

## 10.1.0 FINANCIAL STATEMENTS

### Schedule “B” Part I : (Accounting Principle)

**a. Balance Sheet, Receipts & Payments A/c, (Cash Flow Statement) and Profit & Loss A/c (Shareholders) A/c must be in conformity with Accounting Statement (AS) other than the following :-**

- i) AS 3 : Cash Flow Statement by Direct method
- ii) AS 13 : Investment Account not applicable
- iii) AS 17 : Segment Reporting applicable to all Insurers irrespective of Listing or Turnover mentioned.

**b. Premium Recognized as Income for the Risk/Contract period. However, Premium Received in Advance to be disclosed separately under the head Current Liabilities. All Acquisition Costs if any shall be treated as Prepaid Expenses and is to be shown under current Assets, Loans & Advances. Reserve for Unexpired Risk shall not be less than U/S 64 V(i), (ii), (b) of the Act.**

**c. Premium Deficiency :** Excess Amount of A (Cost of Claims, Allied Expenses & Reinstatement cost —B (Reserve for Unexpired Risk). (Initially Premium Deficiency is computed sub-segment wise, but it is provided only when it arises segment as a whole. However disclosure of sub- segment is mandatory.) From 1<sup>st</sup> April, 2015 Premium Deficiency shall be recognized not as a whole basis , but as Segmental Revenue Account Level. Premium Deficiency shall be calculated for sub-segments of business also.

**d. Acquisition Cost : Expenses on New & Renewable Insurance contracts duly executed.**

**e. Claims :** It covers both Settlement Cost and Estimated Cost for loss occurrence.  
O/S Claims involve from Direct Business & Inward Reinsurance Business. O/S Claim includes Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER). Subject to Regulation, claim outstanding more than 4 years shall be assessed on an Actuarial Basis. Assumption of Actuaries must form notes to the account.

**Provision for Free Look Period:** The insurers are required to make provision for free look period based on assumption and experience duly certified by appointed actuary.

**f. Investment Valuation :**

- i) **Property Valuation done on (Historical Cost) -** (Accumulated Depreciation — Impairment Loss, if any).

Impairment Loss is charged to Profit & Loss A/c. Basis of determination of the “Fair Value” shall be disclosed as additional information.

ii) **Debt Securities** : It is measured at Historical Cost subject to amortization. It includes Govt. Securities and redeemable Preference Shares and considered as “held to maturity” securities.

iv) **Listed Equity Securities and Derivative** Investments that are traded in active markets. Fair Value as on Balance Sheet date Lowest price of the last quoted closing price is taken as Fair Value.

“**Active Market**” means trading of homogenous securities at a publicly available price with the normal availability of buyer and seller.

Unrealized gain/loss arising due to changes in 'Fair Value' of listed and actively traded Equity Shares is taken under the head “**Fair Value Changes A/c**” in the Balance Sheet.

Difference in the re- measured Fair Value of the Investment and Acquisition Cost is treated as **Impairment Loss**. Impairment Loss is debited from Profit & Loss A/c. Any reversal of early Impairment Loss is however credited.

iv) **Unlisted & other than actively traded Equity Securities & Derivative Instruments shall be ascertained on Historical costs subject to impairment.** Provision shall be made for diminution in the value. However, increase in value, if any, in subsequent years, shall be restricted to Historical Cost.

**Loans:** Shall be ascertained at historical cost subject to impairment provision. The impairment provision is done on the basis guidelines prescribed by IRDAI.

**Catastrophe Reserve:** Catastrophe Reserve shall be created in accordance with norms, if any prescribed by IRDAI.

**Schedule “B” Part II** (Disclosure in Financial Statements)

Disclosures in Balance Sheet: (Some Selective Items taken)

**1. Contingent Liabilities:**

- (a) Partly-paid up investments
- (b) Underwriting commitments outstanding
- (c) Claims, other than those under policies, not acknowledged as debts
- (d) Guarantees given by or on behalf of the company
- (e) Statutory demands/liabilities in disputes, not provided for,
- (f) Reinsurance obligations to the extent not provided for in accounts
- (g) Others (to be specified)

**2. Claims, less reinsurance, paid to claimants in/outside India**

**3. Actuarial assumptions for determination of claim liabilities in the case of claims where**

the **claims payment period exceed four years**

4. **Ageing of claims** —distinguishing between claims **outstanding for more than six months and other claims**
5. Claims settled and remaining unpaid for a period of more than six months as on the balance sheet date

**Schedule “B” Part III** (Instructions for preparation of Financial Statements-Some Selective Items taken)

1. The corresponding amounts for the immediately **preceding financial year** for all items shown in the Balance Sheet, Revenue Account and Profit & Loss Account should be given.
2. The figures in the financial statements may be **rounded off to the nearest thousands**.
3. **Interest, dividends and rentals receivable** in connection with an investment should be stated at **gross value**, the amount of income tax deducted at source being included under 'advance tax paid'.
4. Income from rent shall not include any **notional rent**.
5. **Any amount free from distribution through the Profit & Loss Account** shall not be included in Capital Reserve. Revenue Reserve means any Reserve other than Capital Reserve.

**Schedule “B” Part IV** (Contents of Management Report -Some Selective Items taken)

IRDA (Preparation of Financial Statement and Auditors' Report of Insurance Cos.), 2002:

1. Confirmation regarding the continued **validity of the registration** granted by the Authority;
2. Certification that **all the dues payable** to the statutory authorities have been duly paid;
3. Confirmation to the effect that the **shareholding pattern and any transfer of shares** during the year are in accordance with the statutory or regulatory requirements;
4. Declaration that the management has **not** directly or indirectly **invested outside India** the funds of the holders of policies issued in India;
5. Confirmation that the **required solvency margins** have been maintained;
6. Valuation of the following **Assets reviewed** on the date of Balance Sheet subject to **maximum of market value** —“Loans”, “Investment”, “Agents Balances”, “Outstanding Premium”, “Interest, Dividends and Rent Outstanding/Accrued”, “Coinsurance”, “Sundry Debtors”, “Bills Receivables”, “Cash”.
7. **Ageing of claims** indicating the trends in average claim settlement time during the preceding five years.

8. A **responsibility Statement** indicating that (Directors' Responsibility Statement u/s 217 (2AA) of the Companies Act, 1956) :
- i) In the preparation of financial statements, the applicable accounting **standards, principles and policies** have been followed along with proper explanations relating to material departures, if any.
  - ii) The management has adopted accounting policies and applied them consistently and made judgments and estimates that are **reasonable and prudent** so as to give a **true and fair view** of the state of affairs of the company at the end of the financial year and of the operating profit or loss and of the profit or loss of the company for the year.
  - iii) The management has taken proper and sufficient care for the maintenance of **adequate accounting records** in accordance with the applicable provisions of the Insurance Act 1938 (4 of 1938) / Companies Act, 1956 (1 of 1956), for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
  - iv) The management has prepared the financial statements on a **going concern basis**.
  - v) The management has ensured that an **internal audit system** commensurate with the size and nature of the business exists and is operating effectively.
9. A **schedule of payments**, which have been made to individuals, firms, companies and organizations in which Directors of the insurer are interested.

**Schedule "B" Part V (Preparation of Financial Statements)**

1. An insurer shall prepare the Revenue Account, Profit and Loss Account (Shareholders' Account) and the Balance Sheet in Form **B-RA, Form B-PL, and Form B-BS**, or as near thereto as the circumstances permit. Provided that an insurer shall prepare Revenue Accounts separately for fire, marine, and miscellaneous insurance business and separate schedules shall be prepared for Marine Cargo, Marine —other than Marine Cargo and the following classes of miscellaneous insurance business under miscellaneous insurance and accordingly application of **AS 17** —

**Segment Reporting** —shall stand modified. **1. Motor, 2. Workmen's Compensation / Employers' Liability, 3. Public/Product Liability, 4. Engineering, 5. Aviation, 6. Personal Accident, 7. Health Insurance, 8. Others.**

2. An insurer shall prepare separate Receipts and Payments Account in accordance with the Direct Method prescribed in **AS 3** —"**Cash Flow Statement**" issued by the ICAI.

Important Notes: (a) Items of expenses and income in **excess of one percent** of the total premiums (less reinsurance) **or Rs.5,00,000 whichever is higher**, shall be shown as a separate line item (b) Under the sub-head “Others” shall be included items like foreign exchange gains or losses and other items.

