INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

MASTER CIRCULAR

ON

PREPARATION OF FINANCIAL STATEMENTS

GENERAL INSURANCE BUSINESS

OCTOBER, 2012

VER – 01

The Authority in order to streamline the preparation of the financial statements of General Insurance Business, have been issuing various Circular / Guidelines. In order to enable the Insurers to have a one stop document of all such directions issued, this Master Circular has been prepared. This Master Circular essentially consolidates all directions / Circulars issued by the Authority upto 30th September, 2012 as indicated in the Appendix and will have the effect of superseding such earlier circular(s) of the Authority

In order to prepare this Master Circular a Working Group was formed with members drawn from both PSUs and Private Sector Insurers and the draft of such compilation was exposed to through the General Insurance Council to the Industry and after incorporating the suggestions received, the same was forwarded to the Sub-Group that was formed under IRDA's Standing Committee on Accounting Issues **[SCAI]** for its recommendation.

While due care had been taken to bring out this Master Circular, we request the Non-Life CEOs / CFOs to inform the Authority of any discrepancy that is found.

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1. INTRODUCTION

Every General insurance / Reinsurer shall comply with the requirements of Schedule B of IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 (the Regulations).

Section 11(1A) of the Insurance Act, 1938 requires all insurers to prepare at the expiration of each financial year, with reference to that year, a balance sheet, a profit and loss account, a separate account of receipts and payments, a revenue account in accordance with the regulations made by the Authority.

1.1 Compliance with the Requirements of the Accounting Standards

Every Balance sheet, Receipt and Payments Account [Cash Flow Statement] and Profit and Loss Account [Shareholders' Account] of the insurer shall be in conformity with the Accounting Standards (AS) referred to in section 211 (3C) of the Companies Act, 1956, to the extent applicable to the insurers carrying on general insurance business, except that:

i. Accounting Standard 3 (AS 3) – Cash Flow Statements – Cash Flow Statement shall be prepared only under Direct Method.

ii. Accounting Standard 13 (AS 13) – Accounting for Investments, shall not be applicable

iii. Accounting Standard 17 (AS 17) – Segment Reporting, shall apply to all insurers irrespective of the requirements regarding listing and turnover mentioned therein.

Modifications on the applicability of the AS are contained in Part-I of Schedule B of the Regulations 2002.

Compliance with the AS must be ensured while finalizing the Financial Statements.

1.2 Furnishing of Annual Financial Statements and other filings:

Attention is drawn to section 15 of the Insurance Act, 1938 which provides furnishing of the audited accounts and statements referred to in section 11 or sub-section (5) of the section 13 with the Authority within six months from end of the financial year.

As insurers are finalizing their annual accounts much earlier than the prescribed timelines, it is hereby directed that insurers shall file an advance copy of attested true copy of the annual financial statements within 15 days from the date of adoption of accounts by the Board

In the event, the accounts adopted by the Board are modified in the general meeting of the shareholders, the revised accounts duly signed as per the provisions of the Insurance Act, 1938 shall be filed with the Authority forthwith.

1.3 The **Format of the summary of the financial statements** for the last five years, wherever applicable and the performance ratios required to be furnished by the insurers as given at **Annexure I & II**

2. ACCOUNTING AND DISCLOSURE REQUIREMENTS

2.1 Segment Reporting

As per the Regulations, all general insurers are required to prepare separate revenue accounts for fire, marine and miscellaneous business. Further, separate Schedules are required to be prepared for Marine Cargo and Marine – Others. In addition, in respect of miscellaneous business, separate Schedules shall be furnished for 1. Motor- Motor Own Damage, and TP, 2. Workmen's Compensation/ Employer's liability, 3. Public/ Product Liability, 4. Engineering, 5. Aviation, 6. Personal Accident, 7. Health insurance and 8. Others.

Any other sub-segment contributing more than 10% of the total premium of the insurer shall be shown separately.

The Authority requires the segments to be reported on the basis of line of business, and on the basis of business within and outside India. While giving the segment details previous year's figures should also be given for all the segments.

2.2 Cash Flow Statement:

All insurers are required to furnish the Cash Flow Statement as per the Direct Method. The proforma is placed in the **Annexure III**

2.3 Value of investments as at the Balance Sheet date

Attention is drawn to Part I clause 6 (c) pertaining to Accounting Principles for preparation of Financial Statements under Schedule B which provides that listed equity securities and derivative instruments that are traded in the active markets shall be measured at fair value on the balance sheet date. Measurement for the purpose of calculation of fair value shall be the last quoted closing price on NSE. However, in case of any stock not being listed in NSE, the insurer may value the Equity based on the last quoted closing price in BSE.

2.4 Actuarial valuation of claims where claims period exceeds four years

The Regulations require all insurers to furnish the particulars of the claims made in respect of contracts where the claims payment period exceeds four years. Such claims are required to be recognized on actuarial basis. In such cases, a certificate from an Appointed Actuary as to fairness of liability assessment must be obtained, and the actuarial assumptions are required to be disclosed by way of Notes to the Accounts. A clear example of such a liability is payment arising out of long term disability. It is further clarified that the provisioning under this regulation has no relation to the time lag between the occurrence and settlement of a claim.

