

5

Financial Statements of Insurance Companies

Unit-1 : Introduction to Insurance Business

Learning Objectives

After studying this unit, you will be able to:

- ◆ Understand the basic concepts of Insurance.
- ◆ Learn the meaning of some important terms used in insurance business, namely premium, considerations for annuities granted, claims, surrender value, bonus, paid-up policy, re-insurance and agents' balances.
- ◆ Learn two main types of insurance business i.e. life insurance and general insurance and will be able to distinguish between them.
- ◆ Understand the meaning and various types of fire, marine and miscellaneous policies.
- ◆ Provisions of the Insurance Act requiring preparation of financial statements for the insurance business and maintenance of register or record of policies.

1.1 Introduction

Insurance is a contract in which one party namely the Insurance Company called "Insurer" undertakes to indemnify specified losses suffered by the other party called "Insured" for a special consideration called "Premium". The term of the Insurance contract is called "Insurance Policy".

Some Important terms used in Insurance Business: -

1. **Insurance Policy:** It is the document issued by the insurance company containing terms of the insurance contract. It specifies the losses that are covered by the Policies and also the maximum amount that can be paid out in the event of a loss/death. This is called Policy Amount.
2. **Premium:** The payment made by the insured to the Insurance Company in consideration for undertaking to indemnify specified losses suffered by the Insured by way of the contract of Insurance. The premium is generally paid annually. In some cases it may be paid at shorter intervals. A point to be noted is the premium amount has to be paid "front end" i.e. before the commencement of the insurance cover/policy.

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3. Claims: A claim occurs when a policy fall due for payment. In Life Insurance it arises on death or on maturity of policy. In case of General Insurance, the claim arises only when the loss occurs. While calculating the claim outstanding at the end, the claim intimated as well as the claim intimated and accepted both are considered. The adjustment entry required for this will be as follows:

Claims account Dr.

To Claims intimated and accepted but not paid account

To Claims intimated but not accepted and paid account

At the commencement of the next period a reverse entry is passed, so that when these claims intimated are paid, they may not influence the claims account of next year. However, if company rejects any claim, such amount should be transferred to the insurance fund account and not to the claims account.

Illustration 1

From the following, you are required to calculate the loss on account of claim to be shown in the revenue account for the year ending 31st December, 20X3:

Claim intimated in the year	Claim admitted in the year	Claim paid in the year	₹
20X2	20X2	20X3	15,000
20X3	20X3	20X4	10,000
20X1	20X2	20X2	5,000
20X1	20X2	20X3	12,000
20X3	20X4	20X4	8,000
20X3	20X3	20X3	1,02,000

Claim on account of Re-insurance was ₹ 25,000.

Solution

	₹
Total claim paid in 20X3 : ₹ (1,02,000 + 12,000 + 15,000)	1,29,000
Less: Outstanding in the beginning, i.e., intimated in 20X2 or earlier whether accepted in 20X2 accepted in 20X3 (₹ 15,000+ ₹ 12,000)	<u>(27,000)</u>
	1,02,000
Add: Outstanding at the end, i.e., intimated in 20X3 whether accepted in 20X3 or in 20X4 ₹ (10,000 + 8,000)	<u>18,000</u>
	1,20,000
Less: Re-insurance claim	<u>(25,000)</u>
Claims to be shown in revenue account	<u>95,000</u>

4. Surrender Value: When the policy holder wishes to realise the amount of policy before the expiry of the full period of the policy, he surrenders his right under the policy and is paid an amount calculated by a fixed formula.

5. Commission: Generally, Insurance Companies get business through agents; these agents receive commission on the basis of the amount of premium they generate for the Insurance Company. Commission paid to Agents is shown as a debit (expense) in the Revenue Accounts.

6. Bonus (applicable only to Life Insurance): A life insurance policy may be “with profit” or “without profits”. The holder of a “without profits” policy is entitled to receive on maturity only the amount specified in the policy; but on a “with profits” policy he is entitled to receive in addition, the amount of bonuses declared on each valuation. On each valuation, the amount standing to the credit of Life Fund which is in excess over net liability, as determined by the actuary, is distributed among the shareholders and the policyholders. The share of the policyholders is paid to them as bonus, either in cash on declaration or by reduction of future premiums, or on maturity of the policy.

7. Reversionary Bonus- Until the bonus is paid, it does not figure in the Revenue Account and is not payable in cash immediately but is to be payable at the time of the claim; it is described as Reversionary Bonus. The amount of Reversionary Bonus is included in claims.

8. Interim Bonus: It is a bonus paid to a policyholder for a period for which valuation is not complete and, therefore, the exact profit or bonus has not been determined.

9. Reinsurance: If Insurance Company does not wish to bear the whole of risk of a policy, then it will reinsure a part of risk with some other insurer. In such a case the insurer is said to have ceded (given) a part of its business to other insurer .i.e. the risk of the insurance is being underwritten by another Insurance Company.

In other words, in Re-Insurance business transaction is defined as an agreement between the Ceding Company and the Reinsurer, where the former agrees to cede (give) and the later agrees to accept certain specified share of risk in return for a share of the premium. In such a case, on a claim arising, the claim will be shared between the two companies in the proportion they had agreed to underwrite the risk.

10. Ceding Company: An insurance company that shifts part or all of a risk it has assumed to another insurance company. The Ceding company shares the premium amount it has received to cover the risk, with the second insurance company called the Reinsurer. In return, the Reinsurer company pays commission to the Ceding company for getting the business.

11. Commission on re-insurance ceded/ accepted: Insurance companies get business through its agents. Such agents receive commission on the basis of the amount of business they generate for the company. When company gets re-insurance business it has to pay commission to the Ceding company also. This commission paid by the reinsurance company is called ‘commission on re-insurance accepted’ and is shown as an expense in the revenue account of the re insurance company.

For the ceding company, when it passes on a part of the business to the reinsurance company then the Ceding company gets its commission from the re-insurance company. This commission

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is called 'commission on re-insurance ceded'. It is a gain to the company surrendering the business. It appears on the credit side of revenue account.

Other Terms Used in Insurance Business

1. Paid Up Policy (Applicable only to Life Insurance): If an insured is unable to continue to paying premiums on his life policy, he may discontinue the payment and convert the policy into a "Paid-up" policy. The insured amount in that case will be reduced to a figure ascertained according to the following formula:

$$\text{Paid-up value} = \frac{\text{No. of premium paid} \times \text{Sum assured}}{\text{Total No. of premium payable}}$$

Other conditions of the policy, however, will remain unchanged.

2. Annuity: It is a contract that provides an income for a specific period of time to say for a number of years or for life. The person receiving the payment is called an annuitant. Annuity payments are usually made monthly but can be quarterly, semi-annually, or annually.

3. Catastrophic Loss: A loss (or related losses) which is unbearable i.e. it causes severe consequences such as bankruptcy to a family, organisation, or insurer.

4. Bonus in Reduction of Premium: In all the cases of general insurance the policy is always taken for one year and it is to be renewed after the expiry of the policy. Whether the policy is renewed with the same company, or a fresh policy is taken with some other company, it is a standing practice that the company usually grants a reduction in premium at the prescribed rate if the insured has not made any claim. This rate of reduction increases every year for usually three years if the insured does not make any claim continuously year after year.

- *The journal entry is :*

Bonus in reduction of premium account Dr.

To Premium account

1.1.1 Principles of Insurance

There are several principles governing insurance business, the important of which are discussed below.

(a) Principle of indemnity: Insurance is a contract of indemnity. The insurer is called indemnifier and the insured is the indemnified. In a contract of indemnity, only those who suffer loss are compensated to the extent of actual loss suffered by them. One cannot make profit by insuring his risks.

(b) Insurable interest: Everyone cannot enter into contracts of insurance. For example, A cannot insure the life of B who is a total stranger. But if B happens to be his wife or his debtor or business manager, A has **insurable interest**, i.e., vested interest and, therefore, he can insure the life of B. For every type of policy insurable interest is insisted upon. In the absence of such interest the contract will amount to a wagering contract.

(c) **Principle of *uberrimae fidei***: Under ordinary law of contract there is no positive duty to tell the whole truth in relation to the subject-matter of the contract. There is only the negative obligation to tell nothing but the truth. In a contract of insurance, however there is an implied condition that each party must disclose every material fact known to him. This is because all contracts of insurance are contracts of *uberrima fidei*, i.e., contracts of utmost good faith. This is because the assessment of the risk and the determination of the premium by the insurer depend on the full and frank disclosure of all material facts in the proposal form.

1.2 Various Types of Insurance

Basically, insurance is divided into two broad types viz; life Insurance and General insurance.