### 10.1.2 ACCOUNTING CONCEPTS, ASSUMPTION, STANDARD

**Accounting Concept :** Accounting Transactions and Financial Statements are prepared based on Accounting Concepts. Broadly Accounting Concepts are as follows :-

- i) **Entity Concept :** When owner separates business transaction and personal transaction and maintains separate books.
- ii) **Money Measurement Concept :** When each transaction is expressed in monetary terms.
- iii) **Going Concern Concept :** When tenure of business entity will not be dissolved in the near future.
- iv) **Accounting Period Concept :** When Financial Statements are prepared for a period (i.e., Annually, Half-yearly, Quarterly,) e.g., net result of Incurred Claim/Earned Premium separates additional provision/excess /advance to get the result of accounting year.
- v) **Accounting Cost Concept :** Purchase price/historical cost plus acquisition and installation cost.
- vi) **Dual Aspect Concept :** Every transaction has two aspects or every event increases or decreases assets and/or liability.
- vii) **Realization Concept :** When right has been accrued to receive cash/kinds.
- viii) **Accrual Concept :** When revenues are recognized on receivable basis and expenses on payable basis. However, in General Insurance Premium is not accounted on accrual basis but as per basis of provision of 64VB.
- ix) **Matching Concept :** When the revenue and the expenses incurred to earn the revenues fall in the same accounting year. The exhaustive consideration of all revenues and corresponding all expenses help to determine the exact profit or loss of a period.

**Accounting Assumption :** Fundamental Accounting Assumptions are (a) Going Concern (b) Consistency and (c) Accrual.

**Accounting Standard : International Financial Reporting Standards (IFRS)/** International Accounting Standards (IAS) / Accounting Standards (AS) represent accepted accounting norms and principles, policies for preparation and presentation of financial statement. This is applicable to business organization including Insurance Companies, Banking Companies and non-banking Finance Companies. More than 140 countries have agreed to adopt IFRS.

**New Insurance Standards is to move towards fair value accounting.** It means recording both assets and liabilities at the amount for which an asset could be exchanged or a liability settled. The IASB (International accounting Standard Board) develops and approves IFRS. International Accounting Standard Committee (IASC) issued International Account Standard (IAS) from 1973 to 2000. From 2001 IASB in place of IASC replaced IAS with new IFRS and adopted or proposed new IFRS not covered by previous IAS.

IFRS is applicable for Listed Entities, Public Entities such as Bank and Insurance Companies, Large **Size Entities exceeding turnover of Rs.100 crore** and Large Size Entities with **borrowing in excess of Rs,25 crore.**

In India we do not follow IFRS. **Our National GAAP (Generally Accepted Accounting Principal) is inspired by IFRS.** ASB (Accounting Standard Board) of ICAI formulate Accounting Standards (AS) based on IAS/IFRS but sensitive to local conditions, legal and economic environment. **For Full convergence ICAI needs to take up with NACAS** (National Advisory Committee on Accounting Standard) under Ministry of Corporate Affair, Government of India constituted under Sec 210(1) of Companies Act, 1956. Regulators like RBI, IRDA and SEBI also work as a guiding force in this process.. In India, Insurance Sector cannot move to IFRS converged financial reporting, till such times the Banks implement IFRS.

Indian Companies will get following benefits for adopting IFRS :-

Improved access to International Capital Markets —Majority of Stock Exchanges require financial information prepared under IFRS. Lower Cost Capital —eliminate the need for preparing a dual set of financial statement, reducing cost involved. Enable bench mark with global peers and improve branch value. Escape Multiple Reporting —Through Convergence to IFRS by all group entities company will get all components of the group on one Financial Reporting platform.

**As per Companies Act** requires that accounts shall be prepared in compliance with the mandatory **accounting standards** issued by the Institute of Chartered Accountants of India (ICAI). Some major accounting standards relevant to insurance companies are mentioned hereunder :

AS 1 —Disclosure of Accounting Policies (Significant Accounting Policies )

AS 2 —Valuation of Inventories

AS 3 —Cash Flow Statements

AS 4 —Contingencies and Events Occurring After the Balance Sheet Date

AS 5 —Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies (Prior Period Adjustment, Extra Ordinary Items)

AS 6 —Depreciation Accounting

AS 10 for Fixed Assets

AS 11 for the Effects of Changes in Foreign Exchange Rate

AS 13 for Investments (On investment excluded)

AS15 -Accounting for Retirement Benefits in the Financial Statements of Employers

AS 17 - Segment Reporting (Irrespective of Revenue Quantum)

AS 18 - Related Party Disclosures

AS 22 for Taxes on Income (Deferred Tax)

AS 26 Assets

AS 28 - Impairment of Assets

AS 29 for Contingent Liabilities.

**AS - 3** : An insurer shall also prepare the Receipt & Payment account i.e., cash flows statement under direct method AS 3. Under this method major classes of gross cash receipts and gross cash payments are disclosed under indirect net profit or loss is adjusted for the effects of transaction of a non cash nature, any deferral or accrual of the past and future and financing cash flows.

**AS 15** : Provision for Terminal Benefits —Recognition of a liability for future benefit to the employees for Leave Encashment on Retirement, Gratuity, Pension etc. is made on the basis of actuarial valuation.

Annual Tax Statement : TDS/TCS Returns are filed by the deductor/collector after depositing tax for the concerned financial year.

### 10.1.3 ASSET, LIABILITY & SOLVENCY MARGIN

#### Important Forms of Accounts

1. Statement of Valuation of Assets : FORM AA
2. Statement of amount of Liabilities ::FORM HG.
3. Determination of Required Solvency Margin : FORM KG
4. Value of Assets : Schedule I.
5. Value of Liabilities : Schedule II B in FORM HG.

#### VALUATION OF ASSETS

The following assets should be placed with value zero:

- (a) Agents' and Intermediaries' balances and outstanding premiums in India, to the extent they are not realized within a period of thirty days;
- (b) Premiums receivables relating to State/Central government sponsored schemes, to the extent they are not realized within a period of 180 days;
- (c) Agents' and Intermediaries' balances and outstanding premiums outside India, to the extent they are not realizable ;
- (d) Sundry debts, to the extent they are not realizable;
- (e) Advances and receivables of an unrealizable character;
- (f) Furniture, fixtures, dead stock and stationery;
- (g) Deferred expenses;
- (h) Debit balance of Profit and loss appropriation account balance and any fictitious assets other than pre-paid expenses;
- (i) Co-insurer's balances outstanding for more than ninety days;
- (j) Balances of Indian Reinsurers and Foreign Reinsurers having Branches in India outstanding for more than 365 days;
- (k) Other Reinsurer's balances outstanding for more than 180 days;
- (l) Leasehold improvements
- (m) Service Tax Unutilized Credit outstanding for more than ninety days;
- (n) Any other assets, which are considered inadmissible under Section 64V of the Insurance Act, 1938

All other assets of a general insurer have to be valued in accordance with the Regulations and other instructions issued by the Authority regarding preparation of financial statements, auditor's report, other forms of capital and investments, and any other Regulations as applicable from time to time.

## **CLAIMS RESERVE**

The Claims Reserve shall be determined as the aggregate amount of Outstanding Claims Reserve and Incurred but Not Reported Claims Reserve (IBNR) as described below for the following lines of business:

### **ITEM NO. LINE OF BUSINESS**

#### **MOTOR**

- 1 Motor OD-Private car
- 2 Motor OD-Two Wheeler
- 3 Motor OD-Commercial Vehicle
- 4 Motor TP-Private car
- 5 Motor TP-Two Wheeler
- 6 Motor TP-Commercial Vehicle (Declined Pool)
- 7 Motor TP-commercial Vehicle (TP Pool)
- 8 Motor TP-commercial Vehicle (Other than Pool)

#### **HEALTH**

- 9 Health Insurance - Individual
- 10 Health Insurance - Group-Government Schemes
- 11 Health Insurance - Group-Employer/Employee Schemes
- 12 Health Insurance - Group-Other Schemes

#### **PERSONAL ACCIDENT**

- 13 Personal Accident - Individual
- 14 Personal Accident- Group(Government Schemes)
- 15 Personal Accident-Group(Others)

#### **16 TRAVEL**

#### **17 FIRE**

## **MARINE**

18 Marine Cargo

19 Marine-Other than Marine Cargo

## **OTHER MISCELLANEOUS**

20 Engineering

21 Aviation

22 Product Liability

23 Liability Insurance

24 Workmen Compensation/ Employer's Liability

25 Crop Insurance

26 Weather Insurance

27 Credit Insurance

28 Others

## **DETERMINATION OF OTHER LIABILITIES**

The general insurer shall place a proper value in respect of the following items:

- (1) provision for bad and doubtful debts; reserve for dividends declared or recommended, and outstanding dividends in full;
- (2) amount due to insurance companies carrying on insurance business, in full;
- (3) amount due to sundry creditors, in full;
- (4) provision for taxation, in full; and
- (5) foreign exchange reserve

**Solvency Margin:** Solvency Margin Ratio is calculated as per method prescribed by **IRDA (Assets, Liabilities, and Solvency Margin of General Insurance Business) Regulations, 2016** to safeguard the **financial health** of the company and to protect the interest of the Policyholders.

