

Legal Framework in General Insurance Business:

Following primary legislation provide legal aspects of insurance accounting in India:

- a) The Insurance Act 1938
- b) The Companies Act 2013
- c) IDRA (preparation of Financial Statements and Auditors Report of Insurance Companies Regulation 2002

GAAP (Generally Accepted Accounting Principles) : Above said legal and technical aspects are taken together for forming Indian GAAP for insurance accounting in India.

Sec.11 of the Insurance Act 1938 provides that every insurer shall at the expiration of each financial year, prepare a Balance sheet, a Profit and Loss account and Cash flow statement in accordance with the regulation made by IRDA.

An insurer carrying on General Insurance business shall prepare financial statements in compliance with the requirements of Statements B

Accounting Basis: General Insurance Business can be transacted for both on Annual basis and Fund basis. But in most of cases, GI Accounting is prepared on Annual basis with appropriate estimation for outstanding claims made at the balance sheet date. The p & L of insurance business written during the FY are recognized at the end of FY by setting up of Provisions for outstanding claims , unearned premium and unexpired risk provisions and by deferring an appropriate portion of acquisition cost.

Funds basis of Accounting: - Takes long time to determine the underwriting result with a reasonable degree of certainty.

The estimation for outstanding claims must be appropriate to comply with the requirement of the companies Act,.

Underwriting results are determined on an annual basis by deducting all expenses or cost incurred for the particular year from the Earned Premium in the year

Earned Premium = GROSS DIRECT PREMIUM - RESERVE STRAIN

RESERVE STRAIN = CLOSING RESERVE FOR UNEXPIRED RISK – OPENING RESERVE FOR UNEXPIRED RISK
OR

EARNED PREMIUM = GDP +OPENING RESERVE FOR ENEXPIRED RIST – CLOSING RESERVE FOR UNEXPIRED RIS

Cost included incurred claims Net, Commission Net (Acquisition Cost) and Operating Results.

Underwriting Results are determined through preparation of Revenue Account for each department. Revenue Account determines underwriting results as well as Surplus/Deficit after adjustment of Investment Income on Policy Holder's fund

NET PREMIUM EARNED: It is calculated for the purpose of Revenue Account to determine the underwriting results

GROSS DIRECT PREMIUM INCOME		XXXXX
ADD: PREMIUM ON REINSURANCE ACCEPTED	XXXXX	
LESS: PREMIUM ON REINSURANCE CEDED	XXXXX	XXXXX
NET PREMIUM		XXXXX
Add: OPENING RESERVE FOR UNEXPIRED RISK	XXXXX	
LESS: CLOSING RESERVE FOR UNEXPIRED RISK	XXXXX	XXXXX
NET PREMIUM EARNED		XXXXX

Technical Reserve/Unexpired risk reserve: It is also referred to as unexpired risk. Risk is created to meet the claims which arise when the policies mature in the subsequent years.

Sec.64 VI (II) (B) OF Insurance Act 1938, a provision for unexpired risk is made at 50% in Fire, Marine cargo and 100% for Marine Hull Insurance.

CLAIMS EXPENSES: Claim expenses means incurred claims and it is a major cost in a GI business. Under Annual Basis accounting, cost incurred includes

$\text{INCURRED CLAIMS} = \text{PAID CLAIMS} + \text{OUTSTANDING CLAIMS AT THE END OF THE YEAR} - \text{OUTSTANDING CLAIMS AT THE BEGINNING OF THE YEAR}$

Incurred Claim considered in the revenue Account is claims incurred Net which is calculated after adjustment of claims on Reinsurance and outstanding claims and paid claims

FIRE CLAIMS PAID		XXXXX
ADD: CLAIMS ON REINSURANCE ACCEPTED	XXXXX	
LESS: CLAIMS ON REINSURANCE CEDED	XXXXX	XXXXX
NET CLAIMS PAID		XXXXX
ADD CLAIMS OS AT THE END OF THE YEAR	XXXXX	
LESS CLAIMS OS AT THE STARTING OF THE YEAR	XXXXX	XXXXX
CLAIMS INCURRED NET		XXXXX