Such claims should be certified by the appointed actuary.

2.5 Treatment of Premium Deficiency

Premium deficiency arises when the sum of expected claim costs, related expenses and maintenance costs (related to claims handling) exceeds related reserve for unexpired risks.

The expected claim costs should be calculated and duly certified by an Appointed Actuary.

The insurers shall recognize the premium deficiency for all the segments including the segments of miscellaneous class of business. Any premium deficiency, in this regard, in any of these segments / sub-segments of business will have to be provided for by the insurer, irrespective of the possibility of no such deficiency arising on the overall basis. However, Insurers are not required to recognize premium deficiency on erstwhile motor pool and declined motor pool.

The basis of computation needs be disclosed under the notes of accounts. Premium deficiency shall be shown as a separate line item in the reportable segmental revenue account. The revised format of Revenue Account in placed at **Annexure IV**.

2.6 Unallocated Premium

Unallocated premium includes premium deposit and premium which has been received but for which risk has not commenced. It is to be shown under current liabilities.

2.7 Premium received in advance

Premium received in advance is the premium, where the period of cover sought incepts is clearly outside the accounting period and is shown under current liabilities.

2.8 Provisioning for diminution in the value of equity

Attention is drawn to Clause 6 (c) of Part I of the Schedule B of the Regulations. The Regulations require that the insurer shall assess on each balance sheet date whether any impairment of listed equity securities / derivative instruments has occurred.

Any impairment loss (i.e. other than temporary diminution in value) shall be recognized as an expense in the Revenue/ Profit and Loss A/c to the extent of the difference between the re-measured fair value of the security /investment and its acquisition cost as reduced by any previous impairment loss recognized as expense in the Revenue/Profit and Loss Account. Any reversal of impairment loss, earlier recognized in Revenue /Profit and loss Account, shall be recognized in the Revenue /Profit and Loss Account."

Insurer shall disclose its policy on recognition of impairment in notes to account.

2.9 Rural and Social Sector business

Schedule B Part II Point C (3) of the Regulations requires the percentage of sector wise business to be disclosed. Along with the total business and rural business, the social sector business underwritten by the insurer should also be furnished, indicating the number of policies issued and number of lives covered (both actual and percentages).

2.10 Contingent Liabilities

Underwriting Commitments Outstanding

Commitments to underwrite the subscription to a new issue of shares, but the liability for which is contingent upon the issue not being fully subscribed. (It is, however, clarified that insurers are presently not permitted to underwrite issues).

Re-insurance obligations not provided for

Obligations under reinsurance contracts with the insurer in respect of which, there are subsisting obligations as at the balance sheet date but for valid reasons, the insurer has not made any provision.

2.11 Provision for Free Look period

The insurers are required to evolve principles for provisioning for free look period based on assumptions and experience, duly certified by the appointed actuary.

2.12 Investments of Policy holders and Shareholders

While preparing the Balance Sheet, the insurers are advised to indicate, as far as it is feasible, Investments pertaining to Shareholders and Policyholders separately, in which case, the Investments Schedules shall be as under:

Schedule 8	Investments – Shareholders
Schedule 8a	Investments – Policyholders

The income/ losses accrued / capital gains/losses on the investments are to be credited / debited to the respective Revenue Account/ Profit & Loss Account, as the case may be.

There shall not be any transfer from Policyholders' Account to Shareholders' Account on account of income/losses on investments.

However, in case of practical difficulties, the Board of Directors can take a view on the subject, and consistently follow the same. The policy on this matter should be spelt out in the Significant Accounting policies.

2.13 Alternate Risk Transfer Agreements (ART)

Some of the non-life insurers are entering into Alternate Risk Transfer (ART) agreements as a substitute to/form of re-insurance. A broad assessment of the types of agreements being entered into by the insurers indicates that while at best these arrangements may be a combination of reinsurance and financing arrangements, in other instances ART may be purely in the nature of a financing agreement.

Any ART arrangement has to be accounted for based on the principle of "Substance over Form". If the agreement is in the nature of re-insurance coupled with financing arrangement, and the components are capable of separation, each element should be accounted for as per the Generally Accepted Accounting Principles (GAAP). However, in cases where the aforesaid components are not separable, the entire arrangement should be treated as a financial transaction and should be accounted for accordingly. All non-life insurers are required to account for the ART arrangements by looking into the "Substance over Form", and account for the same as per the GAAP

2.14 Transfer of securities to Policy holders' Account

Where securities are transferred to the policy holders Account, this should be at market price or amortized cost price, whichever is lower.

2.15 Allocation of Expenses

All expenses should be allocated between the Revenue/Profit & Loss Account on a rational basis. Basis adopted shall to be followed consistently. Basis of allocation shall be disclosed.