Solvency Margin means Excess of Assets over Liabilities. Solvency Margin Ratio is the Ratio of the amount of Available Solvency Margin(ASM) to the amount of Required Solvency Margin(RSM) i.e., **ASM/RSM**. In determining ASM & RSM, Premium Net of Reinsurance shall apply only in respect of Unexpired Risks

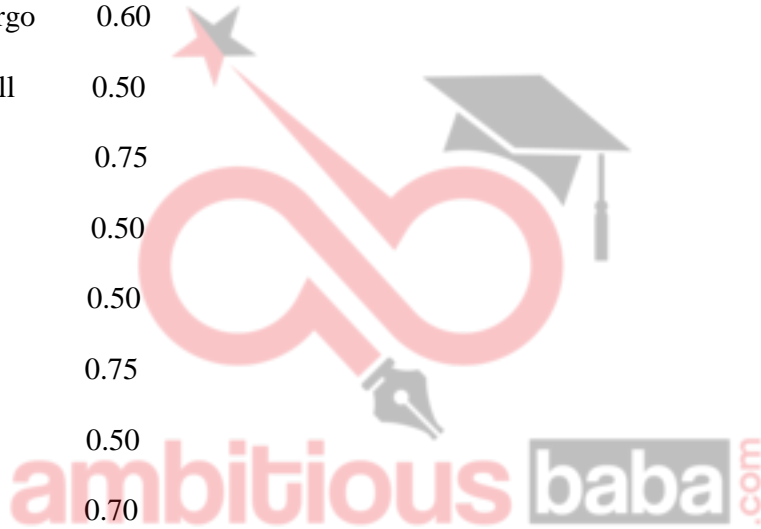
RSM 1 in the above table means Required Solvency Margin based on net premiums, and shall be determined as

**Twenty Percent (20%)** of the amount which is the higher of the Gross Premiums multiplied by a Factor as specified in the Table below and the Net Premiums.

RSM 2 in the above table means Required Solvency Margin based on net incurred claims and shall be determined as **Thirty Percent (30%)** of the amount which is the higher of the Gross Incurred Claims multiplied by a Factor as specified in the Table below and the Net Incurred Claims.

RSM means Required Solvency Margin and shall be the higher of the amounts of RSM 1 and RSM 2 for each LOB separately.

Fire	0.50
Marine Cargo	0.60
Marine Hull	0.50
Motor	0.75
Engineering	0.50
Aviation	0.50
Liability	0.75
Rural	0.50
Others	0.70
Health	0.75



- e. **The minimum Solvency Ratio to be maintained by general insurance companies — 1.50.**

**f. Impact of Reduction in the Solvency Margin —**

Need for infusion of Additional Capital

May adversely affect the Underwriting including placement of re- insurance business.

May invite strong reaction from IRDA.

- g. Gross Incurred Claim:** Average of previous 3 years Gross Incurred Claim and Gross incurred Claim of Current Year is higher. **Net Incurred Claim:** Average of previous 3 and Net Incurred Claim Current and Net Incurred Claim of Current Year is higher.

<b>10.1.4 SOME APPLICATION OF ACCOUNTING POLICIES</b>
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**Accounting Policies :**

- Reinsurance Accepted are incorporated up to the date of finalisation of accounts.
- Reinsurance Ceded are accounted on actual or estimates wherever actual are not available.
- For Reinsurance accepted, advices received as of diff. dates of subsequent year.
- IBNR and IBNER provisions are certified by Appointed Actuary.
- For Motor (TP) orphan Claims 100% of the estimated liability are provided when outstanding more than one year.
- For Motor (TP) orphan Claims 1/3<sup>rd</sup> of the estimated liability when Court summons received during the year.
- Interest on MACT is provided on the prevailing trends of Awards.
- Reserve for Unexpired Risk : 100% net premium for Marine Hull Business and 50% for other classes. It is as per Section 64V (10(ii) of the Insurance Act, 1938 which is minimum and mandatory.
- Fixed Assets are carried at cost less depreciation. Depreciation is provided as per written down value (WDV) method on the basis of useful life of the asset as set out in Schedule II – Part C of the Companies Act, 2013. 95% of the value of asset is considered depreciable and balance 5% is written as un-depreciable amount.
- Leasehold Properties are amortized over the lease period.
- Intangible Assets (Software) are amortized over the estimated useful life not exceeding 5 years.
- Shareholders' Fund consists of Share Capital, General Reserves.
- Policy Holders' Funds consists of Technical Reserve i.e., Unexpired Risk Reserve plus Outstanding Claims.
- Net Investment Income including profit on sale / realization of investment are apportioned between respective Revenue Accounts (Policyholders' Account) and Profit & Loss Account (Shareholders' Account) in the ratio of Shareholders' Fund and Policy holders' Fund balances at the beginning of the year.

**General Insurance Related Ratios (IRDA Prescribed):**

Accounting Ratios prescribed by IRDA:

S NO.	PERFORMANCE RATIO	METHOD OF CALCULATION
1	<b>Gross Direct Premium Growth Rate (%)</b>	<b>[GDPI (CY) - GDPI (PY)] / GDPI (PY)</b>
	a) Fire	
	b) Marine Cargo	
	c) Marine other than cargo	
	d) Motor Own Damage	
	e) Motor Third Party	
	f) Engineering	
	g) Workmen's Compensation	
	h) Public Liability	
	i) Personal Accident	
	j) Health Insurance	
	k) Aviation	
	l) Rural	
	m) Misc. Others	
2	<b>Gross Direct Premium to Net Worth Ratio (times)</b>	<b>GDPI / Net Worth</b>
3	<b>Growth Rate of Net Worth (%)</b>	<b>(Net Worth of CY - Net Worth of PY) / (Net Worth of PY)</b>
4	<b>Net Retention Ratio (%)</b>	<b>Net Premium / (Gross Direct Premium Income + Reinsurance Accepted)</b>
	a) Fire	
	b) Marine Cargo	
	c) Marine other than cargo	
	d) Motor Own Damage	
	e) Motor Third Party	
	f) Engineering	
	g) Workmen's Compensation	
	h) Public Liability	
	i) Personal Accident	
	j) Health Insurance	
	k) Aviation	
	l) Rural	
	m) Misc. Others	
5	<b>Net Commission Ratio (%)</b>	<b>Net Commission / Net Written Premium</b>
	a) Fire	
	b) Marine Cargo	
	c) Marine other than cargo	
	d) Motor Own Damage	
	e) Motor Third Party	

	f) Engineering	
	g) Workmen's Compensation	
	h) Public Liability	
	i) Personal Accident	
	j) Health Insurance	
	k) Aviation	
	l) Rural	
	m) Misc. Others	
6	Expenses of Management to Gross Direct Premium Ratio (%)	$(\text{Expenses of Management} + \text{Direct Commission}) / \text{GDPI}$
7	Expenses of Management to Net Written Premium Ratio (%)	$(\text{Expenses of Management} + \text{Direct Commission}) / \text{NWPI}$
8	Net Incurred Claims to Net Earned Premium (%)	$\text{Net Incurred Claims} / \text{Net Earned Premium}$
9	Combined Ratio (%)	$[\text{Net Incurred Claim} / \text{Net Earned Premium}] + [(\text{Expenses of Management (including Net Commission)} / \text{Net Written Premium})]$
10	Technical Reserves to Net Premium Ratio (times)	$(\text{URR} + \text{Reserve for Premium Deficiency} + \text{Reserve for Outstanding Claims including IBNR and IBNER}) / \text{Net Premium}$
11	Underwriting Balance Ratio	$\text{Underwriting profit or Loss} / \text{Net earned premium}$

12	Operating Profit Ratio (%)	$\frac{\text{(Underwriting profit or Loss + Investment Income)}}{\text{Net earned premium}}$
13	Liquid Assets to Liabilities Ratio (Times)	$\frac{\text{Liquid Assets}}{\text{Policyholders' Liabilities}}$
14	Net Earnings Ratio (%)	$\frac{\text{Profit after tax}}{\text{Net Premium}}$
15	Returns on Net Worth Ratio (%)	$\frac{\text{Profit after tax}}{\text{Net Worth}}$
16	Available Solvency Margin (ASM) to Required Solvency Margin (RSM) ratio (Times)	$\frac{\text{ASM}}{\text{RSM}}$
17	NPA Ratio (%)	
	Gross NPA Ratio	
	Net NPA Ratio	

### 10.1.5 SOME PROVISIONS OF COMPANY & INSURANCE ACTS

**Company Acts: Under Section 210** of the Companies Act , at every Annual General Meeting of a company held in pursuance of the **Section 166** , the Board of Directors of the company shall lay before the company held in pursuance of the Sec 166 , the Board of Directors of the company shall lay before the company the Balance Sheet at an end of the period & P & L A/C for the period.