ACQUISITION COST: It is direct cost for obtaining or renewing the insurance business. Indirect cost such as advertising cost or administrative cost also form part of acquisition cost. Cost incurred for procurement of insurance business are called acquisition cost. Such cost include direct cost and indirect cost. For the purpose of preparation of Revenue Account, commission net is considered

COMMISSION PAID DIRECT	XXXXX
ADD: COMMISSION ON REINSURANCE ACCEPTED	XXXXX
LESS: COMMISSION ON REINSURANCE CEDED	XXXXX
NET COMMISSION	XXXXX

OPERATING EXPENSES: Management expenses is a major cost component related to insurance business. For All cases, incurred expenses are

$$\text{Incurred cost} = \text{Expenses paid} + \text{Outstanding expenses} - \text{Prepaid expenses}$$

These expenses are first aggregated and apportioned to each class of business on a reasonable and equitable basis. Any expenses (Rs.5 lacs or in excess of 1% of net premium whichever is higher are required to be shown separately.)

Sec.40C of the Insurance Act 1938 prohibits an insurer to spend an expenses of management in excess of limits prescribed in the Act. A provisions for leave encashment, gratuity etc at the end of each financial year is made on ac

$$\text{Incurred expenses} = \text{paid expenses} + \text{outstanding expenses} - \text{prepaid expenses.}$$

OUTSTANDING CLAIMS: The provisions for claims outstanding at the end of the period would include the insurer's estimated liability in respect of notified claims, claims incurred but not reported (IBNR and claims handling expenses.

Foreign operating accounts have to be merged with the Indian Operation to present a global financial position. These accounts which are prepared in local currencies are converted in Indian currency as per specific Accounting Standard AS 11. And merged with Indian Accounts.

UNEXPIRED RISK RESERVE: Sec.64V(1)(ii) of the insurance Act 1938, - providing specific percentage of net premium as reserve for unexpired risk which is minimum and mandatory.

Provision for terminal benefits of the employees: As per AS 15, provision for leave encashment, gratuity pensions, and terminal benefits such VRS payable to employees on superannuation is made on actuarial basis at the head office.

INSURANCE ACCOUNTING REGULATIONS

Indian GAAP on Insurance Accounts comprises Specific regulation of Insurance Act 1938 and the Companies Act and the relevant Accounting standards issued by Institute of chartered Accountants of India.

As per the Insurance Regulatory and Development Authority (Preparation of financial statements and auditors report of Insurance companies) Regulation 2002, following financial statement of insurance companies are required to be prepared as per the specific formats

- a) Balance sheet
- b) Revenue Accounts
- c) Profit and Loss Account
- d) Profit and Loss appropriation account
- e) Fund flow statement

Regulation for Insurance Business: As per sec.114A of Insurance Act 1938, As per the Insurance Regulatory and Development Authority (Preparation of financial statements and auditors report of Insurance companies) Regulation 2002, and in consultation with Insurance Advisory committee following regulation have been formed

- a) An insurer carrying on general insurance business shall comply with the requirement of schedule B
- b) Report of the auditors on financial statement of every insurer and reinsurer shall be in conformity with the requirement of Schedule C

Schedule B

Part I – Accounting Principles for preparation of financial statement

Part II – Disclosures formatting part of financial statements

Part III- General Instructions for preparation of financial statements

Part IV - Contents of Management Reports

Part V- Preparation of financial statements

Part I – Accounting Principles for preparation of financial statement

APPLICABILITY OF ACCOUNTING STANDARD

Every Balance sheet, Funds flow statement, and Profit and Loss statement of the insurer shall be in conformity with the Accounting standard issued by ICAI except that

- a) Accounting Standard 3 : Cash flow statement shall be prepared only under direct method

- b) Accounting Standard 13 :Accounting for Investments shall not apply
- c) Accounting Standard 17 : Segments wise reports shall apply to insurers irrespective of the requirements regarding listing and turnover

PREMIUM RECONGNITION

Premium shall be recognized as income over the contract period or the period of risk whichever is appropriate. Premium received in advance shall be disclosed separately as current liability in financial statement.

