

CIRCULAR

18th May, 2004

No.F&A/CIR/017/MAY-04

ALL GENERAL INSURERS

Re.: Preparation of financial statements by the general insurers

The Authority, vide its Circular dated 29th April, 2003, had issued certain clarifications on the IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002. One of the issues covered in the Circular pertained to maintenance of Reserve for Premium Deficiency. As per the Circular, all non-life insurers are required to provide for any deficiency as is noticed in the premium income in meeting the claims that have arisen or as may arise in the future. The Regulations stipulate that premium deficiency shall be recognized if the sum of expected claim costs, related expenses and maintenance costs exceeds the related reserve for unexpired risks. Insurers are required to make provision for the premium deficiency in each individual segment.

There have been requests from the general insurers seeking relaxation in the requirements laid down by the Authority, and permit them to work out the premium deficiency on an overall basis as against segment wise computation. The issues raised by the insurers were re-examined by the Authority, and it has been decided that, for the present, the insurers may compute the premium deficiency for the three major segments, viz., Fire, Marine and Miscellaneous. Any premium deficiency, in this regard, in any of these three classes of business has to be provided for by the insurer, irrespective of there being no deficiency on the overall global basis.

In addition, in the Notes to the Accounts, disclosure must be made of the deficiency, if any, in each sub segment of the insurance business, which forms part of the miscellaneous business, as indicated in Proviso (1) of Part V of Schedule B of the IRDA (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002. In addition, deficiency in respect of any reportable segment which contributes 10% or more to the Premium underwritten by the insurer, if any, shall also be separately disclosed. Further, the details of computation of premium deficiency should be available for scrutiny by the Authority.

The requirements as indicated above must be complied with, effective preparation of the financial statements for the financial year 2003-04.

In view of implementation of the requirements as indicated above, the format of Revenue A/c for the general insurers would undergo a slight modification. The modified Revenue A/c is placed at Annexure I.

2. **Actuarial valuation of liabilities exceeding four years**

The Regulations for preparation of financial statements require all insurers to furnish the particulars of the claims made in respect of contracts where the claims payment period exceeds four years. Such claims are required to be recognized on actuarial basis. In such cases, certificate from an Appointed Actuary as to fairness of liability assessment must be obtained, and the actuarial assumptions are required to be disclosed by way of Notes to the Accounts. A clear example of such a liability is payment arising out of long term disability. It is further clarified that the provisioning under this regulation has no relation to the time lag between the occurrence and settlement of a claim.

3. **Format of the Receipts and Payments A/c:**

The IRDA Regulations for preparation of financial statements require all insurers to prepare the Receipts and Payments A/c, which shall form part of the annual accounts prepared by the insurer for the financial year ending as at 31st March. Some general insurers have approached the Authority for the format of the Receipts and Payments A/c, expressing inability to prepare the same on the direct basis in the absence of a prescribed format.

Insurers are required to prepare the Receipts and Payments A/c on the direct basis as per the format in the Annexure II.

In respect of the General Insurers, where the Accounts have already been adopted by the Board of Directors, the contents of the Circular would be applicable from the financial year 2004-05. In respect of all others, the general insurers are required to ensure compliance while finalizing their Accounts for the year 2003-04.

(C.S. RAO)
Chairman

Annexure I

FORM B-RA

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

REVENUE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20__.

Particulars		Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
1	Premiums earned (Net)	1		
2	Profit/Loss on sale/redemption of Investments			
3	Others (to be specified)			
4	Interest, Dividend & Rent – Gross			
	TOTAL (A)			
1	Claims Incurred (Net)	2		
2	Commission	3		
3	Operating Expenses related to Insurance Business	4		
4	Premium Deficiency			
	TOTAL (B)			
	Operating Profit / (Loss) from Fire/ Marine/ Miscellaneous Business C= (A - B)			
Appropriations				
	Transfer to Shareholders' Account			
	Transfer to Catastrophe Reserve			
	Transfer to Other Reserves (to be specified)			
	TOTAL (C)			

Note : See Notes appended at the end of B-PL

Annexure II

Format of Receipts and Payments A/c to be furnished by the insurers on direct basis
(Rs. in'000)

Cash Flows from the operating activities:

Premium received from policyholders, including advance receipts
Other receipts
Payments to the re-insurers, net of commissions and claims
Payments to co-insurers, net of claims recovery
Payments of claims
Payments of commission and brokerage
Payments of other operating expenses
Preliminary and pre-operative expenses
Deposits, advances and staff loans
Income taxes paid (Net)
Service tax paid
Other payments
Cash flows before extraordinary items
Cash flow from extraordinary operations
Net cash flow from operating activities

Cash flows from investing activities:

Purchase of fixed assets
Proceeds from sale of fixed assets
Purchases of investments
Loans disbursed
Sales of investments
Repayments received
Rents/Interests/ Dividends received
Investments in money market instruments and in liquid mutual funds (Net)*
Expenses related to investments
Net cash flow from investing activities

Cash flows from financing activities:

Proceeds from issuance of share capital
Proceeds from borrowing
Repayments of borrowing
Interest/dividends paid
Net cash flow from financing activities

Effect of foreign exchange rates on cash and cash equivalents, net

Net increase in cash and cash equivalents:

Cash and cash equivalents at the beginning of the year
Cash and cash equivalents at the end of the year

**Investments in mutual funds where these are used as parking vehicles pending investment are to be indicated (net).*