**Under Section 216** of the Companies Act , P & L A/C shall be annexed to the Balance Sheet and the Auditor's Report shall be attached thereto.

**Under Section 217** of the Companies Act , in the Report of the Balance Sheet the following matters must be specified therein : the State of Affairs of the Company , any amount proposes to carry as reserves , any amount payable as Dividend and any material change

affecting the Financial Statement in between the date of Balance Sheet and the date of Report.

**Under Section 227** of the Companies Act, provides the power and duties of Auditors.

**Under Sec 227 (4A)** as issued under the Companies (Auditor's Report) Order 2003 that the Statutory Auditor is required to comment on the Internal Audit System.

The particulars of Employees governed under **Section 217(2A)** of the Companies Act, 1956 with the companies Amendment Rules, 2011, must be furnished if the remuneration is in excess of the revised limits, ie, Rs 5 lac per month or Rs 60 lac per annum.

**U/S 619(A)** read with **619(B)** of the Companies ACT, 1956, the Annual Report of the Company along with the Directors' Report is being placed before both the Houses of the Parliament.

The Balance Sheet, Revenue Account and Profit & Loss A/C and Cash Flow Statement have been prepared in accordance with the requirements with Insurance Act, 1938, the **IRDA Act, 1999** and the Companies Act, 1956 to the extent applicable and the manner required.

Accounting Policies selected for preparation for Balance Sheet, Revenue A/C, P & L A/C and Cash Flow Statement dealt with by this report comply with the Accounting Standard referred to in **Sec 211(3C)** of the Companies Act, 1956, to the extent applicable and are also in conformity with the provisions of IRDA (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002. The Statutory Auditors appointed by the CAG **U/S 619(2)** of the Companies Act, 1956 are responsible for expressing opinion of the Financial Statements **U/S 227** of the Companies Act, 1956 based on independent audit accordance with auditing and assurance standard prescribed by the professional body, the ICAI. A Supplementary Audit has to be conducted u/s **619(3)(B)** of the Companies Act, 1956. The significant matters are highlighted for better understanding of the financial statements and the relevant Audit Report **u/s 619(4)**.

The Management takes adequate care for maintenance of adequate accounting records in accordance with the applicable provisions of the Insurance Act, 1938 (4 of 1938), Companies Act, 1956 (1 of 1956) for safeguarding the Assets of the Company and for preventing and detecting the fraud and other irregularities.

Under **Section 228** of the Companies Act, The Accounts of Branch Office or Division Office shall be audited by the Company Auditor appointed under **Section 224** of **Insurance Act, 1938**:

**Sec 11(1)** provides that General Insurance Companies shall draw a Balance Sheet, a Profit & Loss A/c, a Profit & Loss Appropriation A/c and a Revenue A/c as regulations set in the first, second and third Schedule respectively.

**Sec 58** prescribes that the 4 copies of printed Audited Accounts and Statements shall be furnished as Returns to the Controller within 6 months from the end of the period.

**Sec 40** Prohibits payment of commission to any person other than authorized agents subject to maximum of 15% of premium.

**Sec 40A(3)** Limits the expenditure by way of commission ranging between 5% and 15%.

### 10.1.6 SOME NOTES ON ACCOUNTS

In the Balance Sheets individual assets are shown under **four major heads** : Fixed Assets, Investments , Current Assets , Loans & Advances and Miscellaneous Expenses ( to the extent neither written off nor adjusted ).

**Renewal Fees of IRDA** : It will be higher of (i) 50,000/- of each class of Insurance Business or, (ii) 1/10<sup>th</sup> of 1% of total GDPI for the preceding Financial Year in which the application made of Rs 5 Crore , whichever is less. IRDA license is renewed from 1<sup>st</sup> April every year and fees to be remitted to IRDA within 31<sup>st</sup> December of the Previous Year.

Under **Section 3(iv) Public Company** means a company a) which is not a private company b) has a minimum Paid-up Capital of five lac rupees or such higher Paid up Capital as may be prescribed.

**Statutory Company** comes into existence when special act passed by the State Legislature or the Parliament. e.g. RBI, UTI, LIC, GIC etc..

**Government Company** means a company having not less than 51% of Paid up Capital by Central Govt. or State Govt. or jointly —u/s Sec. 617 of the Companies Act,1956.

**Limited Liability** : When the liability of any shareholder is limited by shares , the liability of members is limited to the unpaid portion of Shares, if any. When the liability is limited by guarantee , the liability is limited to a fixed amount the members undertake to contribute to the assets of the company in case of its winding up.

**Buy-back Shares** : Repurchase by the Company of its own shares. This is provided u/s 77A & 77B of the companies Act , 1956. This process reduces Equity Value , increases Earning Per Share (EPS) and Dividend Per Share (DPS). This process manages surplus cash , maintains target Capital and boosts Investors sentiment. Sources of Buy-back can be Shareholders, Open Market or ESPOS. Maximum Limit of Buy-back is 25% of Paid-up

Capital plus Free Reserves. A Company having default of repaying FD or Interest thereon or Redemptions of Preference shares or Debentures can not Buy-back its shares. Issuance of same kind of Shares or securities within 24 months is restricted.

**Accounting on Fund Basis :** In most cases General Insurance Accounting is done on Annual Basis. It provides appropriate booking of O/S claims at the end of the year. But in certain circumstances in

Marine, Aviation and Liability Insurance —claim is intimated /surfaced after an abnormal delay or deferment resulting no meaning to account for on Annual Basis.

**Net Premium/Net Written Premium :** = Gross Direct Premium Income +RI Premium Accepted —RI Premium Ceded or, GDPI - (Unearned Premium + Premium Received in Advance).

**Net Premium Earned/Net Earned Premium :** = Net Premium + Unexpired Reserve at the Opening of the Year —Unexpired Reserve at the Closing of the Year.

**Incurred Claim :** = Claim Paid during the Year + O/S Claims at the end of the Year —O/S Claims at the beginning of the Year.

**Net Incurred Claim :** = Incurred Claim + Claims on Reinsurance Accepted —Claims on Reinsurance ceded.

**Apportionment of Expenses on Management :** Expenses on Management including provision for Bad Debt and exchange gain or loss are apportioned to the Revenue A/c on net premium giving weightage of 75% for Marine Business and 100% each for Fire and Misc. Business. The basis of allocation shall be disclosed in the Notes on Accounts.

However,

**Combined Ratio :** The ratio of expenses of the Earned Premium. The expenses involved incurred claim and Direct Procurement Expenses like, Commission & Expenses of Management.

**Sec 40 C of the Insurance Act : Limitation of Expenses of Management in General Insurance Business or Health Insurance Business**

3. No insurer carrying on General Insurance Business or Health Insurance Business in India, shall spend in any financial year as expenses of management, an amount exceeding -

(i) the amount of commission or other remuneration paid to insurance agents and insurance intermediaries in respect of their business transacted in the financial year as may be allowed by the Authority from time to time; Provided that the Authority, based upon the representation received from an insurer, may allow higher remuneration to the insurance agents and insurance intermediaries with such conditions as it may be deemed fit.