1.2.1 Life insurance policy

It covers the "life-risk" of the insured person. In case of death, the nominee will get the Insurance Policy amount. In life insurance the amount is payable on the happening of an event which is bound to occur, i.e., death. So this form of Insurance is also described as "Assurance".

However, the life insurance policy also provides for payment of the policy value at maturity or by instalments and an agreed bonus. ***This payment may either be in lumpsum on maturity of the policy or may be paid in instalments called annuity.***

The uses of the terms "insurance" and "assurance" are sometimes confused. "Insurance" refers to providing cover for an event that might happen (fire, theft, flood, etc.), while "Assurance" is the provision of cover for an event that is certain to happen like death and so Life insurance is actually Life Assurance.

Life Insurance can be further classified into 3 types: Whole Life Assurance; Term Assurance and Annuity.

- (a) **Whole Life Assurance**: In whole life assurance, policy amount is paid only on the death of Insured.
- (b) **Term Assurance**: Here the policy amount is paid in "lump-sum" on maturity of the term of the Life Insurance Policy (say 20 years).
- (c) **Annuity**: On maturity of the policy, instead of a one shot "lump-sum" payment the policy amount is disbursed in instalments, generally monthly.

1.2.2 General insurance

It means insurance other than life insurance.

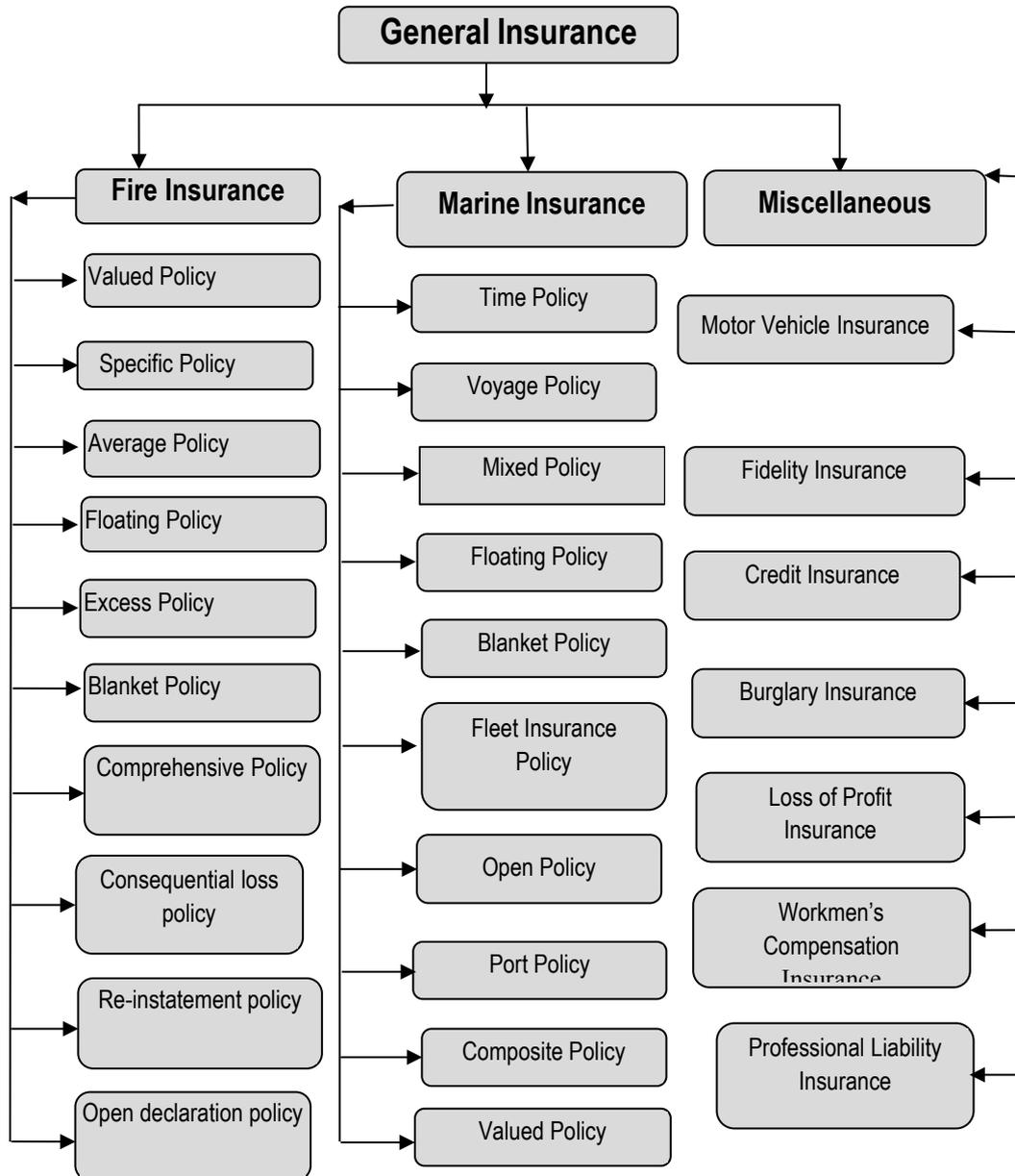
Section 2(6B) of the Insurance Act defines 'General Insurance Business' as fire, marine or miscellaneous insurance business whether carried on singly or in combination with one or more of them.

Some common types of miscellaneous insurance in India are: exchange risk insurance, motor vehicle insurance, credit insurance, burglary insurance, workmen's compensation insurance, professional liability insurance, cash in transit insurance, fidelity insurance, etc.

1.3 Various types of General Insurance

General Insurance is broadly classified into three major categories:

Fire Insurance; Marine Insurance; Miscellaneous Insurance



In general insurance, the policy is taken for one year at a time and can be renewed yearly or a fresh policy can be taken with some other insurance company.

The three types of General Insurance:

1.3.1 Fire Insurance

A fire insurance contract may be defined as **an agreement whereby one party, for a consideration, undertakes to indemnify the other party upto an agreed amount against financial loss of goods or property which the latter may suffer because of fire.** Fire insurance thus covers the risk of loss of property by accidental and non-intentional fire.

Types of Fire Policies

- (i) **Valued policy** - A policy in which the value of the property is ascertained and/or agreed upon which the insurer undertakes to pay in the event of destruction of goods/property by fire is known as *valued policy*. This type of policy is not very common these days.
- (ii) **Specific policy** - It is a policy which insures a risk for a specific amount. In case of any loss under this policy, the insurer pays whole loss provided it is not more than the sum specified in the policy. Thus, the value of the goods/property is not considered for this purpose.
- (iii) **Average policy** - An average policy contains the 'average clause' which lays down that if the property is under-insured, *i.e.* insured for a sum smaller than the value of the property, the insurer will bear only that proportion of the actual loss which the sum assured bears to the actual value of the property at the time of loss.
- (iv) **Floating policy** - It is the policy which covers several types of goods lying at different locations under one amount and for one premium. The premium normally charged under this policy is the average of the premium that would have been paid if each lot of the goods had been insured under specific policies for specific sums.
- (v) **Excess policy** - Where the stocks of the insured fluctuate he may take out a policy for the amount below which his stocks normally do not fall and another policy to cover the maximum amount of stocks which may be reached at times. The former type of policy is known as the *First Loss Policy* and the latter as the *Excess Policy*.
- (vi) **Blanket policy** - A blanket policy is that which covers all assets - fixed as well as current - under one policy.
- (vii) **Comprehensive policy** - A policy which covers risks such as fire, flood, riots, strikes, burglary etc. upto a certain specified amount is known as the comprehensive policy.
- (viii) **Consequential loss policy** - The objective of this policy is to indemnify the insured against the loss or profit caused by any interruption of business due to fire. It is also known as *Loss of Profit Policy*.
- (ix) **Re-instatement policy** - It is a policy under which the insurer pays the amount which is sufficient to re-instate assets or property destroyed.
- (x) **Open declaration policy** - It is a policy whereby the insured makes a deposit with the insurer and declares the value of the subject matter in respect of which risk is covered. Such policies are normally taken where the value of stocks, etc. fluctuates considerably.