However, any expense which could not be allocated as above shall be apportioned based on the **net premium** of the company. Details of such apportioned expense shall be furnished in the notes to accounts

2.16 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 A/c" at and Sl. No.14
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”

2.17 Profit on sale/redemption of investments – Income tax thereon

The exemption available to any other assessee under any clause of section 10 of the Income tax Act, 1961 (including clause 38 of section 10 regarding long term capital gains) is also available to a person carrying on non-life insurance business subject to the fulfillment of the conditions, if any, under a particular clause of section 10 of the Income tax Act under which exemption is sought. Clarification in this regard provided by the CBDT, Department of Revenue, Ministry of Finance is in placed at **Annexure V**.

3 GUIDELINES ON PRUDENTIAL NORMS FOR INCOME RECOGNITION, ASSET CLASSIFICATION, PROVISIONING AND OTHER RELATED MATTERS IN RESPECT OF LOANS & ADVANCES:

The guidelines are based on the RBI guidelines issued in this regard, duly modifying, keeping in view the industry specific requirements. **Any item not covered below will be governed by the provisions as mandated by the RBI for banks**.

3.1 Asset Classification

Adequate provision shall be made for estimated loss arising on account from/under recovery of loans and advances (other than loans and advances granted against insurance policies issued by the insurer) outstanding at the balance sheet date. Insurers shall classify their loans/advances into four categories, viz., (i) standard assets, (ii) sub-standard assets, (iii) doubtful assets and (iv) loss assets. Classification of assets into these categories shall be done taking into account ability of the borrower to repay and the extent of value and realizability of security

3.1.1 Standard assets

Standard asset is one which does not disclose any problem and which does not carry more than normal risk attached to the business. Such an asset is not an NPA. The insurer should make a general provision on Standard Assets of a minimum of 0.40 per cent of the value of the asset.

In respect of loans extended directly by insurers to sick units taken over by borrowers falling under the "standard" classification, the facilities of the transferee and merged units may continue to be classified separately, for a period not exceeding 24 months from the date of the takeover of the sick unit, after which the performance of the loans sanctioned to the borrower as a whole should determine their classification. In cases of reverse merger (i.e., take-over of a healthy unit by a sick unit) as well, the facilities of both the units may continue to be classified separately for a period of 24 months after which the combined performance may be taken for asset classification.

3.1.2 Sub-standard assets

Sub-standard asset is one which has been classified as NPA for a period not exceeding 12 months, e.g., an asset which has been treated as a NPA on 1st April, 2004, would be treated as a sub-standard asset only up to 31st March 2005

In case of time overrun for completion of project directly financed by insurers, the Boards of Insurers should decide based on valid grounds, whether the advance should be treated as standard asset.

An asset where the terms of the loan agreement regarding interest and principal have been renegotiated or rescheduled after commencement of production, should be classified as sub-standard and should remain in this category for at least two years of continually satisfactory performance under the revised terms. The classification of an asset should not be upgraded merely as a result of rescheduling, unless there is satisfactory compliance of the above condition.

3.1.3 Doubtful assets

A doubtful asset is one which has remained as NPA for a period exceeding 12 months, e.g., a loan facility to a borrower which is treated as NPA on 1st April 2004, would be treated as 'doubtful' from 1st April, 2005.

A loan classified as doubtful has besides the weakness inherent in that classified as sub-standard, with the continuing default makes the recovery in full, to be improbable. Here too, as in the case of sub-standard assets, rescheduling does not lead up gradation of the category of the asset automatically. Similarly a doubtful asset which is subject to rehabilitation and where the asset has been subsequently continually satisfactorily serviced for one year shall be graduated to a standard asset.

3.1.4 Loss assets

A loss asset is one where loss has been identified by the insurer or its internal or statutory auditors or by IRDA, but the amount has not been written off wholly. In other words, such an asset is considered un-collectible and as such its continuance as asset is not warranted although there may be some salvage or recovery value.

3.2 Overdue Amounts Interest/Principal

An amount, whether interest or principal, if it is not paid to the insurer on the specified date, is said to be over due. An asset is classified as an NPA if the interest and/ or installment of principal remain overdue for more than one quarter.

3.3 Provisioning for Loans and Advances

Taking into account the time lag between an accounts becoming doubtful of recovery, its recognition as such, the realization of the security and the erosion in the value of security charged to the insurers, it is necessary that insurers make adequate provisions against sub-standard assets, doubtful assets and loss assets, as per the procedure outlined below:

3.3.1 Loss assets:

The entire asset should be written off. If the assets are to remain in the books for any reason, 100 per cent of the outstanding should be provided for.

3.3.2 Doubtful assets:

(a) 100 percent provision of the extent to which the asset is not covered by the realizable value of the security to which the insurer has a valid recourse and the realisable value is estimated on a realistic basis.

