



भारतीय बीमा विनियामक और विकास प्राधिकरण  
INSURANCE REGULATORY AND  
DEVELOPMENT AUTHORITY OF INDIA

Circular

Ref No: IRDA/F&A/CIR/MISC/081/05/2019

Date: 20<sup>th</sup> May 2019

To,

CMDs/CEOs

All General Insurers, Health Insurers, Specialized Insurers and Reinsurers

**Sub: Preparation of Financial Statements for FY2019-20 and Onwards**

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: General Insurance Business dated 5<sup>th</sup> Oct 2012

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

**1. Presentation of Excess Expenses of Management (EoM) in Operating Expenses:**

The Authority vide Insurance Regulatory and Development Authority of India (Expenses of Management of Insurers transacting General or Health Insurance business) Regulations, 2016 have prescribed the limits of expenses of management. In case expenses of management exceeds the limits prescribed by the Regulations, the excess is required to be charged to Shareholders Account i.e. Profit and Loss Account.

It is observed that some insurers are disclosing the operating expenses net of excess EoM charged to shareholders account, in Revenue Account. This leads to distorted

picture of the Underwriting Results of the Insurers. In light of the same, all Insurers are advised to present the excess of EoM in Financial Statements, as under:

- I. Report the gross amount of Operating expenses in Schedule-4 and Revenue Account without deducting 'Excess of allowable expenses';
- II. Report excess of allowable expenses as income under Revenue account under separate sub line item as "Contribution from Shareholders Funds towards Excess EoM" in the line item "Others";
- III. Report excess of allowable expenses as expenses under Profit & Loss account under separate sub line item, "Contribution to policyholders Funds towards Excess EoM" in line item "Other Expenses";

## **2. Personal Accident Policies in Health Segment**

In terms of Section 2(6C) of the Insurance Act, 1938, Personal Accident and Travel (Including domestic as well as overseas) are part of Health Insurance.

**2.1** In order to have uniformity in case of business from Personal Accident and Travel, it is hereby specified that in Financial Statements:

- I. Personal Accident shall continue to be shown as a separate sub-segment within "Miscellaneous segment";
- II. As the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 do not provide a separate segment/sub segment for Travel (including domestic as well as overseas) insurance, it shall be clubbed with "Health Segment";

**2.2** For computation of Expenses of Management, Personal Accident and Travel shall be clubbed with Health Segment.

## **3. Deviation from Formats prescribed:**

It is observed that some insurers have modified the formats as prescribed by the by IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 by way of addition/deletion of line items.



All insurers are advised to strictly adhere to the formats prescribed by the Regulations. Any new line item, if so warranted to be disclosed separately, may be shown under "Others" in Revenue Account, P&L Account and/or relevant schedule of the financial statements by giving the break up.

#### **4. Creation of UPR and Outstanding Claims Reserve (Including IBNR/IBNER) for Premium Ceded under Clean-cut Reinsurance Treaties**

It is observed that some insurers enter into one-year Quota Share Reinsurance Treaty on Clean-cut basis. The provisions towards the unexpired premium reserve / IBNR / IBNER, on such treaties, is neither provided by Direct insurer (cedant) nor by the reinsurer(s).

It is hereby advised that Direct insurers (cedant) shall create the adequate reserves, as follows, in accordance with the IRDAI (Assets, Liabilities and Solvency Margin of General Insurance Business) Regulations, 2016:

- I. Unearned Premium Reserve and Premium Deficiency Reserve towards the unexpired risk at the end of the treaty period; and
- II. Outstanding Claims Reserve (including IBNR/IBNER) towards the outstanding claims on the date of expiry of the treaty.

#### **5. Rewards and Remuneration to Agents/Brokers/Other intermediaries**

In order to bring the 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 Commission.

#### **6. Segregation of Policyholders' and Shareholders' Funds**

The Authority has issued to Circular IRDA/F&A/CIR/CPM/010/01/2017 dated 12<sup>th</sup> January 2017 which mandates the insurers to segregate Policyholders' Funds and Shareholders' Funds. The provisions of the Circular, which was hitherto applicable till 31<sup>st</sup>



March 2018, are now extended for FY2018-19 and onwards, till further orders. All other provisions of the above referred Circular shall continue to be applicable.

#### **7. Corporate Social Responsibility Expenditure**

In order to bring the consistency, uniformity and fair presentation, it is hereby advised that expenditure towards Corporate Social Responsibility shall be shown in Profit and Loss Account.

All insurers are advised to take note of the above for compliance, while finalizing the accounts of Q1 of FY2019-20 and thereafter.



(Pravin Kutumbe)



Member (F&I)