1.3.2 Marine Insurance

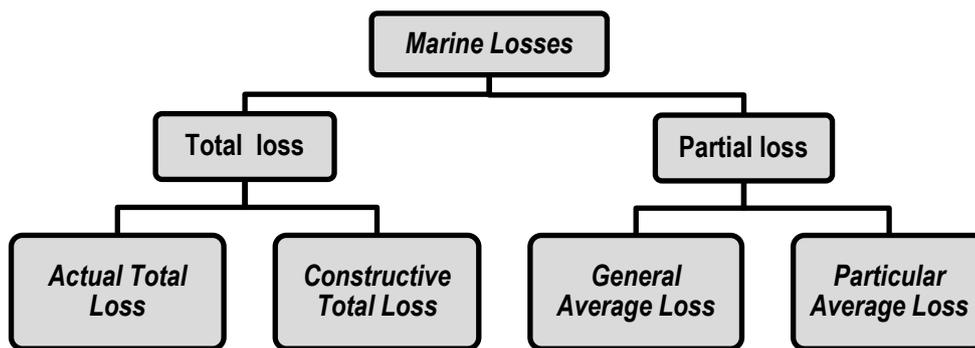
Marine insurance is perhaps the oldest type of insurance. Under a contract of marine insurance, **the insurance company or the underwriter agrees to indemnify the owner of a ship or cargo against risks which are incidental to marine adventure such as sinking or burning of the ship and its contents, stranding of the ship, collision of ship, Jettison, i.e.,** throwing overboard the cargo into the sea to save the ship from sinking or some other imminent danger, *barratry, i.e.,* wrongful act of the captain of the ship in destroying or stealing the vessel or cargo causing loss to owners.

Types of Marine Insurance - The common types of marine insurance are as follows:

- (i) **Cargo insurance** - This type of marine insurance covers risks to the cargo on the ship. The cargo on the ship is exposed to risks arising from an act of God, enemies, fire etc.
- (ii) **Hull insurance** - The ship is also exposed to the perils (danger) described in (i) above. Therefore, the owner of the ship may effect 'hull' insurance to cover such perils.
- (iii) **Freight insurance** - Where the owner of goods promises or undertakes to pay the freight when the cargo is safely delivered at the port of destination and the cargo is destroyed on the way, the shipping company would lose the freight. The shipping company can cover this risk by taking out a freight insurance policy.

The **persons who insure cargo, hull or freight are known as underwriters** because they write their name and sign at the foot of the policy.

Types of Marine Losses - Marine losses may be broadly of two types –



- (i) **Total Loss** : When the subject matter of insurance, *i.e.,* cargo, ship, freight etc. is totally lost, it is known as a 'total loss'. Total loss is also of two types:
 - (a) **Actual Total Loss** - When the subject-matter of insurance is absolutely destroyed or totally lost to the insured, it is known as actual total loss.
 - (b) **Constructive Total Loss** - When the subject matter is not actually totally lost but is lost for all practical purposes *e.g.,* where the ship or cargo is reasonably abandoned and taken as lost or expenses to be incurred for saving the cargo or the ship are expected to be more than the value thereof, it is known as constructive total loss.

- (ii) **Partial Loss** : When only a part of the subject matter is lost, it is known as partial loss. This loss may also be of two types as discussed below :
- (a) **General Average Loss** - Such a loss is caused by extraordinary voluntary sacrifice made or expenditure incurred with the objective of protecting the interests of all owners in a voyage. An example of this type of loss is when the ship has run aground and part of the cargo is to be jettisoned to lighten the ship to save it as well as the cargo from total loss.
- (b) **Particular Average Loss** - It is a partial loss of the subject matter of insurance caused by a peril against which it is insured but which is not a general average loss.

Types of Marine Insurance Policies - Generally a standard form for all policies is used for all marine insurance policies to cover various types of risks. However, differing needs of the insured have led to the evolution of a variety of marine insurance policies, the main among which are:

- (i) **Time policy** - It is that policy which covers the risk of the subject matter for a specified period of time. It is generally used for hull insurance though it can be taken out also for cargo.
- (ii) **Voyage policy** - This is a policy whereby the subject matter in transit is insured from one place to another. It is generally carried out for cargo which is exposed to marine risks in transit.
- (iii) **Mixed policy** - This is also known as *time and voyage policy* as under this the subject matter on a particular voyage is insured for a specified period of time.
- (iv) **Floating policy** - This policy is taken out by cargo owners who make regular shipments of cargo to insure the shipments expected to be shipped for a certain time by one policy. At the time the cargo is shipped, the insured declares the value of the shipment and the total value of the policy is reduced by that amount.
- (v) **Blanket policy** - This policy is taken for a specified amount, the premium in respect of which is paid for the entire policy at the beginning itself and is adjusted at the end of the specified period for the value of risks covered during this period.
- (vi) **Fleet insurance policy** - This policy insures the whole fleet of ships.
- (vii) **Open policy** - This type of policy is taken out without specifying the value where at the time of insurance, the insured is not aware of the value of the subject matter to be insured, which is ascertained and declared to the insurer later. The insurance cover is subject to the limit of the sum assured.
- (viii) **Port policy** - This policy covers the ship when it is docked/stationed at a port.
- (ix) **Composite policy** - It is a policy underwritten by more than one underwriter. The liability of each underwriter is however distinct and separate.
- (x) **Valued policy** - Under this policy, the value of the subject matter is agreed between the underwriters and the insured at the time of taking the policy and is specified therein.

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Clauses in a Marine Policy:

A marine policy may cover or exclude various types of risks. In view of this some special clauses may be inserted in the policy. Some of the important clauses are discussed below:

- (i) **Lost or Not Lost Clause** - When this clause is inserted in the policy, the goods are insured irrespective of whether they are already lost or not lost before the policy is taken out. In other words, it covers loss of goods occurring between shipment of goods and the issuance of policy.
- (ii) **Waiver Clause** - When this clause is included in a marine policy no act of the insurer or the insured in saving, maintaining and preserving the cargo or the hull will be considered as a "waiver", i.e., in case the insured takes steps under Sue, Labour and Travel clause after the notice of abandonment is given by him to the insurer but is not accepted by the insurer, it will not amount that the notice of abandonment is waived. Thus, if the insurer takes any such steps, it cannot be taken to mean as an acceptance of the notice of abandonment.
- (iii) **Permission to Touch and Stay Clause** - As per this clause, the ship is permitted to touch and stay at the ports mentioned in the policy in the order specified therein. In case nothing is specified, the ship must touch and stay at ports which are normally touched in the particular trade. Any deviation from the route specified is permitted in an emergency to save the ship and the lives of the passengers.
- (iv) **Running Down Clause (RDC)** - This clause enables the insured to claim the loss caused by collision with another ship.
- (v) **Free of Capture and Seizure Clause (FCS)** - This clause is included in the policy to clarify that the underwriters will not be liable for any loss caused by ship being captured or seized in a war or warlike situation.
- (vi) **Continuation Clause** - This clause may be included in a time policy whereby the ship will be covered until the end of the voyage or for not more than 30 days thereafter where the ship is still at sea at the time of expiry of the policy. A monthly *pro rata* premium is required to be deposited for this purpose.
- (vii) **Excepted Perils Clause** - This clause specifies the risks not covered by the insurance policy.
- (viii) **Free of Particular Average (FPA) and Free of All Averages (FAA) Clauses** - As the names suggest, the FPA clause exempts the underwriter from particular average and all averages, i.e., both general and particular average liabilities (discussed hereinafter).
- (ix) **Insurance Clause** - This clause covers, among others, the losses caused by the negligence of master, crew etc. or by explosives or by other defects in machinery of the ship.
- (x) **Jettison Clause** - This clause covers the loss caused by jettisoning of goods, i.e., throwing overboard goods to reduce the weight of the ship and prevent capture by the enemy.

- (xi) **Barratry** - This clause covers all losses caused by willful misconduct or defaults of the master and crew of the ship.

1.3.3 Miscellaneous Insurance Policies

In addition to the types of general insurance business discussed above, there are a number of insurance policies which cover various other types of risks, the important ones of which are discussed hereinafter.

Motor Vehicle Insurance - Motor Vehicle insurance policies are normally taken out to cover two types of risk—(i) the risk of damage by an accident or loss by theft, and (ii) risk of liability arising from an injury or death of any person in an accident caused by a vehicle, commonly known as Third Party Insurance. The owner of a vehicle is compulsorily required to get third party insurance under the Indian Motor Vehicles Act whereas the other types of insurance are voluntary.

Fidelity Insurance - This type of insurance protects an employer against the frauds, defalcations etc., on the part of his employees where, as part of their employment obligations, such employees are required to handle cash, goods or other valuables of the employer.

Credit Insurance - Credit insurance is taken out to protect the insured against the losses caused by bad debts due to insolvency of the debtors or otherwise.

Burglary Insurance - Burglary insurance policy is issued whereby the insurer undertakes to indemnify the insured against losses from burglary, i.e., the removal of movable goods by theft or burglary.

Loss of Profit Insurance - Loss of profits insurance is often accompanied by fire insurance and it covers the risk of loss of profits caused by fire, including fixed costs which are continued to be incurred till the business starts functioning at its normal level.

Workmen's Compensation Insurance - This type of insurance covers the risk of liability arising on account of payment of compensation where a worker suffers injury or dies in an accident in the course of his employment.