(b) Over and above item (a) above, depending upon the period for which the asset has remained doubtful, 20% to 100% provision of the secured portion (i.e., estimated realisable value of the outstanding) should be made on the following basis:

Period for which the asset has been considered as doubtful	% of provision
Up to one year	20%
One to three years	30%
More than three years	100%

3.3.3 Sub-standard assets

i. A general provision of 10% of total value outstanding remaining substandard is required to be made including loans granted by the Central/State government.

ii. Loans granted under rehabilitation packages

In case of nursing finance granted by an insurer, the additional loan facilities sanctioned under the rehabilitation programme may be treated as a separate account and the performance assessed separately. Asset classification and provisioning in respect of such loan facilities as per the prescribed guidelines may be made only if the interest /principal payments remain due beyond one quarter.

It is clarified that the proviso has been included to take care of the existing portfolio of the insurers.

3.4 Defaults in repayment of principal

On account of various reasons, such as delays in project implementation, getting adequate working capital facilities, etc., repayment of principal may be delayed beyond the stipulated one quarter. The asset may continue to be considered as standard if the installments of the principal amount are rescheduled with the approval of the Board of the concerned insurer. This is subject to the condition that there can be only a one time re-schedulement and that the interest continues to be paid regularly.

3.5 Time Overrun:

In case of time overrun for completion of project directly financed by insurers, the Boards of Insurers should decide based on valid grounds, whether the advance should be treated as standard asset.

3.6 One Time Settlement (OTS)

(a) In respect of loan facilities extended to sick units (under nursing programmes or otherwise) taken over by borrowers falling under the “standard” classification, the facilities of the transferee and the merged units may continue to be classified separately for a period not exceeding 2 years from the date of takeover of the sick unit, after which the performance of the loan facility sanctioned to the borrower as a whole should determine their classification.

(b) Sometimes insurers enter into one time settlement (OTS) of their dues with a new owner. In cases where a sick unit has been merged with a healthy and strong unit and where payments are being made as per the OTS scheme, the asset in respect of the merged unit may be considered as standard without waiting for a period of 2 years for upgradation from sub-standard to standard asset. However, such cases should be approved by the Board of the concerned insurer.

3.7 Units Enjoying More than One Loan Facility

In case of borrowers who have been granted more than one loan facility by the insurer, all the dues from them will have to be treated as NPAs if 50 per cent of its total interest and/or principal dues from all loans extended to it remain overdue for more than one quarter.

3.8 Government Guaranteed Loans

Loans or other credit facilities backed by Central/State Government guarantees should be treated on par with other assets for income recognition and provisioning. However, in respect of loans backed by Central Government guarantee, such loans shall be treated as NPA only when the Government repudiates its guarantee when invoked.

3.9 Income Recognition

Income in respect of any asset classified as NPA shall not be recognized unless realized. However, any adjustment towards overdue interest against any fresh/additional loan shall not be considered as realized.

4 FINANCIAL DISCLOSURES

Part II of Schedule B of the Regulations stipulates the disclosure requirements which are required to form part of the financial statements. In addition to this, the following disclosures are also required to be made.

4.1 Assets subject to restructuring

The following information is required to be disclosed as 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

4.2 Disclosure of Gross Income

The Revenue and Profit & Loss Accounts of the insurers contain line items pertaining to "income from investments". The disclosure of income from investments should be indicated as required under the regulations.

4.3 'Contents of Management Report' point 10 requires disclosure of 'Ageing of claims indicating the trends in average claim settlement time during the preceding five years', The required details are to be furnished in the following format:

Segment wise (Rs. in lakhs)

Period	No. of Claims	Amount Involved
30 days;		
30 days to 6 months;		
6 months to 1 year;		
1 year to 5 years		
5 years and above		

4.4 Details of payments to individuals, firms, companies and organizations in which directors are interested required to be disclosed as part of Management Report to be furnished in the following format:

No	Name of the Director	Entity in which he is interested	Interested as	Amount of payment during the financial year (Rs. in lakhs)

The above details may be furnished as per the requirements of The Companies Act, 1956 as regards directors' interest.

4.5 Schedule on Commission expenses

Insurers are required to furnish information relating to commission paid to agents and intermediaries as per the prescribed format. The format of the commission expenses as revised by the Authority is placed at **Annexure VI**.

4.6 All insurers are required to provide details of various penal actions taken by various Government Authorities as per the format prescribed at **Annexure VII**. A NIL report may be filed in case no penalties have been imposed on the insurer.

4.7 Treatment of the sum pertaining to the Insured

The unclaimed amounts of the policyholders / Insured's may be on the following account:

a. claims settled but not paid to the policyholders / insured's due to any reasons except under litigation from the insured / policyholders

b. sum due to the insured

c. Any excess collection of the premium / tax or any other charges which is refundable to the policyholders either as terms of conditions of the policy or as per law or as may be directed by the Authority but not refunded so far

d. Cheques issued by the Insurer for settlement under "a", "b" or "c" above and cheques have not been encashed by the policyholders / insured

The amount representing the unclaimed sum shall be disclosed as a separate line item in Schedule 13- "Current liabilities" of the Balance Sheet. Further, its age-wise analysis shall be disclosed in the format as at **Annexure VIII.**

It is further advised that such unclaimed sum shall not be appropriated / written back, in any circumstance, by the insurers.