A reserve for unexpired risk shall be created as premium written attributable and allocated to the succeeding accounting period and shall not be less than as per sec. 64 v 1 ii b.

Premium received in Advance shall be shown under the head Current liabilities.

Premium Deficiency: If the sum of expected claims cost, related expenses, and maintenance cost exceed the related reserve for unexpired risk.

Procedure to determine the value of investments:

- a) **Real estate:** Investment property shall be measured at historical cost less accumulated depreciation and impairment loss, residual value being considered ZERO
Impairment loss shall be recognized as an expenses in the Revenue/Profit and loss account to the extent of the difference between the remeasured fair value of investments and its acquisition cost as reduced by any previous impairment loss recognized as expenses in Profit and loss account.
Any reversal of impairment loss, earlier recognized in Revenue/Profit and loss account shall be recongnised in P and L a/c
- b) **Debt Securities: Debt Securities including Government securities and redeemable preference shares** shall be considered as held to maturity securities and shall be measured at historical cost subject to amortization.
- c) **Equity Securities and Derivative Instruments that are traded in active markets:** Listed equity securities and derivative instruments that are traded in active markets shall be measured at fair value as at the balance sheet date.
For calculation of fair value, the lowest of the last quoted closing price of the stock exchanges where the securities are listed are taken.
Active market, where the securities traded are homogenous, availability of willing buyers and willing sellers is normal and the prices are publicly available.
Unrealised gain/loss arising due to changes in the fair value of listed equirty shares and derivative instruments shall be taken to equity under the head “ Fair Value change Account”.
The Profit/loss on sale of investments shall include accumulated changes in the fair value
- d) **Unlisted and other than actively traded equity securities and derivative instruments-**

- e) Unlisted and other than actively traded equity securities and derivative instruments- and Listed equity securities and derivative instruments that are not traded active markets shall be measured at historical cost
- f) Thinly traded securities: securities that are not traded active markets shall be classified as thinly traded securities.
- g) Loans shall be measured at historical cost subject to impairment provisions.

PART II- Disclosures forming part of Financial statements:

PART III- General Instructions for Preparation of Financial statements:

- a) Interest , dividends and rentals receivables from Investment should be stated in Gross value and Income tax deducted at sources included under “ Advance taxes paid”.
- b) Capital reserve shall not include amount regarded as free for distribution through the Profit and Loss account and revenue reserve shall mean any reserve other than a capital reserve.
- c) Any debit balance of P and L A/c shall be shown as deduction from Uncommitted reserves and balance shall be shown separately;

Preparation and Presentation of cash flow statement in general insurance business:

It provides basis to assess the ability of the firm to generate cash and cash equivalent and the needs of the firm to utilize those cash flows.

The insurer needs to have both solvency and liquidity to pay off its liability.

Cash flow statement in an insurance company is to be prepared using the Direct methods where AS 3 will not be applicable.

Cash Equivalent are short term, highly liquid investments that are readily convertible into known amounts of cash

Cash flows are inflows and outflows of cash and cash equivalents.

Cash flow statement is a key indicator of the enterprise . It shows the extent to which operations have generated sufficient cash flows to maintain the operating capability o the insurers, pay claims commission, management expenses and pay dividends and repay loans and borrowings.

Cash flow has to be prepared by segregating operating, investing and financing activities.

Ratio Analysis:

GROSS DIRECT PREMIUM GROWTH RATE	$\frac{\text{GDPI (CY)} - \text{GDPI (PY)}}{\text{GDPI (PY)}}$ <p>Where gross direct premium income is net of service tax for both of these years</p>
GROSS DIRECT PREMIUM TO SHAREHOLDERS' FUNDS RATIOS	$\frac{\text{GDPI (CY)}}{\text{SHARE HOLDERS' FUNDS}}$ <p>SHARE HOLDERS' FUND= PAID UP CAPITAL + FREE RESERVES</p>
GROWTH RATE OF SHAREHOLDERS' FUND	$\frac{\text{SHARE HOLDERS' FUND (CY)} - \text{SHAREHOLDERS' FUND(PY)}}{\text{SHARE HOLDERS' FUND (PY)}}$
NET RETENTION RATIO	$\frac{\text{NET PREMIUM}}{\text{GROSS DIRECT PREMIUM INCOME (CY)}}$
NET COMMISSION RATIO	$\frac{\text{GROSS COMMISSION PAID (NET OF REINSURANCE COMMISSION)}}{\text{GROSS DIRECT PREMIUM INCOME}}$
EXPEENSES OF MANAGEMENT TO GROSS DIRECT PREIMUM RATIO	$\frac{\text{EXP. OF MANAGEMENT}}{\text{GROSS DIRECT PREMIUM INCOME}}$
COMBINED RATIO	$\frac{\text{INCURRED CLAIMS + EXP OF MANAGEMENT}}{\text{GROSS DIRECT PREMIUM INCOME}}$
TECHINICAL RESERVES TO NET PREMIUM RATIO	$\frac{\text{RESERVE FOR (UNEXPIRED RIST + PREMIUM DEFICIENCY + OUTSANDING CLAIMS)}}{\text{NET PREMIUM}}$ <p>OUTSANDING CLAIMS INCLUDE IBNR AND IBNER</p>
UNERWRITTING BALANCE RATIO	$\frac{\text{UNDERWRITTING PROFIT OR LOSS}}{\text{NET PREMIUM}}$ <p>UNDERWRITTING PROFIT= NET EARNED PREMIUM – NET INCURRED CLAIMS – NET COMMISSIONS – OPERATING EXPENSES RELATING TO INSURANCE BUSINESS</p>
OPERATING PROFIT RATIO	$\frac{\text{UNDERWRITTING PROFIT + OR - INVESTMENT INCOME}}{\text{NET PREMIUM}}$ <p>UNDERWRITTING PROFIT = NET EARNED PREMIUM – NET INCURRED CLAIMS – NET</p>

	COMMISSION – OPERATING EXPENSES RELATING TO INSURANCE BUSINESS
LIQUID ASSETS TO LIABILITIES RATIO	LIQUID ASSETS ----- POLIC HOLDERS LIABILITIES LIQUID ASSETS = SHORT TERM INVESTMENTS + SHORT TERM LOANS + CASH AND BANK BALANCE OF THE INSURER POLICY HOLDERS LIABILITIES+ CLAIMS OUTSTANDING + RESERVE FOR UNEXPIRED RISK AND PREMIUM DEFICIENCY
NET EARNINGS RATIO	PROFIT AND TAX ----- NET PREMIUM
RETURNS ON NET WORTH	NET PROFIT ----- CLOSING SHAREHOLDERS' FUND
REINSURANCE RATIO	RISK REINSURED ----- GROSS DIRECT PREMIUM

Shareholders' funds = share capital + capital reserve + General reserve + Misc. Reserve

Policy holders' fund = Unexpired Reserves + outstanding claims

Statutory and Regulatory Provisions

Sec.11 (1) of the Insurance Act 1938 provides that every insurer shall at the expiration of each financial year, prepare a Balance sheet, a Profit and Loss account and Cash flow statement in accordance with the regulation made by IRDA.

Sec.14 of the Insurance Act 1938 shall maintain a register or record of policies,

Sec.15 of the Act prescribes that the audited accounts and statements shall be printed and four copies thereof shall be furnished as returns to the controller within six months from the end of the period to which they refer.

Sec.17 of the Act provides that balance sheet and profit and loss account prepared in accordance with sec.11 of the act and filed with the Registrar of companies.

Sec.27B of the Act requires that non insurer carrying on general insurance shall invest any part of his assets in the approved investments listed in this sec.