Professional Liability Insurance - Professional liability insurance protects the professionals, such as doctors, lawyers and accountants, against the risk of liabilities arising towards clients or third parties in connection with their work. This may also include legal expenses incurred in defending law suits.

The scope of miscellaneous insurance business is very wide and encompasses almost all commercial activity.

Important point to be remembered

- Only in general insurance policy the insured gets compensation only in case of loss sustained by him due to reasons specified in the policy.

1.4 Distinction between Life Insurance and Other Forms of Insurance

		Life Insurance	Other Insurance
1.	Timing of Payment of Claim	Insurable amount is payable either on the happening of the event (death) or at the maturity	Reimbursement of loss or liability incurred will be paid at the happening of the uncertain event only.
2.	Value of Policy	Insurance can be done for any value depending upon the premiums the insured is willing to pay.	The sum payable under it is limited to the amount of loss actually suffered or the liability incurred, notwithstanding the amount of policy.
3.	Duration of Contract	-These are long term contracts running over the number of years.	These are only for one year though renewable after year.
4.	Assurance	Life insurance is known also by another term 'assurance' since the insured gets an assured sum.	Other policies are known as insurance.
5.	Determination of Liability	Actuaries periodically estimate the liability under existing policies. On that basis a valuation balance sheet is prepared to determine the profit.	A portion of the premium is carried forward as a provision for unexpired liability and the balance net of claims and expenses is taken as profit or loss.

1.5 Some Relevant Provisions of the Insurance Act, 1938 [updated as per the Insurance (Amendment) act 2015]

The general insurance business in India is governed by the Insurance Act, 1938 which is based on the British Insurance Act. The Act was amended in 1969 for 'social control' to govern the general insurance business on healthy lines. However, it was felt that there still existed some scope for improvement. In view of this, on May 13, 1971 the government nationalised the general insurance industry by an ordinance which became the General Insurance (Nationalisation) Act, 1972. At that time there were 63 domestic insurance companies and 44 foreign insurance companies operating in India. The management of all the 107 companies were taken over by the Government and accordingly the General Insurance Corporation (GIC) was formed as a government company in November 1972. The GIC as the holding company is entrusted with the task of superintending, controlling and carrying on the general insurance business in the country. Its subsidiaries in all the four zones of the country viz., the Oriental Fire & General

Insurance Company (now known as the Oriental Insurance Co. Ltd.), the National Insurance Company Ltd., the New India Assurance Company Ltd. and the United India Insurances Company do all classes of direct business of general insurance except aviation which is done by the GIC.

The Insurance Act, 1938 and the rules framed there under have an important bearing on the preparation of accounts of insurance companies. Some of the provisions have become irrelevant after the nationalisation of general insurance. Some provisions have been amended by IRDA Act, 1999 and Insurance (Amendment) Act 2015.

(1) Forms for final accounts [Section 11(1)]. Every insurer, on or after the date of the commencement of the Insurance Laws (Amendment) Act, 2015, in respect of insurance business transacted by him and in respect of his shareholders' funds, should, at the expiration of each financial year, prepare with reference to that year, balance sheet, a profit and loss account, a separate account of receipts and payments, a revenue account in accordance with the regulations as may be specified.

(2) Audit [Section 12]: The balance sheet, profit and loss account, revenue account and profit and loss appropriation account of every insurer, in respect of all insurance business transacted by him, should, unless they are subject to audit under the Companies Act, 2013, be audited annually by an auditor, and the auditor should in the audit of all such accounts have the powers of, exercise the functions vested in, and discharge the duties and be subject to the liabilities and penalties imposed on, auditors of companies by Section 147 of the Companies Act, 2013.

(3) Register of policies [Section 14(1)]: Every insurer, in respect of all business transacted by him, should maintain— (a) a record of policies, in which should be entered, in respect of every policy issued by the insurer, the name and address of the policyholder, the date when the policy was effected and a record of any transfer, assignment or nomination of which the insurer has notice; (b) a record of claims, every claim made together with the date of the claim, the name and address of the claimant and the date on which the claim was discharged, or, in the case of a claim which is rejected, the date of rejection and the grounds thereof; and (c) a record of policies and claims in accordance with clauses (a) and (b) may be maintained in any such form, including electronic mode, as may be specified by the regulations made under this Act.

(4) Approved investments (Section 27B(1)): A company carrying on general insurance business must invest its funds only in approved securities listed in this section.

(5) Payment of commission to authorised agents (Section 40(1)): As per the Insurance (Amendment) Act 2015, no person should, pay or contract to pay any remuneration or reward, whether by way of commission or otherwise for soliciting or procuring insurance business in India to any person except an insurance agent or an intermediary or insurance intermediary in such manner as may be specified by the regulations.

(6) Limit on expenditure (Sections 40B and 40C): As per the Insurance (Amendment) Act 2015 No insurer should, in respect of insurance business transacted by him in India, spend as expenses of management in any financial year any amount exceeding the amount as may be specified by the regulations made under this Act and every insurer transacting insurance

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business in India should furnish to the Authority, the details of expenses of management in such manner and form as may be specified by the regulations made under this Act."

(7) Sufficiency of assets [Section 64VA(1)]: Every insurer and re-insurer should at all times maintain an excess of value of assets over the amount of liabilities of, not less than fifty per cent. of the amount of minimum capital as stated under section 6 and arrived at in the manner specified by the regulations.

1.6 Insurance Regulatory and Development Authority Act, 1999 and Insurance (Amendment) Act 2015

The Insurance Regulatory and Development Authority Act, 1999 is an act to provide for the establishment of an Authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto and further to amend the Insurance Act, 1938 the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalisation) Act, 1972 to end the monopoly of the Life Insurance Corporation of India (for the insurance business) and General Insurance Corporation and its subsidiaries (for general insurance business).

The Act was published in the Gazette of India on 29th Dec., 1999 and extends to the whole of India. Words and expressions used and not defined in this Act but defined in the Insurance Act, 1938 or the Life Insurance Corporation Act, 1956 or the General Insurance Business (Nationalisation) Act, 1972 should have the meanings respectively assigned to them in those Acts.

Applicable to	Schedule A Life Insurance Business	Schedule B General Insurance Business
Premium is recognised	When due	<ul style="list-style-type: none">• Over contract period or period of risk• Unearned premium is a Current Liability and Reserve have to be created for it.• Premium in advance is also a Current Liability
Premium deficiency is recognised if:	-	The sum of expected claim costs, related expenses and maintenance costs exceeds related reserve for unexpired risks.
Acquisition Costs = Expenses related to acquisition of new and	Expensed in the year in which they are incurred	Expensed in the year in which they are incurred

renewal insurance contracts		
Claims	Policy Benefit Amount + Claim settlement cost	Claims for losses incurred + Settlement cost + Claims incurred but not Reported (IBNR) + Claims incurred but not enough reported (IBNER) treated in Outstanding claims.
Actuarial Valuation	The estimation of liability against life policies should be determined by the appointed actuary of the insurer pursuant to his annual investigation of the life insurance business. Actuarial assumptions are to be disclosed by way of notes to the account.	Actuarial valuation is required for contracts more than 4 years. Actuarial assumptions should be suitably disclosed by way of notes to the account.
Investment a) Real Estate Investment Properties	<ul style="list-style-type: none"> • Valued at historical cost • Revaluation in 3 years; change in carrying amount transferred to Revaluation Reserve. • Assessment of impairment at each balance sheet date-Impairment loss is transferred to Profit and Loss Account • Impairment losses on revalued asset is transferred to revaluation Account 	<ul style="list-style-type: none"> • Valued at historical cost (-) Accumulated Depreciation (-) impairment loss • Assessment of impairment at each balance sheet date-Impairment loss is transferred to Profit and Loss Account. • Revaluation is not permitted
b) Debt Security including Govt. Securities and redeemable Preference Shares	Considered as held to maturity and measured at historical cost subject to amortisation.	Considered as held to maturity and measured at historical cost subject to amortisation.
c) Equity Security and derivative Instruments traded activity (Unit sold/purchased more 10,000 units per annum)	<ul style="list-style-type: none"> • Measured at Fair Market Value (FMV) • FMV = Lowest of last quoted closing prices on the stock exchange. 	<ul style="list-style-type: none"> • Measured at FMV • FMV = Lowest of last quoted closing prices on stock exchange • Unrealised gains/loss due to change in FMV is taken to Fair Value Change Account.