4.8 Though the Notes to Accounts normally disclose a statement that Previous Year’s figures are regrouped wherever necessary, as a mere statement to this effect will not indicate the accounts which have undergone regrouping. Insurers shall clearly indicate the line item in the final accounts which have been regrouped along with reasons thereof.

5 GENERAL

5.1 All insurers are advised to furnish the returns to the Authority as per the Regulations notified in this regard. In case there is no information applicable for a particular point the insurer should indicate 'Not Applicable' or 'Nil', as the case may be, rather than deleting the said point from the Returns filed with the Authority.

5.2 The Regulations prescribe that certain points are required to be certified by a specified professional. Kindly ensure that the Regulations are followed both in letter and spirit in the said context. It should be ensured that exceptions, if any are brought out in the relevant certificate.

5.3 Insurers are advised to strictly adhere to the prescribed format and not to modify the format including introducing of new set of line items.

5.4 Items of expenses and income in excess of one per cent of the total premiums (less reinsurance) or Rs. 5 lakh whichever is higher is required to be shown as a separate line item.

5.5 All insurers are required to publish their Annual Report, as required under Section 15 of the Insurance Act, 1938 in their website.

APPENDIX

No	Reference	Name of the circular
1	Dated April 29, 2003	Preparation of financial statements by the insurers - Non-Life
2	Dated May 16, 2003	Corrigendum to the circular dated April 29, 200
3	IRDA/FA/01/8/2003-04 dated August 8, 2003	Finalization of accounts for the financial year 2002-03
4	IRDA/FA/01/10/2003-04 dated October 29, 2003	Regulations pertaining to Preparation of Financial Statements by the Insurers
5	F&A/CIR/017/MAY-04 dated May 18, 2004	Preparation of financial statements by the general insurers
6	GEN/CIR/018/May-04 dated May 24, 2004	Interpretation of Provisions of the Insurance Act and Regulations
7	F&A/CIR/024/JUNE-04 dated June 22, 2004	Furnishing of the Returns by the insurers
8	IRDA/CIR/F&A/053/DEC-04 dated December 8, 2004	Accounting treatment of the Alternate Risk Transfer Agreements
9	IRDA/CIR/F&A/088/March-05 dated March 30, 2005	Regulations pertaining to Preparation of Financial Statements of the Insurers
10	IRDA/F&A/013/2005-06 dated June 9, 2005	Furnishing of Annual Financial Statements
11	037/IRDA/F&A/Mar-06 dated March 23, 2006	Profit on sale/redemption of investments - Income tax thereon
12	32/2/F&A/Circulars/169/Jan/2006-07 dated January 24, 2007	Prudential norms for income Recognition, asset classification and provisioning and other related matters
13	503.2/1/F&A/Prudential Norms/004/April-07	Prudential norms for income Recognition, asset classification and provisioning and other related matters
14	067/IRDA/F&A/CIR/MAR-08 dated March 28, 2008	Preparation of Financial Statements by Insurers
15	005/IRDA/F&A/CIR/MAY-09 dated May 07, 2009	Disclosures forming part of financial statements
16	IRDA/F&I/CIR/CMP/174/11/2010 dated November 4, 2010	Treatment of Unclaimed Amount of Policyholders

Annexure I

SUMMARY OF FINANCIAL STATEMENTS

(Rs. in lakh)

No	Particulars	1st year*	2nd year	3rd year	4th year	5th year
	OPERATING RESULTS					
1.	Gross Direct Premiums					
2.	Net Earned Premium #					
3.	Income from investments (net) @					
4.	Other income (Pl. specify)					
5.	Total income					
6.	Commissions (Net) (Including Brokerage					
7.	Operating Expenses					
8.	Net Incurred Claims					
9.	Change in Unexpired Risk Reserve					
10.	Operating Profit/loss					
	NON-OPERATING RESULT					
11.	Total income under shareholders' account					
12.	Profit/ (loss) before tax					
13.	Provision for tax					
14.	Profit / (loss) after tax					
	MISCELLANEOUS					
15.	Policy holders' Account: Total funds Total Investments Yield on investments					
16.	Shareholders' Account: Total funds Total Investments Yield on investments					
17.	Paid up equity capital					
18.	Net worth					
19.	Total assets					
20.	Yield on total investments					
21.	Earnings per share (Rs.)					
22.	Book Value per share (Rs.)					

No	Particulars	1st year*	2nd year	3rd year	4th year	5th year
23.	Total Dividend					
24.	Dividend per share (Rs.)					

Net of reinsurance

@ Net of losses

Points 15&16 may be given separately, if it is feasible.

*1st year means the most recent concluded financial year.