Sec.27 C Providing the prohibition of investment of the policy holders' fund outside India,

Sec.27 D, Manner and conditions of Investment:

PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

- a) Revenue Account shall be prepared in Form B – RA
Profit and Loss account in Form B-PL
Balance sheet in Form B – BS
They are specified in Part V of Schedule B.
- b) Above reports shall be prepared in accordance General instructions for Preparation of as per Part III
- c) The said statements shall be prepared on accrual basis.
- d) The main purpose of preparing the Revenue A/c is to show a summary of income and expenditure relating to fire insurance marine insurance and miscellaneous insurance during an accounting period.
- e) GI companies have to prepare the separate Revenue A/c for each class of business.
- f) Apportionment of Income from Investment: Investment Income (Net of Expenses) are apportioned between Shareholders' fund and policyholders' fund in proportion to balance of these funds at the beginning of the year.
- g) Investment Income (Net of Expenses) of policy holders funds are apportioned to Fire,Marine and Miscellaneous departments in proportion to respective reserves balance at the beginning of the year.
- h) Shareholders' fund for this purpose consist of share capital, General Reserves , Capital reserves and Foreign currency Transactions Reserves.
- i) Policy holders funds consists of Technical reserves including Unexpired Risk reserves and provisions for outstanding claims.
- j) Profit and loss a/c is prepared with net underwriting result being transferred from Revenue Account.
- k) Net underwriting result is combined with net result from Investment and financing activities of shareholder to determine the net profit and loss .
- l) All direct expenses and income applicable to a particular business are recorded in the Revenue Account
- m) Common and General expenses and incomes are recorded in Profit and loss a/c.
- n) All appropriations are recorded in P and L a.c

IRDA (INVESTMENTS) REGULATIONS 2008

Every insurer carrying on insurance in India shall invest and keep invested his total assets as per provisions of Sec.27 or sec 27 A of Insurance Act 1938.

As per powers under sec.27A,27B,27D and 114 A of Insurance Act 1938, IDRA has framed its first Regulation called IRDA (Investment) Regulation 2000 and now called IRDA (Investment) Regulation 2008.

Investment Assets mean all Investments made out of shareholders' funds representing solvency margin and policy holders funds.

Solvency Margi = Assets of an insurer – liabilities

As parsec.4(1) of the IDRA (investment) regulation 2008, Every insurer shall invest and keep invested their investment assets in the following manner:

Government Securities	Not less than 20% of Investment assets
Govt. Securities and other approved securities in above	Not less than 30% of Investment assets
Approved investments and other investments	Not exceeding 55%
Housing and loans to state government for housing and fire and fighting equipments by way of subscription or purchase of 1) Bonds/debentures of Housing and Development Corporation Limited and National Housing bank 2) Bonds/Debentures of Housing Finance companies either duly accredited by National NHB for house building activities or duly guaranteed by government or carrying current rating of not less than AA by credit rating agency 3) Assets Backed Securities with underlying housing loans	Not exceeding 5%
Investment in Infrastructure	Not less than 10%

Classification of Investments:

Government securities mean securities created and issued by the central Govt. or State Govt. for the purpose of raising of public loan in a form specified in the Public Debt Act 1944.

Approved Securities:

- a) Govt. Securities and other securities i) charged on the revenue of the central / state Govt or II) guaranteed fully as regards principal and interest by the central or state govt.
- b) Debenture/ other securities for money issued under the authority of any central act/act of state of a state legislature by or on behalf of a port trust/municipal corporation
- c) Shares of a corporation established by law and guaranteed fully by the central govt. or the govt of state as to the repayment of the principal and the payment of the dividend.
- d) Securities issued or guaranteed as regards principal and interest by the Govt of any part B state and specified as approved securities for the purpose of this act
- e) Infra facility shall include roads, bridges, rail system, highway projects ,ports, water supply systems.

Credit Rating:

Investments shall not be made in instruments, , which are not rated , although they are capable of being rated.