(ii) Commission and expenses reimbursed on reinsurance inward; and

(iii) Operating expenses. Provided that the sum of (i), (ii) and (iii) above shall not exceed an amount computed on the basis of percentages appropriate to the various parts of its total gross premium written in India during the year in respect of various segments of business as specified in **Schedule- I (Please refer : INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA NOTIFICATION, Hyderabad, the 27th April, 2016)**.

**Dividend** : Minimum Dividend 30% Paid-up Capital or 30% Profit After Tax(PAT) — whichever is higher. Dividend is paid within 45 days from the date of AGM. Dividend Distribution Tax should be remitted within 14 days from the date of payment of Dividend or declaration of dividend whichever is earlier.

**Major Expenses** : Any major expenses of Rs 5 lacs or 1% of the net Premium --- whichever is higher are required to be shown separately as an Expenses of Management.

**ROL** = Rate of Line ( Re- insurance Rate used for Catastrophe Rating ).

**Discounting of Claims** : When Outstanding claims Liability stands pending for a longer term, the provision of liability would be discounted to take account of the Investment Income on the funds held to meet the liabilities. Lay up period varies on the periodicity of claim O/S, mostly from Liability , Aviation and Marine policies. Discounting Provisions are ascertained on the expected timing of payments, the ultimate claim liability and expected Investment Income.

**Minimum Alternative Tax (MAT)** : As per Tax Laws this tax is paid estimating future Income Tax liability that gives rise to future economic benefits.

**Accounting of Foreign Operation** : Indian Statutory requirements and local laws are considered for the preparation of the Financial Statements of Foreign Branch Account. The Accounts are audited by Indian firms. As per Accounting Standard AS 11, the effects of

changes in foreign exchange rates, foreign branches are classified as “non integral foreign operation”.

The assets and liabilities both monetary and **non-monetary** of the non integral part of operations are translated as the closing rates. Income and expenses of the non-integral operations are translated at the average rate of the year.

Exchange difference on account of transaction of the balances relating to foreign branches is accumulated in Foreign Currency Translation Reserve until closure of the operation of the branch.

### **10.1.7 SOME REGULATORY DECISIONS ON ACCOUNTS**

1. **Unclaimed amount of Policy Holders:** i) Claim settled but not paid to the Policyholders / Insured due to any reason except under litigation or II) Sum due to the Policyholders/ Insured on maturity or otherwise or III) Any such collection of the Premium / Tax or any other charges refundable to the Policyholders or Iv) Cheques issued by the Insurer for settlement under i) , ii) , iii) but not encashed. It is advised that the amount representing the unclaimed sum shall be disclosed as a separate line item in Schedule-13 “ Current Liability “ of the Balance Sheet with age-wise analysis. Such unclaimed sum will not be apportioned / written back in any circumstances , by the Insurers.

2. **Creation for Reserve for Unexpired Risks (URR) for Non Health Segment :**

Reserve for Unexpired Risks for Health- Segment for the year 2010-11 , 2011-12 and 2012-13 will be based on 1/365 method. The difference between the Reserve on the basis of 1/365 method and URR as would have been created based on section 64v (1) (ii)(b) of the Act has been transferred to contingency Reserve for 'Unexpired Risks' and the same will be transferred to the General Reserve in the succeeding Year. In case of short term policies eg. Travel Policy, weather Insurance , the Premium is fully earned during Accounting Period and no URR will arise .

3. **Disclosures forming part of Financial Statements :** From FY 2008-09 all Insurers are required to provide details of various penal actions taken by various Government Authorities. The information is to be certified by the Statutory Auditor. Details of the Penalties for noncompliance / violation is reflected in the statement. Such Authorities are IRDA , Service Tax Authorities, Income Tax Authorities , Enforcement Authorities, FEMA, Register of Companies, NCLT , CLB, SEBI, CCI etc.

4. **Premium Receivable and Solvency Margin :** If ratio of Solvency Margin goes below 1.50 , the Premium Receivables from Centre/State Government (Such as RSBY /Rajib Arogyashri etc.) period may be extended for 180 days , as per File & Use guidelines for treatment of Outstanding Premium. A Statement certified by CEO & CFO should be annexed to the solvency Statement.

## 10.2.0 INVESTMENT

Every Insurer shall draw up annually an Investment Policy and place the same before the Board for its approval. Review of the Policy takes place half-yearly basis.

Provisional Returns must be filed with IRDA within 30 days from the end of the quarter.

Audited Returns to be filed with 15 days from the adoption of accounts by Board of Directors.

## 10.2.1 OPERATIONS & INVESTMENT COMMITTEE

Investment operations are regulated by (i) Statutory Provisions laid down by the Insurance Act, 1938, (ii) IRDA (Investment) Regulations 2000 —latest 5th Amendment, February, 2013 (iii) Guideline issued by IRDA on Investment dated 14.8.2000, (iv) Prudential/Exposure Norms laid down by the Board time to time in the Investment Policy.

IRDA (Investment) Regulations 2000 comprises the Investment Committee shall consist of (i) The Chief Executive Officer (CEO) (ii) A minimum of two non-executive Directors of the Insurers (iii) The Chief of Finance (CFO) (iv) The Chief of Investment (CIO) (v) Appointed Actuary ; whenever appointed Actuary is employed.

## 10.2.2 PATTERN OF INVESTMENT

Category of Investment	%
<b>Central Govt. Securities not less than</b>	<b>20</b>
<b>State Govt. Securities, other approved securities including above not less than</b>	<b>30</b>
<b>Approved Investments as specified in Sec 27B of the Act and other Investment as specified in Sec 27B(3) of the Act and Schedule II to these Regulations, (all taken together) subject to Exposure/Prudential Norms on specified in Regulation 9</b>	<b>Not exceeding 70</b>
<i>Other investments as specified in Section 27A (2), subject to Exposure / Prudential Norms as specified in Regulation 9:</i>	<b>Not more than 15</b>
<i>Housing and loans to State Government for Housing and Fire Fighting equipment, by way of subscription or purchase of:</i> <b>A. Investments in Housing</b> <i>a. Bonds / Debentures issued by HUDCO, National Housing Bank</i> <i>b. Bonds / debentures of Housing Finance Companies either duly accredited by National Housing Bank, for house building activities, or duly guaranteed by Government or carrying current rating of not less than 'AA' by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations, 1999</i> <i>c. Asset Backed Securities with underlying Housing loans, satisfying the norms specified in the Guidelines issued under these regulations from time to time.</i>	<i>Total Investment in housing and infrastructure (i.e.,) investment in categories (i), (ii), (iii) and (iv) above taken together shall not be less than 15% of the Investment Assets</i>

***B. Investment in Infrastructure***

*(Explanation: Subscription or purchase of Bonds/ Debentures, Equity and Asset Backed Securities with underlying infrastructure assets would qualify for the purpose of this requirement.*

*'Infrastructure facility' shall have the meaning as given in Regulation 2 (h) as amended from time to time.*

***Note:** Investments made under category (i) and (ii) above may be considered as investment in housing or infrastructure, as the case may be, provided the respective government issues such a security specifically to meet the needs of any of the sectors specified as 'infrastructure facility'*

Insert the following New Regulation 8 to the Insurance Regulatory and Development Authority (Investment) Regulations, 2000:-

8. **Reinsurance Business:** Every re-insurer carrying on re-insurance business in India shall invest and at all times keep invested his investment assets in the same manner as set out in Regulation 7

**Amendment of Note appended at the end of Regulation 4:**

Note appended at the end of Regulation 4 of the Insurance Regulatory and Development Authority (Investment) Regulations, 2000, shall be substituted with the following:-

“Note —For the purpose of Regulations 3 to 8:

1. **All investment in assets or instruments**, which are capable of being rated as per **market practice**, shall be made on the **basis of credit rating** of such assets or instruments. No approved investment shall be made in instruments, if such instruments are capable of being rated, but are not rated
2. The rating should be done by a credit rating agency registered under **SEBI (Credit Rating Agencies) Regulations, 1999**
3. **Corporate bonds or debentures rated** not less than AA or its equivalent and P1 or equivalent ratings for short term bonds, debentures, certificate of deposit and commercial paper, by a credit rating agency, registered under SEBI (Credit Rating Agencies) Regulations, 1999 would be considered as 'Approved Investments'
4. **The rating of a debt instrument** issued by All India Financial Institutions recognized as such by RBI shall be of 'AA' or equivalent rating. In case investments of this grade are not available to meet the requirements of the investing insurance company, and Investment Committee of the investing insurance company is fully satisfied about the

same, then, for the reasons to be recorded in the Investment Committee's minutes, the Investment Committee may approve investments in instruments carrying current rating of not less than 'A+' or equivalent as rated by a credit rating agency, registered under SEBI (Credit Rating Agencies) Regulations, 1999, would be considered as 'Approved Investments'

