

C I R C U L A R

All insurers & Reinsurer

Re.: Regulations pertaining to preparation of financial statements of the insurers.

Communications have been received from insurers seeking clarifications on various aspects pertaining to preparation of financial statements. The issues raised by the insurers were deliberated upon by the Internal Committee on Finance of the Authority, and it has now been decided to issue the following instructions for compliance by the insurers.

1. Part II of the Schedules A and B requires Disclosure, which form part of Financial Statements:

The following information at A (12) for life insurers and A (17) for non-life insurers is required to be disclosed (the details are to be furnished in Rs. In lakhs):

- (a) Total amount of loan assets subject to restructuring
- (b) The amount of standard assets subject to restructuring
- (c) The amount of sub-standard assets subject to restructuring
- (d) The amount of doubtful assets subject to restructuring

2. Allocation of Depreciation Expenses:

It has been noticed that the insurers charge the depreciation expenses either to the Revenue or the Profit & Loss Account. From the feedback received from the insurers it appears that the basis of allocation is the funding of the assets on which depreciation has been charged. Further, all insurers give a declaration to the effect that all expenses of management in respect of life/non-life business are debited to the Revenue Account as expense.

It is clarified that the depreciation expense should be allocated between the Revenue/Profit & Loss Account based on the “use” of the assets by the insurer.

3. Schedule on Commission expenses:

Insurers are required to furnish details of commission paid to agents as per the prescribed format. With the introduction of intermediaries other than agents there is a felt need for further disclosure of the commissions paid to various intermediaries. The format of the commission expenses as revised by the Authority is placed at Annexures A and B for life and non-life insurers respectively.

4. Compliance with the Requirements of the Accounting Standards:

All Accounting Standards (AS) issued by the Institute of Chartered Accountants of India (ICAI) are applicable to insurers. Any modifications on the applicability of the AS are contained in Part-I of Schedules A and B of the Regulations on preparation of Financial Statements.

Compliance with the AS must be ensured while finalizing the annual accounts.

5. Disclosure of Gross Income:

The Revenue and Profit & Loss Accounts of the insurers contain line items pertaining to “income from investments”. It has been noticed that at time while furnishing the details, insurers indicate the net incomes under the said Head.

The disclosure of income from investments should be indicated as required under the regulations.

6. Presentation of Service Tax heads:

The presentation of the Service Tax on Premium underwritten by the insurers is to be as under:

Premium Income	Under the Schedule on ‘Premium to be indicated net of service tax
Service Tax Expenditure	Under the Schedule ‘Operating Expenses’ as “Service Tax on Premium A/c” at Sl. No.15 in case of life insurers and Sl. No.14 in case of Non-life insurers
Service tax liability	Under the Schedule ‘Current Liabilities’ as “Service tax liability” under “Others”.
Service tax unutilized Credit (If applicable)	Under the Schedule ‘Advances and other Assets’ as “Service tax unutilized credit” under “Others”

All insurers are required to ensure compliance with the above while finalizing their accounts for the year 2004-05.

(C. S. Rao)
Chairman

Annexure A (Life)

SCHEDULE 2		
COMMISSION EXPENSES		
Particulars	Current Year (Rs. '000)	Previous Year (Rs. '000)
Commission Paid		
Direct - First year premiums		
- Renewal premiums		
- Single premiums		
TOTAL (A)		
Add: Commission on Re-insurance Accepted		
Less: Commission on Re-insurance Ceded		
Net Commission		
Note: The profit/commission, if any are to be combined with the reinsurance accepted or reinsurance ceded figures.		
Break-up of the expenses (Gross) incurred to procure business to be furnished as per details indicated below:		
Agents		
Brokers		
Corporate Agency		
Referral		
Others (pl. specify)		
TOTAL (B)		
Note: Total (A) and (B) above should tally.		

Annexure B (Non-Life)

**SCHEDULE 3
COMMISSION**

Particulars	Current Year (Rs. '000)	Previous Year (Rs. '000)
Commission Paid		
Direct		
TOTAL (A)		
Add: Commission on Re-insurance Accepted		
Less: Commission on Re-insurance Ceded		
Net Commission		
Note: The profit/commission, if any are to be combined with the Re-insurance accepted or Re-insurance ceded figures.		
Break-up of the expenses (Gross) incurred to procure business to be furnished as per details indicated below:		
Agents		
Brokers		
Corporate Agency		
Referral		
Others (pl. specify)		
TOTAL (B)		
Note: Total (A) and (B) above should tally.		