The rating should be carried out by credit rating agency registered under SEBII (Credit Rating Agencies) Regulations 1999. Following is the list of various ratings provided by the agencies for long term instruments

AAA	HIGHEST SAFETY OLOWEST CREDIT RISK
AA	HIGH SAFETY VERY LOW CREDIT RISK
A	ADEQUATE SAFETY – LOW CREDIT RISK
BBB	MODERATE SAFETY – MODERATE CREDIT RISK
BB	MODERATE RISK OF DEFAULT RELATING TO TIMELY SERVICING OF FINANCIAL OBLIGATIONS
B	HIGH RISK OF DEFAULT RELATING TO TIMELY SERVICING OF FINANCIAL OBLIGATIONS
C	VERY HIGH RISK OF DEFAULT TO TIMELY SERVICING OF FINANCIAL OBLIGATIONS
D	DEFAULT

Rating Scale for Short term investments: A1, A2, A3, A4, and D1

Investment will be considered “ approved investments” if they meet the following rating parameters:

CORPORATE BOND/INVESTMENTS	AA
SHORT TERM BONDS/DEBENTURES/CERTIFICATE OF DEPOSITS AND COMMERCIAL PAPER	P1`
DEBT INSTRUMENTS ISSUED BY THE ALL INDIA FINANCIAL INSTRUMENTS RECOGNISED AS SUCH BY RBI	AA

Other Investments: Approved investments which are downgraded below the minimum rating prescribed should be automatically re-classified under “ other investments”.

Exposure and Prudential Norms for Investments: Every insurer shall limit his investments based on the following exposure norms:

TYPE OF INVESTMENTS	LIMIT FOR INVESTEE COMPANY	LIMIT FOR ENTIRE GROUP OF INVESTEE COMPANY	LIMIT FOR INDUSTRY
INVESTMENT IN A) EQUITY B) PREFERENCE SHARES C) CONVERTIBLE DEBENTURE	10% OF A) OUTSTANDING EQUITY SHARES (FACE VALUE) OR B) INVESTMENT ASSETS WHICH EVER IS LESS IN GER. INSURANCE	NOT MORE THAN 10% OF INVESTMENT IN ASSETS (INCLUDING REINSURER)	INVESTMENT BY THE INSURER IN ANY INDUSTRIAL SECTOR SHALL NOT EXCEED 10% OF ITS TOTAL EXPOSURE TO THE INDUSTRY SECTOR
INVESTMENTS IN A) DEBTS B) LOANS AND C) OTHER INVESTMENT PERMITTED BY ACT OR REGULATION	10% OF PAID UP SHARE CAPITAL, FREE RESERVES, DEBENTURES, BONDS OF INVESTEE COMPANY OR 10% OF INVESTMENT ASSETS IN GENERAL INSURANCE WHICHEVER IS LESS		

SPECIAL NOTES ON EXPOSURES NORMS

- A) Investment in equity including preference shares and convertible part of debentures shall not exceed 50% of the above exposure norms
- B) Investment in immovable property covered under sec.27A (1) (n) of the insurance 1938 shall not exceed at the time of investment , 5% of the investment assets

- C) An insurer shall not have investments of more than 5% in aggregate of its total investments in companies belong to the promoters' group
- D) 10% of group and industry sector exposure shall be raised up to 15% with the prior approval of the investment committee
- E) The exposure limit for financial and banking sector shall stand at 25% investment assets for all insurers
- F) Investment in fixed deposits, term deposits and certification of deposit of a scheduled bank shall be made in terms of the provisions of sec.27(A) (9) and Sec.,27(B) (10) of the insurance Act 1938.

REPORTING REQUIREMENTS

Regulation 6 of the investment Regulation provides that quarterly investment returns should be submitted by every insurer to the Regulator.

Such quarterly investment returns shall be duly verified/certified by CEO/Chief of Investment

Following returns shall be submitted by insurers

FORM 1	STATEMENT OF INVESTMENT AND INCOME ON INVESTMENT
FORM 2	STATEMENT OF DOWNGRADED INVESTMENTS
FORM 3B	STATEMENT OF INVESTMENT 9 GENERAL INSURER) - COMPLIANCE REPORT
FORM 4	EXPOSURES AND OTHER NORTS – COMPLIANCE CERTIFICATE
FORM 5	STATEMENT OF INVESTMENT RECONCILIATION
FORM 5A	STATEMENT OF MUTUAL FUNDS INVESTMENT
FORM 6	CERTIFICATE UNDER SEC.28 (2A), 28 (2B) AND 28b OF INSURANCE ACT 1938
FORM 7	CONFIRMATION OF INVESTMENT PORTFOLI DETAILS
FORM 7A	STATEMENT OF NON PERFORMING ASSETS IN FORM 7A