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	<ul style="list-style-type: none"> Unrealised gain / losses due to changes in FMV is taken to Fair Value Change A/c. The actual profits/loss on the sale of investment and Fair value change account is transferred to Revenue/ Profit and Loss. Till then FVC A/c is not available to Shareholders for dividend. 	<ul style="list-style-type: none"> The actual Profit or Loss on the sale of investment and FVC account is transferred to Profit and Loss Account. Till then FVC Account is not available for dividend
d)Unlisted and other non-actively traded equity shares and derivatives Instruments. (Non-active if trading Vol. does not exceed 10,000 units of that securities)	<ul style="list-style-type: none"> Kept at historical cost Provision should be made for diminution in value of such investments Provision for diminution it can be reversed in case of increase but the carrying amount cannot be more than historical cost. 	<ul style="list-style-type: none"> Kept at Historical cost Provision should be made for diminution in value of such investments Provision for diminution it can be reversed in case of increase but the carrying amount cannot be more than historical cost.
Loans	<ul style="list-style-type: none"> At historical cost subject to impairment provision. 	<ul style="list-style-type: none"> At historical cost subject to impairment provision.
Catastrophe Reserve	-	Catastrophe reserve should be created in accordance with norms, if any, prescribed by the Authority. Investment of funds out of catastrophe reserve should be made in accordance with prescription of the Authority.
Linked Business	<p>- A separate set of financial statements, for each segregated fund of the linked businesses, should be annexed.</p> <p>Segregated funds represent funds maintained in accounts to meet specific investment objectives of policyholders who bear the investment risk. Investment income/ gains and losses generally accrue directly to the policyholders. The assets</p>	-

	of each account are segregated and are not subject to claims that arise out of any other business of the insurer.	
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Important amendments made to the earlier Act by the IRDA Act, 1999

(1) It is mandatory for every Insurer on or after the commencement of this Act, to prepare a balance sheet, a profit and loss account, a separate receipts and payments account, a revenue account in respect of insurance business transacted by him and in respect of his shareholders funds. The accounts are to be prepared for every financial year instead of the calendar year. The accounting year has already been changed to financial year when insurance companies prepared the accounts for 15 months ending with the financial year 1988-89, in response to Government directive. The directive might have become necessary because of the change in the previous year effected by Income Tax Act. The Act was amended requiring previous year to be the financial year.

(2) Every insurer must keep separate accounts relating to funds of shareholders and policyholders.

(3) Insurers are prohibited from investing either directly or indirectly their funds outside India.

(4) The Regulatory Authority has the power to direct the insurers to invest funds in infra structure and social sectors subject to certain conditions. The authority in general has the power to direct the time, manner and other conditions of investment with a view to protect the interests of policyholders. The amendment raises commission on fire and marine policies from the previous 10% to 15%.

(5) There is a necessity for insurers to keep a required solvency margin. The margin refers to the excess of assets over liabilities. If an insurer does not maintain such a margin, he has to submit a financial plan indicating a plan to correct the deficiency. If these requirements are not met to the satisfaction of the Authority, the insurer may be deemed to be insolvent and the company may be wound up by the court.

(6) Every insurer must submit to the Authority a prescribed return certified by an actuary in the case of life business and certified by an auditor in the case of general insurance business to show that the required solvency margin has been maintained.

(7) Every insurer carrying on general insurance business is required to create a 'Catastrophe Reserve' to meet the future potential liability against the insurance policies in force. This reserve is not created for any specific or known purpose. Creation of this reserve should be in accordance with the regulations issued by the Authority. So far the Authority has not issued any regulation in this regard.

It may be noted that the Union Cabinet had passed the Insurance Laws (Amendment) Bill, 2015 in March, 2015. The passage of the Bill thus paved the way for major reform related amendments in the Insurance Act, 1938, the General Insurance Business (Nationalisation) Act, 1972 and the Insurance Regulatory and Development Authority (IRDA) Act, 1999. The Insurance

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Laws (Amendment) Act 2015 so enacted, seamlessly replaces the Insurance Laws (Amendment) Ordinance, 2014, which came into force on 26th December 2014.

The passage of this Amendment Act paved the way for major reform related amendments in the following acts : –

- ◆ Insurance Act, 1938
- ◆ The General Insurance Business (Nationalisation) Act, 1972
- ◆ The Insurance Regulatory and Development Authority (IRDA) Act, 1999.

The amendment Act will remove archaic and redundant provisions in the legislations and incorporates certain provisions to provide Insurance Regulatory and Development Authority of India (IRDAI) with the flexibility to discharge its functions more effectively and efficiently. It also provides for enhancement of the foreign investment cap in an Indian Insurance Company from 26% to an explicitly composite limit of 49% with the safeguard of Indian ownership and control.

As per the Insurance (Amendment) Act 2015, The General Insurance Corporation and the insurance companies specified in section 10A of the Insurance Act, 1938 states that they may, raise their capital for increasing their business in rural and social sectors, to meet solvency margin and such other purposes, as the Central Government may empower in this behalf: Provided that the shareholding of the Central Government should not be less than fifty one per cent. at any time.". This Amendment Act will entrust responsibility of appointing insurance agents to insurers and provides for IRDAI to regulate their eligibility, qualifications and other aspects. It enables agents to work more broadly across companies in various business categories; with the safeguard that conflict of interest would not be allowed by IRDAI through suitable regulations.

IRDAI is empowered to regulate key aspects of Insurance Company operations in areas like solvency, investments, expenses and commissions and to formulate regulations for payment of commission and control of management expenses.

It empowers the Authority to regulate the functions, code of conduct, etc., of surveyors and loss assessors. It also expands the scope of insurance intermediaries to include insurance brokers, re- insurance brokers, insurance consultants, corporate agents, third party administrators, surveyors and loss assessors and such other entities, as may be notified by the Authority from time to time.

Further, properties in India can now be insured with a foreign insurer with prior permission of IRDAI; which was earlier to be done with the approval of the Central Government.

References:

Study on Audit of companies carrying on General Insurance Business published by the Institute of Chartered Accountants of India; Insurance Act, 1938; General Insurance (Nationalisation) Act, 1972; Life Insurance Corporation Act, 1956; and Insurance Regulatory and Development

Authority Act, 1999, Insurance Regulatory and Development Authority Regulations, 2002; Insurance (Amendment) Act 2015.

Summary

- **Claims:** it refers to the amount payable by insurer to the insured when policy becomes due or the mis-happening occurs.
Claim = Claim intimated + Survey fees + Medical expenses – Claims received on re-insurance.
- **Premium:** it refers to the consideration received by the insurance company to undertake the risk of the loss. It is always net of premium paid on reinsurance.
- **Annuity (LIC):** it is fixed annual payment made regularly till insured lives. This is in consideration of lump-sum money paid by him in the beginning of the policy.
- **Bonus:** the profit of LIC is distributed among the shareholders and policy holders. The policy holders get 95% of the profit of LIC by way of bonus. The bonus may be of following types:
 - **Cash Bonus:** paid on declaration of bonus in cash.
 - **Revisionary Bonus:** it is paid with the policy maturity instead of cash amount now. This bonus is added in the amount of claims.
 - **Bonus in reduction of Premium:** Bonus is not paid in cash but adjusted against the future premiums.
 - **Interim Bonus:** it refers to bonus paid on the maturity of policy in the year for which the profit has not yet been determined. Such a bonus is included in claims.
- **Reinsurance** : if an insurer is not willing to bear the whole of the risk, it reinsure itself. Some risk retains with some other insurer.

Unit-2: Accounting Technique of General Insurance Business

Learning Objectives

After studying this unit, you will be able to:

- ◆ Understand the issues involved in the general insurance and learn the books of accounts/records which should be maintained at the divisional office of a general insurance company.
- ◆ Familiarise with the format of claim statement and try to understand how to compile the claim provisions.
- ◆ Understand the meaning of claims paid, co-insurance, outstanding premium and commission. Insurance companies debit all management expenses to a control account in the general ledger. Learn the technique of accounting of the management expenses and analysis thereof.
- ◆ Be familiar with the details of loans and investments of an insurance business and the books and records normally maintained in the investment department of an insurance company.
- ◆ Learn the technique of creating unexpired risks reserve in case of fire, marine, and miscellaneous insurance business.
- ◆ Understand the concept of re-insurance

2.1 Functional Divisions and Books of Accounts Maintained Therein

With the General Insurance Business (Nationalisation) Amendment Act 2002 coming into force from 21 March 2003, GIC ceased to be a holding company of its subsidiaries. The ownership of the four erstwhile subsidiary companies and also of the General Insurance Corporation of India was vested with Government of India. GIC Re is a wholly owned company of Government of India.

The most important part of the business operations comprises the issuance of policies for risks assumed and to indemnify the insured for losses to the extent covered by such policies. In financial terms these operations get translated into—

- (a) the receipt/recording of premium income; and
- (b) the recording and settlement of claims for losses.