5. **Approved Investments** under regulations 4, 5, 6, 7 and 8 which are **downgraded** below the minimum rating prescribed should be automatically **re-classified under 'Other Investments'** category for the purpose of pattern of investment
6. Investments in **equity shares listed** on a registered stock exchange should be made in **actively traded and liquid instruments** viz., equity shares other than those defined as thinly traded as per SEBI Regulations and guidelines governing mutual funds issued by SEBI from time to time
- 7 (a) Not less than 75% of investment in debt instruments (including Central Government Securities, State Government Securities or Other Approved Securities) in the case life insurer and **not less than 65% of investment in debt instruments** (including Central Government Securities, State Government Securities or Other Approved Securities) in the case of general insurer - shall **be in sovereign debt, AAA or equivalent rating for long term and sovereign debt, P1+ or equivalent for short term instruments. This shall apply at segregated fund(s) in case of Unit linked business**
  - (b) Not more than 5% of funds under Regulation 3 (a) and Regulation 3 (c) in debt instruments (including Central Government Securities, State Government Securities or Other Approved Securities) in the case of life insurer and **not more than 8% of investment in debt instruments** (including Central Government Securities, State Government Securities or Other Approved Securities) in the case of general insurer — shall have a **rating of A or below or equivalent** rating for long term
  - (c) No investment can be made in other investments out of funds under Regulation **3 (b)**
  - (d) Investments in **debt instruments rated AA- (AA minus) or below** shall form part of **Other Investments**
- 8 Notwithstanding the above, it is emphasized that **rating should not replace appropriate risk analysis** and management on the part of the Insurer. The Insurer should conduct risk analysis commensurate with the complexity of the product(s) and the materiality of their holding, or could also refrain from such investments

### 10.2.3 EXPOSURE NORMS

The maximum **exposure limit for a single 'investee' company** (equity, debt and other investments taken together) **from all investment assets, shall not exceed the lower of the following;**

- (i) an amount of **10% of investment assets** as under Regulation 2 (g) (1), Regulation 2 (g) **an aggregate of amount calculated under point (a) and (b)** of the following table:

Type of Investment (1)	Limit for 'Investee' Company (2)	Limit for the entire Group of the Investee Company (3)	Limit for Industry Sector to which Investee Company belongs (4)
<b>a.</b> Investment in 'Equity', Preference Shares, Convertible Debentures	10%* of Outstanding Equity Shares (Face Value) <b>or</b> 10% of the amount under point A.1.(a) or A.1.(b) or A.1.(c) [segregated fund] above considered separately in the case of Life insurers / amount under A.2 or A.3 or A.4 in the case of General Insurer including an insurer carrying on business of reinsurance or health insurance <b>whichever is lower</b>	Not more than 15% of the amount under point A.1.(a) or A.1.(b) or A.1.(c) or A.2 or A.3 or A.4 Exposure to Investments made in companies belonging to Promoter Group shall be made as per Point 7 under notes to Regulation	Investment by the insurer in any industrial sector should not exceed 15% of the amount under point A.1.(a) or A.1.(b) or A.1.(c) or A.2 or A.3 or A.4 <b>Note:</b> Industrial Sector shall be classified in the lines of National Industrial Classification (All Economic Activities) - 2008 [NIC] for all sectors, <b>except infrastructure sector.</b> Exposure shall be calculated at <b>Division</b>

<p><b>b. Investment in Debt</b> (incl. CPs) / Loans and any other permitted Investments as per Act / Regulation other than item 'a' above.</p>	<p>10%* of the Paid-up Share capital, Free reserves (excluding revaluation reserve) and Debentures / Bonds (incl. CPs) of the 'Investee' company  <b>or</b>  10% of the amount under point A.1.(a) or A.1.(b) or A.1.(c) [segregated fund] above considered separately in the case of Life insurers / amount under A.2 or A.3 or A.4 in the case of General Insurer including an insurer carrying on business of reinsurance or health insurance <b>whichever is lower.</b></p>	<p>level from A to R. For <b>Financial and Insurance Activities</b> sector exposure shall be at <b>Section level.</b> Exposure to 'infrastructure' investments are subject to  Note: 1, 2, 3 and 4 mentioned below</p>
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\* In the case of insurers having investment assets within the meaning of Regulation 2 (g) (1) and Regulation 2 (g) (2) of the under mentioned size, the (\*) marked limit in the above table for investment in equity, preference shares, convertible debentures, debt, loans or any other permitted investment under the Act / Regulations, shall stand substituted as under:

Investment assets	Limit for 'investee' company	
	Equity	Debt
Rs 250000 Crore or more	15% of outstanding equity shares (face value)	15% of paid up share capital, free reserves (excluding revaluation reserve) & debentures / bonds
Rs. 50000 Crore but less than Rs. 250000 Crore	12% of outstanding equity shares (face value)	12% of paid up share capital, free reserves (excluding revaluation reserve) & debentures / bonds

Less than Rs. 50000 Crore	10% of outstanding equity shares (face value)	10% of paid up share capital, free reserves (excluding revaluation reserve) & debentures / bonds
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Note:

- 1 Industry sector norms shall not apply for **investments made in 'Infrastructure facility'** sector as defined under Regulation 2(h) of IRDA (Registration of Indian Insurance Companies) Regulations, 2000 as amended from time to time. NIC classification shall not apply to investments made in 'Infrastructure facility'.

The investments in the debt instruments issued by Housing Finance Companies as specified in the Investment Regulations shall not be included under the exposure to 'Financial and Insurance Activities' of Section K of NIC Classification, 2008 and shall be treated as exposure to Housing Sector. The Industry Exposure limits will continue to apply for such investments.

- 2 **Investments in Infrastructure Debt Fund (IDF)**, backed by Central Government as approved by the Authority, on a case to case basis shall be reckoned for investments in Infrastructure.
- 3 **Exposure to a public limited 'Infrastructure investee company'** will be 20% of outstanding equity shares (face value) in case of equity (or) 20% of equity plus free reserves (excluding revaluation reserve) plus debentures / bonds taken together, in the case of debt (or) amount under Regulation 9 (B) (i), whichever is lower. The 20% mentioned above, can be further increased by an additional 5%, in case of debt instruments alone, with the prior approval of Board of Directors. The outstanding tenure of debt instruments, beyond the exposure prescribed in the above table, in an infrastructure Investee Company, should not be less than 5 years at the time of investment. In case of Equity investment, dividend track record as per Sec 27A (1) (l) and 27B (1) (h) of the Act, in the case of primary issuance of a wholly owned subsidiary of a Corporate / PSU shall apply to the holding company. However all investments made in an 'infrastructure investee company' shall be subject to group / promoter group exposure norms.

Single Investee Debt Exposure Limits in Housing Finance Companies are enhanced to 20% of Equity plus Free Reserves (Excluding Revaluation Reserve) plus Debenture/ Bonds taken together or 10% of the Insurer's Investment Assets whichever is lower. The 20% limit mentioned above, can be further increased by an additional 5% with the prior approval of Board of Directors. The Group and Promoter Group Exposure Norms will continue to apply on the investment made in a Housing Finance Company.

4 An insurer can, at the time of investing, subject to group / promoter group exposure norms, invest a **maximum of 20% of the project cost** (as decided by a competent body) of an Public Limited **Special Purpose Vehicle** (SPV) engaged in infrastructure sector (or) amount under Regulation 9 (B) (i), whichever is lower, as a part of Approved Investments provided:

- a. **such investment is in Debt**
- b. the **parent company** guarantees the entire debt extended and the interest payment of  
SPV
- c. the **principal or interest**, if in default and if **not paid within 90 days** of the due date, such debt shall be classified under other investments.
- d. the latest instrument of the parent company (ies) has (have) rating of **not less than AA**.
- e. **such guarantee** of the parent company (ies) should not exceed 20% of net worth of parent company (ies) including the existing guarantees, if any, given.
- f. **the net worth** of the parent company (ies), **if unlisted**, shall not be less than **Rs. 500 crore** or where the parent company (ies) **is listed** on stock exchanges having nationwide terminals, the net worth shall not be less than **Rs. 250 Crore**

Investment Committee should continuously evaluate the risk of such investments and take necessary corrective actions where the parent company (ies) is floating more than one SPV

5 **Investment in** securitized assets [Mortgaged Backed Securities (**MBS**)/Asset Backed Securities (**ABS**)/Security Receipts (**SR**) both under approved and other investment category shall not exceed 10% of Investment Assets in case of Life companies and **5% of Investment Asset** in the case of Non-life companies. Approved Investment in MBS / ABS with underlying Housing or Infrastructure Assets shall not exceed 10% of investment assets in the case of life companies and not more than 5% of investment assets in the case of non-life companies. Any MBS /ABS with underlying housing or infrastructure assets, **if downgraded below AAA** or equivalent, shall be **reclassified** as Other Investments.