Annexure II

ANALYTICAL RATIOS – NON LIFE

No	Ratio	Method of Calculation	Remarks	Presentation
1	**Gross Direct Premium Growth Rate (segment wise)** **(Gross direct premium for the current year divided by the gross direct premium for the previous year)** *Description of ratio:* (i) Data taken from segmental reporting of Schedule 1 (ii) The segments being those shown in Schedule 1. Eg. Fire, Marine Cargo, Marine Hull, Motor OD, Motor TP Health, Engineering, Aviation, Personal Accident, miscellaneous, etc (iii) **Numerator:** Gross Direct Premium Income net of service tax for current year (iv) **Denominator:** Gross Direct Premium Income net of service tax for previous year.	(GDPI (CY)- GDPI(PY))/ GDPI (PY)	GDP growth rate for Indian and Foreign Operation to be shown separately	%
2	**Gross Direct Premium to Net worth ratio:** **(Gross direct premium for the current year divided by paid up capital and free reserves)** *Description of ratio:*	GDPI / Net worth	Net worth is (share capital, reserves and surplus, less (miscellaneous expenditure, debit balance in profit and loss account)	Times

No	Ratio	Method of Calculation	Remarks	Presentation
	i. Data taken from Schedule 1 Balance Sheet ii. **Numerator:** Gross Direct Premium Income net of service tax iii. **Denominator:** Net worth viz., (share capital, reserves and surplus, less (miscellaneous expenditure, debit balance in profit and loss account)			
3	**Growth rate of Net Worth:** **(Net worth as at the current balance sheet date divided by Net worth as at the previous balance sheet date)** ***Description of ratio:*** i. **Numerator:** Current year's Net worth ii. **Denominator:** Previous year's Net worth	[(Net worth of CY – Net worth of PY)] / Net Worth - PY		%
4	**Net Retention Ratio (segment wise)** **(Net premium divided by gross direct premium)** ***Description of ratio:*** i. Data taken from segmental reporting of Schedule 1 ii. **Numerator:** Net Premium: Total gross premium net of reinsurance ceded and accepted	Net Premium / (Gross Direct Premium Income + Reinsurance Accepted)	Indian and Foreign Operation to be shown separately	%

No	Ratio	Method of Calculation	Remarks	Presentation
	iii. **Denominator:** Gross Direct Premium Income net of service tax: including reinsurance accepted.			
5	**Net Commission Ratio (segment wise)** **(Gross Commission Paid net of reinsurance commission divided by net written premium for that segment)** ***Description of ratio:*** i. Data taken from segmental reporting of Schedule 1 of Revenue account ii. **Numerator:** Net commission (schedule 3) iii. **Denominator:** Net Premium Written (Schedule 1)	Net Commission / Net Written premium	Indian and Foreign Operation to be shown separately	%
6	**Expense of Management to Gross Direct Premium Ratio:** **(Expenses of Management (operating expenses related to insurance business plus direct commissions) divided by gross direct premium)** ***Description of ratio:*** i. Data taken from Schedule 1, Schedule 3 and Schedule 4 of Revenue account ii. **Numerator:** Expenses of Management: Direct	Expenses of Management/ GDPI		%

No	Ratio	Method of Calculation	Remarks	Presentation
	commissions paid (Schedule 3) plus Operating Expenses related to insurance business (Schedule 4) iii. **Denominator:** Gross Direct Premium Income (Schedule 1) net of service tax			
7	**Expense of Management to Net Written Premium Ratio:** **(Expenses of Management (operating expenses related to insurance business plus direct commissions paid) divided by Net written premium)** ***Description of ratio:*** i. Data taken from Schedule 1, Schedule 3 and Schedule 4 ii. **Numerator:** Expenses of Management: Direct commissions paid (schedule 3) plus Operating Expenses related to insurance business (schedule 4) iii. Denominator: Net Written Premium	Expenses of Management/ NWPI		%
8	**Net Incurred Claims to Net Earned Premium** ***Description of ratio:*** i. Data taken from Schedule 1 and Schedule 2	Net Incurred Claims / Net Earned Premium		%

No	Ratio	Method of Calculation	Remarks	Presentation
	ii. **Numerator:** Net Incurred claims (Schedule 2) **Denominator:** Net Earned Premium (Schedule 1)			
9	**Combined Ratio:** **(Net Incurred Claims divided by Net Earned Premium plus expenses of management (including net commission) divided by Net written premium** ***Description of ratio:*** i. Data taken from Schedule 1, Schedule 2, Schedule 3 and Schedule 4 ii. **Numerator:** Net Incurred Claims for all segments (schedule 2) plus expenses of management (Net commissions (schedule 3) + Operating Expenses related to insurance business (schedule 4) **iii. Denominator:** Net Earned Premium and Net Written Premium(Schedule 1)	(Claims plus expenses of management)/ NWPI	Indian and Foreign Operation to be shown separately	%
10	**Technical Reserves to net premium ratio:** **(Reserve for unexpired risks plus premium deficiency reserve plus reserve for outstanding claims (including IBNR and IBNER divided by net premium)(All on net basis)**	(URR + Reserve for premium deficiency + Reserve for outstanding claims including IBNR and IBNER) / Net Premium		Times