The business operations stated above are essentially confined to the divisional offices and the branches attached to these divisions. The accounting for these operations in these offices involve recording of premium income and provisions and payments in respect of claims under policies. Transactions related to operations at the branches are communicated for accounting thereof at the divisions. Generally, separate bank accounts are maintained for premium collections and for disbursement of expenditure. Normally, collections are transmitted to the

relevant controlling office and the concerned account is not normally operated upon for expenditure etc. The branches of the divisions submit adequate information and evidence of transactions relating to their operations. The returns from the branches will include all transactions by way of documents relating to premium received, claims provisions and payments and operation of bank accounts.

The following books of account/records are normally maintained at a divisional office:

- (i) Cash Receipt Book.
- (ii) Cash Disbursement Book.
- (iii) Dishonoured Cheque Register.
- (iv) State Cheque Register.
- (v) Daily Cash Balance Book.
- (vi) Claims Disbursement Book.
- (vii) Premium Register.
- (viii) Bank Transfer Journal.
- (ix) Journal.
- (x) Summary Books for incorporation of Branch Returns (Cash Receipt Statements, Cash Disbursement Statements and Premium Register after these are duly checked).
- (xi) General Ledger.
- (xii) Sub-Ledgers.
- (xiii) Register for Analysis of Management Expenses.
- (xiv) Cash Receipts, Cash Disbursement Vouchers and Journal Vouchers.
- (xv) Remittances Received Register.
- (xvi) Salvage Register.
- (xvii) Claims Recovery Register.
- (xviii) Stationary Register.
- (xix) Trunk Call Register.
- (xx) Assets Register.
- (xxi) Policy Stamp Register.
- (xxii) Excess/Shortage Register.
- (xxiii) Co-insurers Register.

Other major areas of accounting involve accounting for investments, reinsurance and other administrative matters which are dealt with at the Head Office.

2.2 Claims Provision at Divisional Offices

The outstanding liability at the year-end is determined at the divisions/branches where the liability originates for outstanding claims. Thereafter, based on the total consolidated figure for

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all the divisions/branches, the Head Office considers a further provision in respect of outstanding claims.

Every division prepares a claims statement.

To cover the possibility of errors in judgement in estimation or in cases of under-estimation of liability (where full details are not available) as also for the possibility of liability not being considered for claims incurred but not reported due to the nature of risks being such (e.g., where communication is made after a considerable time lag or after the cut-off date for preparation of final accounts) the company at its head office makes an additional provision over and above that made by Divisions/Branches on the Divisional Auditors' Reports.

In view of the above, total of outstanding claims comprises the estimated liability recorded at the Divisions/Branches and the further provision made on this account at head office. This provision is subject to the amount to be adjusted for re-insurances, which are dealt with at head office.

2.3 Claims Paid

For each class of business, the insurance companies have to disclose, in the relevant revenue accounts, claims paid separately. The divisional offices first ascertain the genuineness of the claim and ensure completion of the necessary formalities to enable the settlement to be made. Relevant evidence in respect of each claim is retained in each claim file and the liability is discharged after obtaining sanction of the relevant authority on the basis of amounts involved.

The divisional offices are expected to submit to the Head Office, for re-insurance adjustments, statements at regular intervals as to claims paid or provided for. Sometimes a year-end statement is also prepared showing month-wise figures so communicated.

A liability for outstanding claims should be brought to accounts in respect of both direct business and inward reinsurance business.

The liability should include:

- (a) Future payments in relation to unpaid reported claims;
- (b) Claims Incurred But Not Reported (IBNR) including inadequate reserves [sometimes referred to as Claims Incurred But Not Enough Reported (IBNER)], which will result in future cash/asset outgo for settling liabilities against those claims. Change in estimated liability represents the difference between the estimated liability for outstanding claims at the beginning and at the end of the financial period.

At the end of each financial year, as required by IRDA the actuarial valuation of the claims liability of an insurer is made by the appointed actuary, and the shortfall, if any is provided as IBNR/IBNER.

2.4 Co-Insurance

In cases of large risks the business is shared between more than one insurer under co-insurance arrangements at agreed percentages. The leading insurer issues the documents, collects premium and settles claims. Statements of Account are rendered by the leading insurer to the other co-insurers. Accounting for premium, claims etc. under co-insurance is done in the same manner as that of the direct business except in respect of the following peculiar features.

Incoming Co-insurance

- (i) **Premium** - The co-insurer books the premium based on the statement received from the leading insurer usually by issuing dummy documents. Entries are made in the Premium Register from which the Premium Account is credited and the Leading Insurer Company's Account debited. In case the statement is not received, the premium is accounted for on the basis of advices to ensure that all premium in respect of risk assumed in any year is booked in the same year; share of premium relatable to further extension/endorsements on policies by the leading insurer are also accounted for on the basis of subsequent advices. Reference to the relevant communications should be made from the concerned companies to ensure that premium collected by them and attributable to the company is recorded.
- (ii) **Claims Provisions** – Refer para 2.2.
- (iii) **Claims Paid** - Normally, on the basis of claims paid, advices received from the leading insurer, the Claims Paid Account is debited with a credit to the co-insurer. All such advices are entered into the Claims Paid Register. It is a practice to treat all claims paid advices relating to the accounting year received upto 31st January of the subsequent year from leading insurer as claims paid.

Outgoing Co-insurance

The share of the insurer only for both premium and claims has to be accounted under respective accounts. The share of other co-insurers is credited or debited, as the case may be, to their personal accounts and not routed through revenue accounts.

2.5 Outstanding Premium

This should normally comprise amounts due for uncollected premium where the company is allowed relaxation to the provisions of the Insurance Act. The outstanding balances are expected to be temporarily outstanding and should be recovered within the stipulated period after the year-end. There may however be cases of premium otherwise receivable and due but which remains uncollected at the year-end.

- (a) **Bank guarantee limits available** - Premium in respect of risk accepted under Bank Guarantee and Cash Deposit received either directly or through agents is accounted for with reference to the limits available. Normally, monthly statements are prepared and submitted to every party and the balances of outstanding premium are recovered before

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the close of the following month. Outstanding premium in excess of bank guarantee available should be reported.

- (b) **Cash Deposit** - The balance of this account is always credit except in cases where the premium due exceeds the cash deposits resulting in debit balance recoverable from the party. Debit balance in the cash deposit account is shown separately since they are classified separately with the debit balance under outstanding premium on the assets side of the balance sheet.

2.6 Commission

Insurance Act, 1938 and Insurance Amendment Act (2015) deal with and prescribes the basis and rates of commission payable to agents. However, under the provisions of General Insurance Nominalisation Act, the G.I.C. is empowered to regulate the commission structure.

It may be noted that all expenses of management are debited to a control account in the general ledger under "Expenses of Management" with a supporting subsidiary ledger viz., "Analysis of Management Expenses" wherein expenses for each classified category are posted and reconciled with the control account. Management Expenses Accounts Classification Schedule is normally annexed to the Trial Balance and forms a part thereof. Such expenses are shown separately under fire, marine and miscellaneous revenue accounts. and as to the basis of such apportionment, a note is appended to the accounts. Provision for outstanding expenses is made at the divisional office level.

2.7 Loans

the following items to be disclosed in the balance sheet under Schedule of IRDA (Preparation of Financial Statement and Auditors' Report of Insurance Companies) Regulations, 2002:

Loans:

- On mortgages of property within India.
- On mortgages of property outside India.
- On security of municipal and other public rates.
- On stocks and shares.
- On Insurer's policies within their surrender value.
- On personal security.
- To Subsidiary Companies (other than Reversionary).
- Reversions and Life Interests purchased.
- Loans on Reversions and Life Interests.
- Debentures and Debenture stocks of Subsidiary Reversionary Companies.
- Ordinary stocks and share of Subsidiary Reversionary Companies.
- Loans to Subsidiary Reversionary Companies.

Besides the above items the present practice is also to disclose loans to industrial undertakings in India on consortium basis with the General Insurance Business (Nationalisation) Amendment Act 2002 coming into force from 21 March 2003, GIC ceased to be a holding company of its subsidiaries. The ownership of the four erstwhile subsidiary companies and also of the General Insurance Corporation of India was vested with Government of India. GIC Re is a wholly owned company of Government of India and/or other financial institutions. Term loans may often be preceded by bridge loans to such undertakings pending completion of all formalities.

Except for housing and other loans to staff which may be recorded at the Divisions/Regional level other loans are usually dealt with at Head Office.

2.8 Investments

Investments in general insurance companies are governed by the provisions of Section 27B of the Insurance Act, 1938 as well as by the guidelines issued from time to time by the Ministry of Finance through General Insurance Corporation of India.