6 **Investment in immovable property** covered under Section 27A (1) (n) of the Act shall **not exceed**, at the time of investment, **5% of (a) Investment Assets** in the case of general insurer and (b) 5% of Investment Assets of funds relating to life funds, pension, annuity and group funds in the case of life insurer.

7 Subject to exposure limits mentioned in the table above, an insurer shall **not** have investments of **more than 5% in aggregate of its total investments** in all companies belonging to the promoters' groups.

Investment made in all companies belonging to the promoters' group shall **not** be made by way of **private placement** (equity) or in **unlisted instruments** (equity, debt, certificate of deposits and fixed deposits (without prejudice to Section 27A (9) and Section 27B (10) of the Act) held in a Scheduled Commercial Bank), except for companies formed by Insurers under Sec 27A (4) or Sec 27B (5) of the Act.

8 The **exposure limit for financial and insurance activities** (as per Section K of NIC classification —2008) shall stand at **25%** of investment assets for all insurers.

9 **Investment in fixed deposit and certificate of deposit** of a Scheduled Bank shall be made in terms of the provisions of Section 27A (9) and Section 27B (10) of the Act. Such investments **would not be deemed as exposure** to financial and insurance activities (as per Section K of NIC classification - 2008).

### 10.2.4 IRDA Investment Returns

The following returns submitted on quarterly basis and within 30 days of the end of the each quarter :-

Form 1 —State of Investment and Income on Investment

Form 2 (Part A) —Statement of Downgraded Investment

Form 2 (Part B) —Investment Assets Rating Profile

Form 2 (Part C) —Investment Assets & Infrastructure Investments —Rating Profile

Form 3B (Part A)—Statement of Investment of Assets

Form 3B (Part B)—Statement of Accretion of Assets

Form 4 (Part A)—Exposure & Other Norms —Compliance Report

Form 4 (Part B)—Internal, Con Auditor's Certificate on Inv Risk Mgmt Sys - Imp Status

Form 4A (Part A) —Exposure Norms Compliance - Investee Company

Form 4A (Part B) —Exposure Norms Compliance - Promoter Group

Form 4A (Part C) —Exposure Norms Compliance —Group

Form 4A (Part D) —Industry Sector Exposure Compliance

Form 5 —Statement of Investment Reconciliation

Form 5A —Statement of MF Investments

Form 6 —Certificate U-s 28(2A) 28(2b) 28B(3) - Custodian Report

Form 7 —Details of Non- performing Asset (NPA)

### 10.2.5 LIST OF APPROVED INVESTMENT

'Approved Investments' for the purpose of section 27B of the Act shall consist of the following:

- a) All investments specified in **section 27B** of the Act **except**
  - (i) clause (b) of sub-section (1) of section **27A of the Act**;
  - (ii) Immovable property situated **in another country** as stated in clause (n) of subsection (1) of section 27A of the Act;
  - (iii) First mortgages on immovable property situated in another country as stated in clause (i) of sub-section (1) of section 27B of the Act.
- b) In addition the following investments shall be deemed as approved investments by the Authority under the powers vested in it vide clause (j) of sub-section (1) of section 27B of the Act:
  - (i) **All loans secured as per the Act, rated debentures (including bonds) and other rated & secured debt instruments** as per Note appended to Regulations 3 to 8. **Equity shares, preference shares and debt instruments** issued by All India Financial Institutions recognized as such by Reserve Bank of India — investments shall be made in terms of investment policy guidelines, benchmarks and exposure norms, limits approved by the Board of Directors of the insurer.
  - (ii) **Bonds or debentures** issued by companies **rated** not less than AA or its equivalent and P1 or Equivalent ratings for short term bonds, debentures, certificate of deposits and commercial papers by a credit rating agency, registered under SEBI (Credit Rating Agencies) Regulations 1999 would be considered as 'Approved Investments'.
  - (iii) Subject to norms and limits approved by the Board of Directors of the insurers **deposits** (including fixed deposits as per section 27B (10) of Insurance Act, 1938) **with banks** (e.g. in current account, call deposits, notice deposits, certificate of deposits etc.) included for the time being in the Second Schedule to Reserve Bank of India Act, 1934 (2 of 1934) and deposits with primary dealers duly recognized by Reserve Bank of India as such.
  - (iv) Collateralized Borrowing & Lending Obligations (**CBLO**) created by the Clearing Corporation of India Ltd and recognized by the Reserve Bank of India and exposure to Gilt, G Sec and liquid mutual fund forming part of Approved Investments as per Mutual Fund Guidelines issued under these regulations and money market instrument / investment.

- (v) **Asset Backed Securities with underlying Housing loans** or having infrastructure assets as underlying as defined under 'infrastructure facility' in clause (h) of regulation 2 of Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Amendment Regulations, 2008 as amended from time to time.
- (vi) **Commercial papers** issued by a company or All India Financial Institution recognized as such by Reserve Bank of India having a credit rating by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations 1999
- (vii) **Money Market instruments** as defined in Regulation 2(h) of this Regulation.

Explanation: All conditions mentioned in the 'note' appended to Regulation 3 to 8 shall be complied with.

### 10.2.6 FINANCIAL STATEMENT (SCHEDULE 'B' PART V)

1. Aggregate amount of company's investments other than listed equity securities and derivative instruments and also the market value thereof shall be disclosed.
2. Investments made out of Catastrophe reserve should be shown separately.
3. Debt securities will be considered as "held to maturity" securities and will be measured at historical cost subject to amortization.
4. Investment Property means a property (land or building or part of a building or both) held to earn rental income or for capital appreciation or for both, rather than for use in services or for administrative purposes.
5. Investments maturing within twelve months from balance sheet date and investments made with specific intention to dispose of within twelve months from balance sheet date shall be classified as short-term investment.

4<sup>th</sup> Amendment of the IRDA Investment Regulations was notified on 22.8.2008 with the key features:

- ⌚ Applicability of Exposure Norms to infrastructure Investment.
- ⌚ Definition of Infrastructure Investment aligned with RBI Terms.
- ⌚ Dynamic monitoring of Investment.
- ⌚ Introduction of Risk Management System and Process.
- ⌚ Division of front office, middle office and back office.
- ⌚ Mandatory Internal Audit when AUM is under Rs.1000 crore.

- ⌚ Mandatory concurrent audit if AUM exceeds Rs.1000 crore.
- ⌚ Investment outsourcing restricted to Rs.500 Crore of AUM.

### 10.2.7 INVESTMENT REGULATION 2008

4<sup>th</sup> Amendment of the IRDA Investment Regulations was notified on 22.08.2008 with the key features:

- Applicability of Exposure Norms to infrastructure Investment. □Definition of Infrastructure Investment aligned with RBI Terms □Dynamic monitoring of Investment.
- Introduction of Risk Management System and Process.
- Division of front office, middle office and back office.
- Mandatory Internal Audit when AUM is under Rs.1000 Crore.
- Mandatory concurrent audit if AUM exceeds Rs.1000 Crore.
- Investment outstanding restricted to Rs.500 Crore of AUM.

