                                                                                                        |                                 |                                 |                                                                                                                    |
|                                                                                                                                                       | <b>Effective From</b>           | <b>Stock Position as at</b>     | <b>Reconcile by</b>                                                                                                |
|                                                                                                                                                       | 2008-09                         | 31 <sup>st</sup> March, 2009    | 30 <sup>th</sup> September, 2009                                                                                   |
| b. Reckoning non-reconciled balances after completion of the exercise as indicated at I (a) above, for the purpose of computation of Solvency Margin: |                                 |                                 |                                                                                                                    |
|                                                                                                                                                       | <b>Effective from</b>           | <b>For the quarter ending</b>   | <b>Reckoned at</b>                                                                                                 |
|                                                                                                                                                       | 30 <sup>th</sup> September 2009 | 30 <sup>th</sup> September 2009 | 75% of book value                                                                                                  |
|                                                                                                                                                       |                                 | 31 <sup>st</sup> December 2009  | 50% of book value                                                                                                  |
|                                                                                                                                                       |                                 | 31 <sup>st</sup> March 2010     | 25% of book value                                                                                                  |
|                                                                                                                                                       |                                 | 30 <sup>th</sup> June 2010      | Zero                                                                                                               |
| <b>II. For the stock position from 1<sup>st</sup> April 2009:</b>                                                                                     |                                 |                                 |                                                                                                                    |
| a. Reconciliation of balances:                                                                                                                        |                                 |                                 |                                                                                                                    |
|                                                                                                                                                       | <b>Effective From</b>           | <b>Frequency</b>                | <b>Reconcile by</b>                                                                                                |
|                                                                                                                                                       | 30 <sup>th</sup> June 2009      | Every month                     | 15 days from the end of the month                                                                                  |
| b. Reckoning non-reconciled balances for the purpose of computation of Solvency Margin:                                                               |                                 |                                 |                                                                                                                    |
|                                                                                                                                                       | <b>Effective from</b>           | <b>Balances Outstanding for</b> | <b>Reckoned at</b>                                                                                                 |
|                                                                                                                                                       | 30 <sup>th</sup> June 2009      | More than 90 days               | Zero (similar to the treatment of 'reinsurance balances' as indicated at clause 2(1) (h) of the Regulations, 2000) |

5. Insurance Companies are required to file Compliance Certificate duly signed by the Auditor/CFO as the case may be (forming part of certification under Form KG as required under Schedule III-B of The Regulations, 2000, as under:

**a. Annual Submission:**

| Effective from | Auditors' certification required                                                                            |
|----------------|-------------------------------------------------------------------------------------------------------------|
| 2008-09*       | ".....; and<br>that the stipulation as at clause 2(1) h of the Regulations 2000<br>has been complied with." |

\*For the year 2008-09, the date of submission is as under:

- i. In case of companies where the accounts have already been approved by their respective Board - within a period of 30 days of this communication
- ii. In case of companies where the accounts are still under finalization- along with the submission of solvency statement to the Authority.

**b. Quarterly Submission:**

| Effective from             | CFO's certification required                                                                                                                                                                                                      |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 30 <sup>th</sup> June 2009 | "....; and<br>that the insurance company is:<br>i) "compliant with clause 2(1)(h) of the Regulations, 2000;<br>and<br>ii) compliant with para 4 II (b) of Circular No.<br>12/IRDA/F&A/CIR/MAY-09 dated 26 <sup>th</sup> May 2009. |

6. We advise you to place the Circular before your Board of Directors at their next meeting along with steps proposed to be taken for compliance with our instructions.

**(C. R. Muralidharan)**  
**Member (F&I)**