The various types of investments normally included in the Balance Sheet are given below as per categories under Schedule of IRDA (Preparation of Financial Statement and Auditors' Report of Insurance Companies) Regulations, 2002:

1. Deposit with the Reserve Bank of India (Securities to be specified)
2. Indian Government Securities/State Government Securities
3. British, British Colonial and British Dominion Government Securities
4. Foreign Government Securities
5. Indian Municipal Securities
6. British and Colonial Securities/Foreign Securities
7. Bonds, Debentures, Stocks and other securities whereon Interest is guaranteed by the Indian Government or State Government
8. Bonds, Debentures, Stocks and other Securities whereon Interest is guaranteed by the British or any Colonial Government
9. Bonds, Debentures, Stocks and other Securities whereon Interest is guaranteed by any Foreign Government
10. Debentures of any Railway in India
11. Debentures of any Railway out of India
12. Preference or guaranteed Shares of any Railway in India
13. Preference or guaranteed Shares of any Railway out of India
14. Railway Ordinary Stocks (i) in India (ii) out of India
15. Other Debentures and Debenture Stock of Companies incorporated (i) in India (ii) out of India

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16. Other Guaranteed and Preference Stocks and Shares of Companies incorporated (i) in India (ii) out of India
17. Other Ordinary Stocks and Shares of Companies incorporated (i) in India (ii) out of India
18. Holdings in Subsidiary Companies.

As per the Guidelines presently applicable, the investible funds have to be invested on the following pattern (as per Insurance Regulatory & Development Authority (Investment) (fifth amendment) Regulations, 2013:

No.	Type of investment	Percentage of Investment Assets
(i)	Central Government Securities	Not less than 20%
(ii)	Central Government Securities, State Government Securities and other approved securities	Not less than 30% (including (i) above)
(iii)	Approved investments as specified in Section 27B of the Act and Other Investment as specified in Section 27B(3) of the Act and Schedule II to these Regulations, (all taken together) subject to Exposure /Prudential Norms as specified in Regulation 9.	Not exceeding 70%
(iv)	Other investments as specified under Section 27B (3) of the Act,subject to Exposure I Prudential Norms as specified in Regulation 9.	Not more than 25%
(v)	<p>Housing and loans to State Government for Housing and Fire Fighting equipment, by way of subscription or purchase of</p> <p>A. Investments in Housing</p> <ol style="list-style-type: none"> a. Bonds / Debentures issued by HUDCO, National Housing Bank b. Bonds/Debentures of Housing Finance Companies either duly accredited by National Housing Banks, 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 . c. Asset Backed Securities with underlying Housing loans, satisfying the norms specified in the Guidelines issued under these regulations from time to time. I <p>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.</p>	<p>Total Investment in housing (i.e.,) investment in categories (i), (ii), (iii) and (iv) above taken together. should not be less than 5% of the investment Assets.</p> <p>Total investment in Infrastructure (i.e.,) investment in categories</p>

	'Infrastructure facility' should have the meaning as given 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.
	(i), (ii), (iii) and (iv) above taken together should not be less than 10% of the Investment Assets
	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'

On the basis of estimates made at the beginning of the year, the investments are made accordingly in each category. The estimates are reviewed and revised periodically if necessary.

The following books and records are normally maintained in the Investment Department of the Head Office of a company carrying on general insurance business.

- (1) Contracts (Bought/Sold Notes)
- (2) Copies of the Delivery Instructions
- (3) Purchase Registers
- (4) Application Money Registers
- (5) Allotment and Call Money Registers
- (6) Rights Issue/Bonus Issue Registers
- (7) Sales Redemption Registers
- (8) Term Loans Registers
- (9) Fixed Deposits/Participation Certificates/Bills Register
- (10) Underwriting Registers
- (11) Dividend Reconciliation Register
- (12) Interest Reconciliation Register
- (13) Safe-custody Receipts issued by banks
- (14) Cash Book/Bank Book
- (15) Investments sub-ledgers
- (16) General Ledgers
- (17) Investment Schedules, classified as to nature of investments.

2.9 Unexpired Risks Reserve

Insurance Company, close their accounts on 31st March but not all risks under different policies expire on that date. Many policies extend into the following accounting year during which the

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risk continues. Therefore on the closing date there is an unexpired liability under various policies which may occur during the remaining term of the policy beyond the year and therefore, a provision for unexpired risks is made. This reserve is based on the Net Premium income earned by the insurance company during the year.

The effort involved in calculating unexpired portion of premium under each policy is very time consuming. Therefore, a simple formula to derive a percentage of premium income to be allocated to reserve for unexpired risks is adopted.

According to the requirements of the Insurance Act, it is sufficient if the provision is made for unexpired risks at 50¹ per cent for Fire, Marine Cargo and Miscellaneous business except for Marine Hull which has to be 100 per cent.

It may be mentioned that the insurance companies are governed by the provisions of Section 44 of the Income-tax Act, 1961. In this regard, Rule 5 of the First Schedule to the Income-tax Rules — computation of Profit & Loss of General Insurance Business — provides for creation of a reserve for unexpired risks as prescribed under Rule 6E of the said Rules. According to this Rule, the insurance companies are allowed a deduction of 50 per cent of net premium income in respect of Fire and Miscellaneous Business and 100 per cent of the net premium income relating to Marine Insurance business. In view of this the reserves are created at the rates allowed under the Income-tax Act.

Additional reserve for unexpired risk

- ◆ In a particular year the management may feel that the percentage of premium recommended by the General Insurance Council is not sufficient to meet the unexpired risks. In such a situation they may provide additional reserve. Such additional reserve for unexpired risk will also be debited to the revenue account.
- ◆ The balance will be shown in the balance sheet as in the case of normal reserve for unexpired risk, and will be transferred to the credit of next year's revenue account.

Illustration 1

Indian Insurance Co. Ltd. furnishes you with the following information:

- (i) *On 31.12.20X1 it had reserve for unexpired risk to the tune of ₹ 40 crores. It comprised of ₹ 15 crores in respect of marine insurance business; ₹ 20 crores in respect of fire insurance business and ₹ 5 crores in respect of miscellaneous insurance business.*

¹ : Insurers have an option to create UPReither at 50 percent of Net Written Premium of preceding twelve months or on the basis of 1/365th method on the unexpired period of the respective policies. The insurers can follow either percentage or 1/365th method for computation of UP of the other segments. However, Insurers shall follow the method of provisioning of UP in a consistent manner. Any change in the method of provisioning can be done only with the prior written approval of the Authority.

- (ii) It is the practice of Indian Insurance Co. Ltd. to create reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous income policies.
- (iii) During 20X2, the following business was conducted:

	Marine	Fire	Miscellaneous (₹ in crores)
Premia collected from :			
(a) Insureds in respect of policies issued	18	43	12
(b) Other insurance companies in respect of risks undertaken	7	5	4
Premia paid/payable to other insurance companies on business ceded	6.7	4.3	7

Indian Insurance Co. Ltd. asks you to :

- (a) Pass journal entries relating to “Unexpired risks reserve”.
- (b) Show in columnar form “Unexpired risks reserve” a/c for 20X2.

Solution

(a) Journal of Indian Insurance Co. Ltd.

(₹ in crores)

20X2		Dr.	Cr.
Dec. 31	Marine Revenue A/c Dr.	3.30	
	To Unexpired Risks Reserve A/c		3.30
	(Being the difference between closing provision of ₹ 18.30 crores (18 + 7 – 6.7) and opening provision of ₹ 15 crores charged to marine revenue account)		
	Fire Revenue A/c Dr.	1.85	
	To Unexpired Risks Reserve A/c		1.85
	(Being the difference between closing provision of ₹ 21.85 crores [(43 + 5 – 4.3)/2] and opening provision of ₹ 20 crores charged to fire revenue account)		
	Unexpired Risks Reserve A/c Dr.	0.50	
	To Miscellaneous Revenue A/c		0.50
	(Being the excess of opening balance of ₹ 5 crores over the required closing balance of ₹ 4.5 crores [(12 + 4 – 7)/2] credited to miscellaneous revenue account).		

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(b) Unexpired Risks Reserve A/c

(₹ in crores)

20X2		Marine	Fire	Miscel- laneous	20X2		Marine	Fire	Miscel- laneous
		₹	₹	₹			₹	₹	₹
Dec. 31	To Revenue A/c	–		0.5	Jan 1	By Balance b/d	15.00	20.00	5.00
	To Balance c/d				Dec. 31	By Revenue A/c			
		<u>18.30</u>	<u>21.85</u>	<u>4.50</u>			<u>3.30</u>	<u>1.85</u>	<u>–</u>
		<u>18.30</u>	<u>21.85</u>	<u>5.00</u>			<u>18.30</u>	<u>21.85</u>	<u>5.00</u>

Note : Alternatively, the opening balances of unexpired risk reserves may be reversed in the beginning of year by transfer to Revenue account and fresh reserve of full required amount may be created at the end of the year which will be carried forward as closing balances.

