Circular

Ref No: IRDA/F&A/CIR/MISC/082/05/2019 Date: 20th May 2019

To,

CMDs/CEOs

All General Insurers, Health Insurers, Specialized Insurers and Reinsurers

Sub: Preparation of Solvency Statement for FY2019-20 and Onwards

Ref: Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin of General Insurance Business) Regulations, 2016;

During the perusal of the Solvency Returns filed with the Authority, it is observed that certain assets, though "unrealizable in nature" are considered at book value for the purpose of computation of Available Solvency Margin. Similarly, it has been observed that a few sub segments, instead of clubbing with their respective segment, have been clubbed under the "Miscellaneous segment" while computing the Required Solvency Margin. In order to have uniformity, consistency and comparability, the Authority, in exercise of the power under section 14 of IRDA Act, 1999, hereby issues the following directions:

1. IT/Computer Software:

It has been observed that IT/Computer software is considered by most of the insurers for the purpose of computation of Available Solvency Margin, even though the same being intangible asset is "inadmissible" in nature. In this regard, it is hereby directed that for the purpose of computation of solvency margin, the IT/Computer software shall be depreciated at the rate of not less than 1/12 in each quarter on straight line basis, starting

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from the quarter in which the IT/Computer software were added to the Gross Block. The Written Down Value shall be considered for the purpose of computation of Available Solvency Margin.

An illustration of the same is as follows:

If an IT/Computer software worth Rs. 120 has been added in the gross block in Q2 of FY2015-16, the admissible value of IT/Computer software for the purpose of computation of Available Solvency Margin at the end of each quarter, shall be the written down value at the end of each quarter, as per the below table:

Computation of Solvency at the end of	Opening Written Down Value	Depreciation	Written Down Value at the end of the quarter
Q2 of FY2015-16	120	10	110
Q3 of FY2015-16	110	10	100
Q4 of FY2015-16	100	10	90
Q1 of FY2016-17	90	10	80
Q2 of FY2016-17	80	10	70
Q3 of FY2016-17	70	10	60
Q4 of FY2016-17	60	10	50
Q1 of FY2017-18	50	10	40
Q2 of FY2017-18	40	10	30
Q3 of FY2017-18	30	10	20
Q4 of FY2017-18	20	10	10
Q1 of FY2018-19	10	10	Nil

2. Hypothecated/Encumbered Assets:

The Authority has also observed that the assets that have been hypothecated or encumbered have been considered at the book value for the purpose of computation of solvency margin. In this regard, it is hereby directed that:

I. Where the obligation(s)/contingency(ies), for which the assets have been hypothecated/encumbered, have been recognized as liability in the books of accounts, the entire book value of the assets and liabilities shall be considered for the purpose of computation of solvency margin;

II. Where the obligation(s)/contingency(ies), for which the assets have been hypothecated/encumbered, have not been recognized as liability in the books of accounts, the entire book value of such hypothecated/encumbered assets shall not be considered for the purpose of computation of Available Solvency Margin.

3. Trademark / Trade Logo:

It has also been observed that some insurers have considered intangibles assets, such as trademark or trade logo, as admissible asset for the purpose of computation of Available Solvency Margin. In this regard, it is hereby directed that such intangible assets shall be considered as Inadmissible for the purpose of computation of available solvency margin.

4. Computation of RSM

For the purpose of computation of Required Solvency Margin, it is hereby clarified that Personal Accident and Travel (including domestic as well as overseas) shall be clubbed with Health segment and RSM-1 and RSM-2 shall be computed accordingly;

5. Timelines for Submission of Solvency Returns

It is hereby directed that the solvency returns, in the forms and manner, prescribed by IRDAI (Assets, Liabilities and Solvency Margin of General Insurance Business) Regulations, 2016, shall be submitted as per the following timelines:

For the Quarters ending on 30th June, 30th September and 31st December	Within 45 days from the end of the quarter
For the Quarter ending on 31st March	within three months from the end of the period to which they refer to or within thirty days from the date of adoption of accounts by the Board of the insurer, whichever is earlier.

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

(Pravin Kutumbe)

Member (F&I)