



IRDA/F&A/CIR/CPM/056/03/2016

April 04, 2016

**CIRCULAR**

To

All insurers

Sub: IRDA (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002

The provisions of sections 10 and 11 have been modified vide the Insurance Laws (Amendment) Act, 2015. These amendments have necessitated changes to the IRDA (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations 2002.

Given that the Ministry of Corporate Affairs has issued a press release which provides that Insurance Sector has to move to Ind As from the financial year 2018-19 with one year comparatives, the Authority has kept the draft IRDAI (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2015 in abeyance and directs all Insurers to continue to comply with IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 and the circulars and/or guidelines issued thereunder, with the following modifications:

**1. Segregation of Policyholders' and Shareholders' Funds by the Insurers carrying on General Insurance, Health Insurance and Reinsurance business.**

Section 11 (2) of the Insurance Laws (Amendment) Act, 2015 mandates that every insurer shall keep separate funds of shareholders and policyholders. In view of the said provision, general insurers including reinsurers, standalone health insurers and specialised insurers are advised as under:

- i. Bifurcate the shareholders' fund and policyholders' fund: This stipulation shall be applicable with respect to the business written w.e.f 1<sup>st</sup> July, 2016. The

Insurers shall file a certificate from one of the Statutory Auditors to this effect within one month along with the Custodian's Statement.

- ii. With respect to the funds of the insurers as on 30.06.2016: The segregation of such funds into policyholders' and shareholders' fund at security level shall be completed on or before 30<sup>th</sup> September, 2016. Insurers shall file a certificate from one of the Statutory Auditors to this effect. The certificate shall be filed on or before 15<sup>th</sup> November, 2016 i.e. within a period of 45 days.

Where an insurer proposes to file an application for Public Listing under ICDR Regulations issued by the Authority, such insurer shall ensure bifurcation of the policyholders' fund and shareholders' fund in compliance with clauses (i) and (ii) above, before filing of such application with the Authority.

- iii. Investment made out of the policyholders' funds shall be shown in a separate schedule i.e., 8A as Investments- Policyholders. The format of the same is placed as Annexure 1.

For the purpose of the above, the policyholders' fund and shareholders' fund are defined as under:

**Policyholders' Funds:**

The policyholders' fund for this purpose shall include the following

- a. Outstanding Claims including Incurred But Not Reported (IBNR) & Incurred But Not Enough Reported (IBNER);
- b. Unearned Premium Reserve;
- c. Premium Deficiency Reserve, if any.
- d. Catastrophe Reserve, if any; and
- e. Other Liabilities net off Other Assets

**Other Liabilities** in point (e) above, comprise of (i) Premium received in advance (ii) Unallocated premium (iii) Balance due to OTHER Insurance Companies (iv) Due to other Members of a Pool such as Third Party Pool; Terrorism Pool ; etc. (vi) Sundry creditors (due to Policyholders).

**Other Assets** in point (e) above, comprise of (i) Outstanding premium (ii) due from other entities carrying on Insurance business including Re-insurers (iii) Balance with Pool such as Thirty Party Pool; Terrorism pool; etc.

**Shareholders' Funds:** Shareholders' funds comprise of Share Capital plus all Reserves and Surplus (except Revaluation Reserve and fair value change account) net of accumulated losses and Miscellaneous expenditure to the extent not written off as at the Balance Sheet date.

As a result of the above, the Fair Value Change account as appears in the Balance Sheet shall accordingly stand bifurcated under the shareholders fund and policyholders' fund.

2. **Recoupment of the Deficit:** Every Insurer shall ensure that the policyholders' fund as defined in 1 (iii) above, are fully supported by the policyholders' investments shown in Schedule-8A. Therefore, any deficit / shortfall in policyholders' investments arising out of the loss in the Revenue Account or otherwise shall be recouped by transfer of securities from the shareholders' investments to the policyholders' investments on a half yearly basis. The valuation of such securities shall be in accordance with the valuation norms as specified in the IRDA (Preparation of Financial Statements and Auditors' Report) Regulations, 2002.

3. **Unearned Premium Reserve (UPR) :**

A Reserve for Unearned Premium shall be created as the amount representing that part of the premium written which is attributable to, and is to be allocated to the succeeding accounting periods. Such Reserves shall be computed as under:

- a) **Marine Hull :** 100 percent of Net Written Premium during the preceding twelve months;
- b) **Other Segments:** Insurers have an option to create UPR either at 50 percent of Net Written Premium of preceding twelve months or on the basis of 1/365<sup>th</sup> method on the unexpired period of the respective policies.

The insurers can follow either percentage or 1/365<sup>th</sup> method for computation of UPR of the other segments. However, Insurers shall follow the method of provisioning of UPR in a consistent manner. Any change in the method of provisioning can be done only with the prior written approval of the Authority.

Other provisions of UPR specified in the corrigendum No IRDA-F&A-CIR-FA-126-07-2013 Dt.3rd July, 2013 to the Master Circular on Preparation of Financial statements of the (General Insurance Companies) shall continue to be applicable.

#### 4. Accounting of the Branch office of Reinsurer

Accounting of the branch office of foreign reinsurer which is permitted to operate in India as per the IRDAI (Registration and Operations of Branch Offices of Foreign Reinsurers other than Lloyd's) Regulations, 2015 and IRDAI (Lloyd's India) Regulations, 2016 shall be done as per the regulation 28(6) and 50 (5) respectively of the said Regulations, which prescribe that the branch office of foreign reinsurer shall submit financial returns including statement of accounts in the manner as may be specified in the IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002. Accordingly, the directions in this regard are issued as under:

- A. In case of a foreign reinsurer carrying on the business of reinsurance, through a branch office established in India, a Head Office account shall be maintained;
- B. The Head Office Account shall be maintained in two parts as under:
  - i. The irreversible fixed amount of assigned capital provided to the branch by the foreign reinsurer to carry on the business of reinsurance in India as mandated by the Authority from time to time;
  - ii. The Current account representing the transactions between the branch office and its head office including transfer of branch profit or loss with the prior approval of the Authority from time to time;  
  
Provided that, at any time, the net balance of (i) and ii) shall not be less than the Assigned Capital specified by the Authority.
  - iii. Accordingly, the schedule 5 i.e. Share Capital shall not be applicable to foreign reinsurer carrying on the business of reinsurance, through a branch office established in India.
  - iv. The irreversible fixed amount representing the Assigned Capital shall be shown as a separate line item in the Balance Sheet after "Reserve &



Surplus". The details of the same shall be furnished in schedule 6A- "Head Office Account". The format of the same is enclosed as Annexure 2.

- v. The Current Account of Head Office shall be shown as a separate line item to be presented in the Schedule 12- Advance and Other Assets or Schedule-13 Current Liabilities as the case may be.

It is to be noted that all other provisions of Schedule B of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 to the extent applicable to Indian reinsurers shall be applicable mutatis mutandis to the branch of foreign reinsurers.

This circular is issued under Section 14 of the IRDA Act, 1999 and it comes into force w.e.f. 01.04.2016.

  
(V R Iyer)  
Member-F&I

## SCHEDULE- 8A

## INVESTMENTS-POLICYHOLDERS

Particulars	Current Year	Previous Year
	(` 000)	(` 000)
<b>LONG TERM INVESTMENTS</b>		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments		
(a) Shares		
i) Equity		
ii) Preference		
(b) Mutual Funds		
(c) Debentures/ Bonds		
(d) Investment Property-Real Estate		
(e) Other Securities (to be specified)		
4. Investments in Infrastructure and Housing		
<b>Sub- Total</b>		
<b>SHORT TERM INVESTMENTS</b>		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments		
(a) Shares		
i) Equity		
ii) Preference		
(b) Mutual Funds		
(c) Debentures/ Bonds		
(d) Other Securities (to be specified)		
4. Investments in Infrastructure and Housing		
<b>Sub-Total</b>		
<b>Total</b>		

*It may be noted that the notes given under Schedule 8 shall also be applicable to Schedule 8A.*

**SCHEDULE -6A**

**HEAD OFFICE ACCOUNT**

[In case of foreign reinsurer operating through a branch office established in India in terms of section 2(9)(d) of the Insurance Act, 1938 ]

Particulars	Current Year	Previous Year
	(` 000)	(` 000)
Opening Balance of Assigned capital		
Add: Addition during the year		
Closing Balance of Assigned Capital*		

\*Represents irreversible fixed amount funded by Head Office per terms of licence issued by the Authority and no amount/balance shall be transferred out of the Country without approval of the Authority.