No	Ratio	Method of Calculation	Remarks	Presentation
	Description of ratio: i. Data taken from Schedule 1, Schedule 13 and Schedule 14 ii. **Numerator:** Reserve for unexpired risk (Schedule 14) plus reserve for outstanding claims (schedule 13) plus reserve for premium deficiency (schedule 1) iii. **Denominator:** Net earned premium (Schedule 1)			
11	**Underwriting balance ratio:** **(underwriting profit divided by net premium for the respective class of business)** ***Description of ratio:*** i. Data taken from Schedule 1, Schedule 2, Schedule 3 and Schedule 4 ii. **Numerator:** Net earned premium (Schedule 1) minus net incurred claims (schedule 2) minus net commissions (schedule 3) minus operating expenses relating to insurance business (schedule 4)) iii. **Denominator:** Net earned premium (Schedule 1)	(Underwriting profit/ loss)/ net premium		Times

No	Ratio	Method of Calculation	Remarks	Presentation
12	**Operating profit ratio:** **(Underwriting profit/ loss plus investment income divided by net premium)** ***Description of ratio:*** i. Data taken from segmental reporting of Schedule 1 of Revenue account ii. **Numerator:** Net earned premium (Schedule 1) minus net incurred claims (schedule 2) minus net commissions (schedule 3) minus operating expenses relating to insurance business (schedule 4) plus income from investments on policyholders funds iii. **Denominator:** Net earned premium (Schedule 1)	(Underwriting Profit/ loss + Investment Income)/ Net Premium		%
13	**Liquid Assets to liabilities ratio:** **(Liquid assets (Short Term Investments (Schedule 8) plus Short Term Loans (Schedule 9) plus Cash & Bank Balances (Schedule 11)) of the insurer divided by policyholders liabilities (to be discharged within 12 months) (claims outstanding (Schedule 13) plus reserve for unexpired risk and Premium Deficiency (Schedule 14))** ***Description of ratio:*** i. Data taken from segmental reporting of	Liquid Assets / Policyholders liabilities		Times

No	Ratio	Method of Calculation	Remarks	Presentation
	Schedule 8, Schedule 9, Schedule 11, Schedule 13 and Schedule 14 of Revenue account ii. **Numerator:** Liquid assets (Short Term Investments (Schedule 8) plus Short Term Loan (Schedule 9) plus Cash & Bank Balances (Schedule 11)) iii. **Denominator:** Policyholders Liabilities (Claims to be discharged within 12 months) plus reserve for unexpired risk and premium deficiency (Schedule 14)			
14	**Net earnings ratio:** **(Profit after tax divided by net premium)** ***Description of ratio:*** i. Data taken from segmental reporting of Schedule 1 of Revenue account and P& L A/C ii. **Numerator:** Profit after tax (P& L A/C) iii. **Denominator:** Net premium (Schedule 1)	Profit after tax/ net premium		%
15	**Return on net worth ratio:** **(profit after tax divided by net worth)** ***Description of ratio:*** i. Data taken from P& L A/C and Balance Sheet	Profit after tax/ Net Worth		%

No	Ratio	Method of Calculation	Remarks	Presentation
	ii. **Numerator:** Profit after tax (P& L A/C) iii. **Denominator:** Net worth (as described in point3(i))			
16	**Available Solvency Margin (ASM) to Required Solvency Margin (RSM) ratio** **(Ratio of Available Solvency Margin (ASM) at the end of the Quarter to the Required Solvency Margin (RSM) required to be maintained as per regulations.** ***Description of ratio:*** To be taken from solvency margin reporting requirements			Times
17	**NPA ratio** ***Description of ratio:*** Data taken from Section 11 table 11.5 which provides the NPA ratio separately for policyholders' funds and shareholders' funds			%

Note:

1. *Net worth = (Share Capital + Reserves & Surplus) – (Miscellaneous Expenditure + Debit balance in Profit and Loss Account)*
2. *Performance Ratios as prescribed above shall be disclosed under "Public Disclosures" also as prescribed vide IRDA Circular Reference IRDA/F&I/CIR/F&A/012/01/2010 dated 28th January 2010*

Annexure III

FORMAT OF RECEIPTS AND PAYMENTS A/C (DIRECT BASIS)

(Rs. in'000)

A. Cash Flows from the operating activities:

1. Premium received from policyholders, including advance receipts
2. Other receipts
3. Payments to the re-insurers, net of commissions and claims
4. Payments to co-insurers, net of claims recovery
5. Payments of claims
6. Payments of commission and brokerage
7. Payments of other operating expenses
8. Preliminary and pre-operative expenses
9. Deposits, advances and staff loans
10. Income taxes paid (Net)**
11. Service tax paid
12. Other payments
13. Cash flows before extraordinary items
14. Cash flow from extraordinary operations
15. Net cash flow from operating activities