### 10.2.8 TREATMENT ON LOAN AND INVESTMENTS

- ⌚ Difference between the **Acquisition Cost and Redemption Value** of Short Term Money Market Instruments (Commercial Papers, Certificate of Deposit etc.) is recognized as accrued income.
- ⌚ **Cost of Investments** includes expenses on acquisition, brokerage, stamps and transfer charges and net of Incentive.
- ⌚ **Dividend** is accounted in the year of declaration. Dividend, Interest on Debentures under objection/pending delivery is accounted for on realization. Interim Dividend is accounted where warrants are dated 31<sup>st</sup> March or earlier. Dividend on Foreign Investments is accounted for net of withholding tax.
- ⌚ **Profit and Loss on Sale of Investment** is computed by taking weighted average book value except Govt. Securities/Debentures/ Bonds (where Profit & Loss is worked out script-wise) and Govt. Securities (on FIFO basis)
- ⌚ **Asset classification**, Recognition of Income and Provisioning to Loans and Advances are maintained as per prudential norms of RBI.
- ⌚ **Mutual Funds/Venture Funds** are valued at Net Asset Value (NAV) at the year end. In the absence of NAV Investment is shown at cost in the Balance Sheet.
- ⌚ When the listed **Equity/Equity Related Instruments/Preference Shares are impaired** on or before 31.3.2000, the historical/weighted average cost are not available

with the Company. The carrying value of such Investment as on 1.4.2000 is presumed to be historical/weighted average cost.

- ⌚ When the listed **Equity/Equity Related Instruments/Preference Shares are making losses continuously for last 3 years** and where capitally eroded are considered as impaired. Further if the published Accounts of a Company are not available for last 3 Accounting Years it is presumed the value of Investment is fully impaired and is written off to a nominal value of Rs.1 per Company and not per share.
- ⌚ **Reverse Repo** Transactions are treated as Secured Lending Transaction and accordingly disclosed in the Financial Statement. The difference between the total consideration at the first and second leg of the transaction is treated as Interest Income.
- ⌚ Collateralised Borrowing and Lending Obligation (**CBLO**), which is issued at Discount to the Face Value, is treated as Money Market Instrument as per Reserve Bank of India Notification. Discount earned at the time of lending through CBLO is shown as income, which is apportioned on time basis.
- ⌚ **Deferred Tax Assets** are recognized only if there is a virtual certainty that they will be realized and/or reviewed for the appropriateness of their respective carrying values at each Balance Sheet date.

### 10.2.9 MISCELLANY

**Derivatives:** It is a wide variety of Financial Instruments or whose value is derived from the underlying market factors e.g., market securities, or indices, interest rates, currency exchange rates, FOREX, commodity, credit, equity prices, etc. This transaction includes varied types of financial contractions including structured debt obligation, deposits, swaps, options, caps, floors and various combinations thereof. Derivatives are three types (a) Forwards —when settlement takes place on a specific date in the future at today's pre-agreed price, (b) Futures —It is a future contract of two parities to buy or sale an asset at a certain time in the future at a certain price. It is a special type forward contract on a standardized future index, (c) Options —Through this contract the right is conferred, not an obligation to buy or sale of underlying at a stated date or at a stated price. Two types of options are : Call Options —it gives the buyer the right but not the obligation to buy the underlying asset at a given price on or before a given future date. Put Options —it gives the buyer the right but not the obligation to sell the underlying asset at a given price on or before a given future date.

**Warrant :** Normal period of option for one year. The majority of options traded on exchanges have maximum maturity of nine months. Longer dated options are called warranty and ordinarily traded over the counter.

**Option Premium :** When Option contact is bought the buyer has to pay premium. The premium is the price for gaining right to buy or sell. It is price paid by the option buyer to the option seller for acquiring right to buy or sell.

**Depository** : A Company, Bank or an Institution that holds or facilitates the exchange of securities (e.g. shares, debentures, bonds, Govt. Securities, Units, etc.) or a depository Institution that is allowed to accept monetary deposit from customer in an electronic form.

**Bond** : It is a negotiable certificate of indebtedness. It is debt security, when the insurer owes to holder a debt and based on the terms of the bond is obliged to pay interest (coupon) and to repay the principal at a later date. The ownership of the bond is transferable in the secondary market. Zero Coupon Bond is a type of bond issued at a discount and repaid at a full value.

Convertible Bond allows to convert the bond into equity at a fixed conversion price.

**Coupon** : Periodic interest payment that are made by insurer of the Bond (Borrower) to the subscriber of the Bond (Lender). Interest payable by Bond/Debenture is based on the Face Value.

**Debt Market** : Main segments of debt market (i) Govt. Securities : Centre, State, State Sponsor Securities, Local Bodies such as Municipalities, (ii) PSU Bonds, (iii) Corporate Securities.

**Commodity** : Defined as 'Goods' as every kind of moveable property other than actionable claims, money and securities.

**NAV** : Net Asset Value —Value of an asset of an entity less the value of liability, often in relation open-end or Mutual Fund. NAV per unit is simply the net value of asset divided by the no. of units outstanding.

**Gilt Fund** : These are suitable for medium and long term investment. These funds invest in Central and State Govt. Securities. As they are Govt. backed bonds they give a secured return.

**Open Ended Funds** : When funds are open for subscription and redemption throughout the year. Their prices are linked to the daily net asset value (NAV).

**Close Ended Funds** : Funds are opened through IPO and opened for subscription for once and can be redeemed only on the fixed date of redemption.

**Debt Instruments** : These are fixed income securities comprise of Central Govt. Securities (GOI), State Govt. Securities (SDL), Bonds and Debentures, Pass through Certificate (PTC)/Mortgage Backed Securities (MBS), Term Loans, Loans to Housing and Fire Fighting and Money Market Instruments.

**Money Market Instruments** : Comprises of Treasury Bills, Fixed Deposits (FD), Certificate of Deposit (CD), Commercial Papers (CP), Repo, CBLO, Bonds and Debentures for less than one year, Mutual Funds, etc.

**Current Yield** :  $\text{Current Yield} = \text{Annual Cash Inflow} / \text{Market Price}$ .

**Yield to Maturity (YTM)** : If a bond's coupon rate is less than its YTM, then the bond is selling at a discount. If a bond's coupon rate is more than its YTM, then the bond is selling at a premium. If it is equal to its YTM, then the bond is selling at par.

**Rating Agencies** : Important names of Indian Rating Agencies are Credit Rating Information Services of India Ltd. (CRISIL), Investment Information and Credit Rating Agencies of India (ICRA), Credit Analysis and Research Limited (CARE), FITCH. Foreign Rating Agencies are Standard and Poor (S&P), Mood's Investors Service.

**Pass Through Certificate** : This is an exposure in securitized paper is not in a corporate but cash flows from a pool of asset. As it offers quality investment with diversification it minimizes the associated risk.

**Venture Capital** : It carries the risk with the new venture and the capital raised to a pool fund, invested in different projects in the equity and equity related instruments. It is normally a closed ended fund.

**NEFT** : National Electronic Fund Transfer —It facilitates individuals to electronically transfer of fund from any branch of the Bank to any other Branch of the Bank in the country. Transaction through this mode is operated in batches.

**ECS** : This system is used mainly for credit and debits of low value transactions which are in large or frequent transactions.

**RTGS** : Real Time Gross Settlement —It is a transfer of fund mechanism from one Bank to another Bank without any waiting period (Real Time) and settled one to one basis (Gross).

**IFSC** : Indian Financial System Code —It is unique code consisting of 11 characters used in RTGS for identifying the sending Bank Branch and also the beneficiary Bank Branch.

**Current Investment** : When Investments are made for not more than 1 year and readily realizable.

**Long Term Investment** : When Investments are held for more than 1 year from the date of acquisition.

**Fair Value of Shares** : When shares are acquired through IPO, the acquisition cost will be the issue price, which is treated as Fair Value. But when the shares are acquired from the Secondary Market the Fair Value is decided by the Exchange Rate.

**Cum-Interest Sale** : Deduct brokerage and commission from the price, then also deduct the accrued interest from the last date of payment to the date of transaction less tax, if any.

**Ex-Interest Sale** : Brokerage and expenses are to be deducted from the price, then also interest on the investment from the date of transaction to the next date of payment of interest less tax has to be added with the price.

**Ex-Interest Purchase** : Brokerage and expenses are to be added with the price, then the interest from the date of transaction to the next date of payment has to be charged less tax, if any.

**Cum-Interest Purchase** : Price includes accrued interest on the securities purchase for the period commencing from the last date of payment of interest to the date of transaction.

**Asset under Management (AUM)** : Regulation of IRDA prescribes that every Insurer having assets more than Rs.1000 crore shall appoint a Chartered Accountant Firm for concurrence Audit.

**Market Value Margin (MVM)** : Insurer will keep a margin sufficiently to encourage a Third Party to accept the liability which will represent a proxy for Fair Value in the absence of a liquid market.

Performance Ratios required to be furnished by the insurer as given in Annexure-I & II (Refer master Circular)

Allocation of Expenses of Management: