



CIRCULAR

Ref No: IRDA/F&A/CIR/MISC/184/10/2019

Date: 4th October, 2019

To,
The CMDs/CEOs
All Life Insurance Companies

Sub : Preparation of Financial Statements by Life Insurers

Ref : 1. Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002
2. Master Circular on Preparation of Financial Statements and Filing of Returns of Life Insurance Business dated 11th December, 2013

In order to bring further uniformity, comparability and fair presentation of financial position in the Financial Statements filed by the insurers, the Authority, in exercise of the powers under Section 14 of IRDA Act, 1999, hereby issues the following directions:-

1. Presentation of Excess of Expenses of Management (EoM)

The Authority vide IRDAI (Expenses of Management of Insurers transacting Life Insurance business) Regulations, 2016 has specified the limits of expenses of management for life insurers. In case actual expenses of management exceeds the allowable limits specified in the Regulations, the excess is required to be charged to Shareholders Account i.e. Profit and Loss Account (P&L Account).

It has been observed that some insurers are presenting the operating expenses in the Revenue Account (Policyholders Account), net of the excess EoM beyond allowable limits. This does not present the exact expense overrun position of the Insurers. In view of the same, all Insurers are hereby advised to present the Expenses of Management (EoM) in Financial Statements, as under:-

- Report the gross amount of Operating expenses actually incurred during the period, in Schedule-3 and the Revenue Account, without deducting 'Excess of Expenses over the Allowable limits'.

- b) Report the "Contribution from Shareholders Account towards Excess EoM" in excess of the allowable expenses, as Income under Revenue Account under separate sub-line item.
- c) Report the "Contribution to Policyholders Account towards Excess EoM" towards the excess of expenses over the allowable limits, as expense under Profit & Loss Account under separate sub-line item, below the line "expenses other than those directly related to insurance business".
- d) Similarly, the contribution towards the Remuneration of MD/ CEOs/ WTDs over and above the specified limits allowed to be charged to the Policyholders Account, should be shown separately as a line item in the Profit and Loss Account (Shareholders Account).

2. Deviation from prescribed Formats

It is observed that some insurers have been modifying the formats as specified in the IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 by way of addition/deletion of some line items, during preparation of the financial statements.

All insurers are hereby advised to strictly adhere to the formats (including schedules) specified by the Regulations and the directions issued thereunder by the Authority. Any new line item, if so warranted to be disclosed separately, may be shown under "Others" in Revenue Account, P&L Account and/or the relevant schedule of the financial statements, by giving the details of particulars of each item.

3. Rewards and Remuneration to Agents/Brokers/Other intermediaries

In order to ensure consistency, uniformity and fair presentation, it is hereby advised that rewards and/or remuneration to agents, brokers or other intermediaries shall be shown as part of head "Commission" in the financial statements. Rewards shall be shown as a separate line item in Schedule 2 "Commission", below the line "Net Commission" in the financial statements.

All insurers are advised to take note of the above for compliance in preparation of financial statements of FY2019-20 and onwards.



Member (F&I)