B. Cash flows from investing activities:

1. Purchase of fixed assets
2. Proceeds from sale of fixed assets
3. Purchases of investments
4. Loans disbursed
5. Sales of investments
6. Repayments received
7. Rents/Interests/ Dividends received
8. Investments in money market instruments and in liquid mutual funds
9. Expenses related to investments
10. Net cash flow from investing activities

C. Cash flows from financing activities:

1. Proceeds from issuance of share capital
2. Proceeds from borrowing
3. Repayments of borrowing
4. Interest/dividends paid
5. Net cash flow from financing activities

D. Effect of foreign exchange rates on cash and cash equivalents, net

E. Net increase in cash and cash equivalents:

1. Cash and cash equivalents at the beginning of the year
2. Cash and cash equivalents at the end of the year

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*** Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities."*

Annexure IV

FORM B-RA

Name of the Insurer:

Reg. No. and Date of Registration with the IRDA

REVENUE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20___

No	Particulars	Schedule	Current Year (Rs. 000)	Previous Year (Rs. 000)
1	Premiums earned (Net)	1		
2	Profit/Loss on sale/redemption of Investments			
3	Others (to be specified)			
4	Interest, Dividend & Rent – Gross			
	'OTAL (A)			
1	Claims Incurred (Net)	2		
2	Commission	3		
3	Operating Expenses related to Insurance Business	4		
4	Premium Deficiency*			
	'OTAL (B)			
	Operating Profit / (Loss) from Fire / Marine / Miscellaneous Business C= (A - B)			
	Appropriations			
	Transfer to Shareholders' Account			
	Transfer to Catastrophe Reserve			
	Transfer to Other Reserves (to be specified)			
	'OTAL (C)			

Note: See Notes appended at the end of B-PL

* The Revenue Account shall be prepared for each reportable segment.

F.No.153/24/2006-TPL
Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes
(TPL Division)

Room No.147B-II, North Block
New Delhi, the 21st February, 2006

To,

Shri C.S. Rao
Chairman
Insurance Regulatory Development Authority (IRDA)
Parishrama Bhawanam
5-9-58/B, Basheer Bagh
Hyderabad-500 004.

Subject: Profit/Loss on sale/redemption of investments – Income tax thereon.

Sir,

The undersigned is directed to refer to the write-up on the captioned subject submitted by you during the month to the Hon'ble Finance Minister and Secretary (Revenue).

2. It is clarified that the exemption available to any other assessee under any clause of section 10 of the Income-tax Act, 1961 [including clause (38) of section 10 regarding long-term capital gains] is also available to a person carrying on non-life insurance business subject to fulfilment of the conditions, if any, under a particular clause of section 10 under which exemption is sought. General insurance companies are, therefore, on par with other assessees who are entitled to or are eligible for exemption under section 10 of the Income-tax Act of long-term capital gains.

Yours faithfully,

(A. Sreenivasa Rao)
Under Secretary (TPL-III)
Tel: 2309 2742

Annexure VI

SCHEDULE 3

COMMISSION

Particulars	Current Year	Previous Year
	(Rs. '000)	(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		
Others (pl. specify)		
TOTAL (B)		
Note: Total (A) and (B) above should tally.		

Annexure VII

PENAL ACTION TAKEN BY VARIOUS AUTHORITIES

No	Authority	Non-Compliance/ Violation	Amount in Rs. Lakh		
			Penalty Awarded	Penalty Paid	Penalty Waived/ Reduced
1	Insurance Regulatory and Development Authority				
2	Service Tax Authorities				
3	Income Tax Authorities				
4	Any other Tax Authorities				
5	Enforcement Directorate/ Adjudicating Authority/ Tribunal or any Authority under FEMA				
6	Registrar of Companies/ NCLT/CLB/ Department of Corporate Affairs or any Authority under Companies Act, 1956				
7	Penalty awarded by any Court/ Tribunal for any matter including claim settlement but excluding compensation				
8	Securities and Exchange Board of India *				
9	Competition Commission of India				
10	Any other Central / State / Local Government / Statutory Authority				

Annexure VIII

STATEMENT SHOWING THE AGE-WISE ANALYSIS OF THE UNCLAIMED AMOUNT OF THE POLICYHOLDERS

Particulars	Total Amount	AGE-WISE ANALYSIS					
		4-12 Mts	13-18 Mts	19– 24 Mts	25 – 30 Mts	31 – 36 Mts	Beyond 36 Mts
claims settled but not paid to the policyholders / insured due to any reasons except under litigation from the insured / policyholders							
sum due to the insured / policyholders on maturity or otherwise							
Any excess collection of the premium / tax or any other charges which is refundable to the policyholders either as terms of conditions of the policy or as per law or as may be directed by the Authority but not refunded so far							
Cheques issued but not encashed by the policyholder/ insured							