INVESTMENT COMMITTEE:

Regulation 7 provides for the constitution of the investment committee and its role

- a) Investment shall consist of minimum of two non executive directors, the CEO, Chief of finance, Chief of Investment decisions and appointed actuary.
- b) Every year investment policy and place of policy shall be drawn up and placed before Board for approval.
- c) The policy must ensure that adequate return on policy holder's fund and shareholders' funds consistent with the protection, safety and liquidity of such funds
- d) The funds shall and continue to be invested in equity shares, equity related instruments and debt instruments keeping in view the requirement of insurance act and IRDA regulations.
- e) The Board shall review the investment policy and its implementation on a half yearly basis

APPROVED INVESTMENTS

All investments specified in sec.27B of the Act except

- a) Securities of/ guaranteed as to the principle and Interest by Government of UK in another country as stated in sec.27B (1) (b0
- b) Immoveable property situated in another country as mentioned in 27A (1) (n)
- c) First mortgage on immovable property situated in another country as stated in sec.27A(1) (i)

Investments approved by IRDA under the powers vested in it rue sec.27B (1) (j)

- a) All loans and securities secured as per Insurance Act
- b) Secured debentures, bonds and debt instruments rated as per note appended in Reg.3 and 4
- c) Equity shares, preference shares and debt instruments
- d) Bonds or debentures issued by company ies having minimum rating of AA / equivalent short term bonds, debentures, certificate of deposits and commercial papers having minium rating of PI or equivalent
- e) Collateralised borrowing and leading obligations (CBLO) created by Clearing corporation of India Ltd and recognized by RBI and exposure to Gilt G sec. and liquid mutual funds forming part of approved investments as per mutual fund guidelines
- f) Assets backed securities under underlying housing loans/ having infrastructures assets as defined under infrastructures facility in reg.2 of IRDA (Registration of Indian Insurance companies)
- g) Commercial paper issued by a company or All India Financial Institution recognized as such by RBI having credit rating
- h) Money market instrument as defined as Regulation 29 (cc) of this regulation.

Classification of Investments

As per AS 13, Investments are assets which are held by an enterprise for

- a) For earning income by way of interest, dividend and rentals
- b) For capital appreciation or
- c) For Other benefits of the investing enterprise.

As per AS 13, Investments may be

- 1) Current Investments
- 2) Long term investments

Current Investments:

- a) Readily realizable and
- b) Intended to be held for not more than one year from the date when such investments are made.
- c) They shall be carried in the financial statements at the lower of cost and fair value. Market value or net Realizable Value (NRV) provides the base for fair value.

Fair Value is the amount for which an assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable willing seller in an arm's length transactions. Under appropriate circumstances, market value or net realizable value provides an evidence of fair value.

Market value is the amount obtainable from the sale of investments in an open market, net of expenses.

Long term Investments:

- a) Other than current investments
- b) Held for more than one year from the date of their acquisition
- c) These assets are always valued at cost
- d) If there is a decline of permanent nature in the value of long term investments, their carrying amount is to be reduced to declined value.
- e) Any reduction in carrying amount of investment is charged or debited to Profit and loss account
- f) Reversal will be credited to Profit and loss account.

Accounting of Investment as per AS 13 guidelines:

- a) Current Investments and Long term Investments: are distinctly shown
- b) Further classification as per the norms of the regulation. In this absence, It shall be further classified as
 - 1) Investment in Govt. Securities
 - 2) Shares Debentures and bonds
 - 3) Investment property
 - 4) Other Specifying nature.
- c) Cost of an investment include acquisition cost such as brokerage, fees and duties
- d) Investment properties shall be accounted for as Long term investment
- e) Current liabilities shall be carried in the financial statements at cost.
- d) When investments are classified from current to long term, transfer are made at the lower of cost and fair value at the date of transfers
- e) Where investments are classified from long term to current, transfers are made at the lower of cost and carrying amount at the date of transfers.
Any reduction in the carrying amount, shall be charges or credited to Profit and loss account
- f) When a part of investments is disposed of, the carrying amount is allocated

- g) Since shares and debentures are held as stock in trade, the cost is determined by applying appropriate costing methods like FIFO or Average prices which are used for valuation of Inventories as per AS 2 "Valuation of Inventories"
- h) Investments, Dividends and rentals received and receivable shall be recognized as income . When dividends declared on equity are declared from pre-acquisition profits, such dividends shall be credited to the investment account.
- i) Cost of right shares is added to the carrying amount of the original holding. If rights are sold in the market, sale proceeds are taken to profit and Loss account through Investments account.

Preparation of Investment Account:

Investment Accounting is done by maintaining a separate investment account for each scrip purchased for holding and sale as trading.

The scrips purchased are divided in to two classes:

- 1) Fixed Income bearing securities - they are Govt., Securities
 - 2) Variable Income bearing securities – also known as marketable investmentenets.
1. Fixed Income Bearing Securities: In case of transaction on " Ex-Interest basis", the amount of interest accrued till the date of transaction has to be paid in addition to the price of the security.

Cum Interest Price: The price paid for acquisition includes the accrued interest on the securities purchased for the period commencing from the last date of payment of interest to the date of the transactions.

Annual Reports and Statutory Provisions for General Insurance companies:

1) Report by Board of Directors: With respect to the following:

- a) The state of affairs of company
- b) Amount carried to any reserves
- c) The amount which should be paid by way of dividend
- d) The conservation of energy, technology, absorption, foreign exchange earnings and outgo.

Contents of annual report:

- a) Directors and Management
- b) Annual General meeting notice
- c) Report of Board of Directors
- d) Management report
- e) Auditors Report
- f) CAG's report in case of Govt. Company
- g) Certificate required by Schedule c of IRDA Accounting Regulation 2002
- h) Shareholder and policyholders' fund details
- i) Significant Accounting policies, Notes and disclosures
- j) Balance sheet abstract
- k) Segment wise reporting schedule.

When the audit opinion is true and fair, the auditors provides an unmodified audit opinion.

When the auditor opinion is not true and fair, the audit opinion is said to have reservation, qualification or be adverse.

The annual accounts of GI companies are prepared on a going concern basis.

Master circular on Preparation of Financial statements General Insurance Business:

Objective:

To streamline the preparation of the financial statements of GI business

This circular consolidates all directions issued by IRDA up to 30th September 2012

- a) Listed equity securities and derivative instruments that are traded in the active markets shall be measured at fair value on the balance sheet date.
- b) Premium deficiency arises when the sum of the expected claims costs related expenses and maintenance cost exceeds related reserve for unexpired risk.
- c) Unallocated premium includes premium deposits and premium which has been received but for which risk has not commenced. It is to be shown under current liabilities.
- d) Premium received in advance is shown under current liabilities.
- e) Any impairment loss shall be recognized as an expense in the Revenue/Profit and loss account to the extent of the difference between the remeasured fair value of the security and its acquisition cost as reduced
- f) Alternative Risk Transfer Agreements (ART) - Any ART arrangement has to be accounted for based on the principle of Substance over Form.
- g) Where securities are transferred to the policy holders account, they should be at market price or amortized cost price whichever is less.

Standard Assets:

- a) Which does not disclose any problem and which does not carry more than normal risk attached to the business.
- b) Such asset is not an NPA
- c) General provision on standard assets of a minimum of 0.40% of the value of the assets

Sub standard Assets:

- a) One which has been classified as NPA for a period not exceeding 12 months

Doubtful Assets

One which has remained as NPA for a period exceeding 12 months

Loss Assets: An asset is considered uncollectible and as such its continuance as an asset is not warranted although there may be some salvage or recovery value.

Provisions against Assets

- a) The loss assets should be written off. If the assets are to remain in the books, 100% of outstanding should be provided.
- b)



ambitious **baba**.com