2.10 Re-Insurance

In general insurance there are risks which, because of their magnitude or nature, one insurance company cannot afford to cover, e.g., aviation insurance. Generally, in such cases, an insurance company insures the whole risk itself and lays off the amount it has accepted to other insurance of reinsurance companies, retaining only that much risks which it can absorb.

A reinsurance transaction may thus be defined as an agreement between a 'ceding company' and a 're-insurer' whereby the former agrees to 'cede' and the latter agrees to accept a certain specified share of risk or liability upon terms as set out in the agreement.

A 'ceding company' is the original insurance company which has accepted the risk and has agreed to 'cede' or pass on that risk to another insurance company or a reinsurance company. It may however be emphasised that the original insured does not acquire any right under a reinsurance contract. In the event of loss, therefore, the insured's claim for full amount is against the original insurer.

In other words, if an insurer is not willing to bear the whole of the risk, it reinsures itself. Some risk retains with some other insurer. This is called as reinsurance. Both re-insurer and original insurer share the premium and risk in the same proportion as decided by them earlier.

The accounting entries pertaining to re-insurance business ceded to and by an insurance company may be explained with the help of an example:

(X insurance company cedes re-insurance business to Y insurance company and Z insurance company cedes re-insurance business to X insurance company.) Accounting entries pertaining to re-insurance business ceded to and by X insurance company in the above example may be given as follows:

In the books of X Insurance Company

X Insurance company cedes reinsurance business to Y:-

- | | | |
|---|----------|------|
| 1. Re--Insurance Premium (on reinsurance ceded) A/c | Dr. xxxx | |
| To Y Insurance Co | | xxxx |
| <i>(Being premium on reinsurance business ceded to Y Insurance Co recorded)</i> | | |
| 2. Y Insurance Co A/c | Dr. xxxx | |
| To Commission (on Reinsurance ceded) | | xxxx |
| <i>(Being commission due on re-insurance business ceded to Y Insurance Co recorded)</i> | | |
| 3. Y Insurance Co A/c | Dr. xxxx | |
| To Claims (on reinsurance ceded) | | xxxx |
| <i>(Being claims receivable from Y Co. for part of insurance business ceded)</i> | | |

Z Insurance company cedes reinsurance business to X:-

- | | | |
|---|----------|------|
| 1. Z Insurance Co A/c | Dr. xxxx | |
| To Re-Insurance premium (on reinsurance accepted) | | xxxx |
| <i>(Being premium on business ceded by Z insurance company recorded)</i> | | |
| 2. Commission (on Reinsurance ceded) | Dr. xxxx | |
| To Z Insurance Co | | xxxx |
| <i>(Being commission due on re-insurance business ceded to Z company debited)</i> | | |
| 3. Claims (on reinsurance accepted) A/c | Dr. xxxx | |
| To Z Insurance Co | | xxxx |
| <i>(Being claims on re-insurance business accepted from Z company recorded)</i> | | |

Illustration 1

Janani Assurance Co. Ltd. received ₹5,90,000 as premium on new policies and ₹1,20,000 as renewal premium. The company received ₹ 90,000 towards reinsurance accepted and paid ₹ 70,000 towards reinsurance ceded. How much will be credited to Revenue Account towards premium?

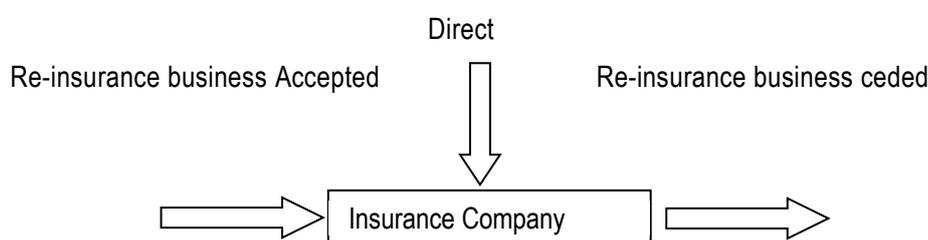
	₹
Premium received in respect of new policies	5,90,000
Add: Renewal premium	<u>1,20,000</u>
	7,10,000
Add: Re-insurance premium accepted	<u>90,000</u>
	8,00,000
Less: Re-insurance ceded	<u>(70,000)</u>
Premium amount to be credited to Revenue A/c	<u>7,30,000</u>

Broadly speaking, there are two types of reinsurance contracts:

1. Facultative Reinsurance : It is that type of reinsurance whereby the contract relates to one particular risk and is expressed in a reinsurance policy.. Each transaction under Facultative Reinsurance has to be negotiated individually and each party to the transaction has a free choice, i.e. for the ceding company to offer and the reinsurer to accept. The main drawback of this type of insurance is the volume of work involved and time taken to cover the risk.

2. Treaty Insurance: Under this type of reinsurance a Treaty agreement is entered into between ceding company and the re-insurer(s) whereby the reinsurances are within the limits of the Treaty. These limits can be monetary, geographical, section of business, etc. Under this contract it is obligatory for the re-insurer to accept all risks within the scope of this Treaty and it is obligatory for the ceding company to cede risks in accordance with the terms of the Treaty.

Treaties can also be divided into two categories, viz. proportional treaties and non-proportional treaties.



Summary

- **Commission on Reinsurance Accepted:** The reinsurer generally allows commission to reinsured on apart of business ceded. This is treated as expense of the company.
- **Commission on Reinsurance ceded:** Reinsurance generally gets commission for giving the business under reinsurance contract. It appears as an income in revenue account.
- **Coinsurance:** when a large risk is offered to an insurance company, then that insurance company retains certain percentage of sum insured and contracts other insurance company to underwriter the balance of risk. In this way, all the companies jointly bear the risk. One is called as the leader who issues the policy and acts on behalf of others.
- **Reserve for unexpired Risk:**

For Marine Business	=	100% of net premium income
For others	=	50% *of net premium income

Unit-3: Financial Statements of Insurance Companies

Learning Objectives

- ◆ After studying this unit, you will be able to:
- ◆ Prepare financial statements of insurance companies carrying on life insurance business.
- ◆ Prepare financial statements of insurance companies carrying on general insurance
- ◆ Understand the requirements of IRDA Regulations, 2002.

3.1 Introduction

Insurance Regulatory and Development Authority, after consultation with the Insurance Advisory Committee, in exercise of the powers conferred by section 114A of the Insurance Act, 1938 (4 of 1938) published the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations 2000 in the official Gazette on 14th August, 2000. The Guidelines were revised and a new set of guidelines have been issued vide notification dated 30th March, 2002 [www.irdaindia.org]. IRDA also issued a circular on 4 April 2016 on IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 suggesting certain modifications to the 2002 Regulations. As per the IRDA Guidelines, an insurer carrying on life insurance business should comply with the requirements given in Schedule A, an insurer carrying on general insurance business should comply with the requirements given in Schedule B and the report of the auditors should be in conformity with the requirements of Schedule C.

3.2 Structure of Schedules A and B

The following table depicts the structure of schedules A and B given under IRDA regulations:

Schedule A for Life Insurance Business	Schedule B for General Insurance Business
Part I: Accounting Principles for preparation of financial statement	Part I: Accounting Principles for preparation of financial statements
Part II: Disclosures forming part of Financial Statements	Part II: Disclosures forming part of Financial Statement
Part III: General Instructions for preparation of financial statements	Part III: General Instructions for preparation of financial statements.
Part IV: Contents of Management Report	Part IV: Contents of Management Report
Part V: Preparation of Financial statements	Part V: Preparation of financial statements.
Form A-RA: Revenue Account	Form B-RA: Revenue Account
Form A-PL: Profit and Loss Account	Form B-PL: Profit and Loss Account

5.34 Advanced Accounting

Form A-BS: Balance sheet and 15 Schedules forming part of financial statements	Form B-BS: Balance Sheet and 15 Schedules forming part of financial statements
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3.3 Financial Statements

Life Insurance Business

The insurance company carrying life insurance business is required to prepare Balance sheet Form A – BS, Revenue account [Policy holders' account] Form A- RA, Profit and loss account Form A-PL. These forms have been given in the IRDA Regulations, 2002.

No form has been specified for cash flow statement.

General Insurance Business

The insurance company carrying on general insurance business is required to prepare Balance Sheet Form B – BS, Revenue account [Policy holders' account] Form B- RA, Profit and loss account Form B-PL. These forms have been given in the IRDA Regulations, 2002.

No form has been specified for cash flow statement.

3.4 IRDA Regulations, 2002

Preparation of financial statements, management report and auditor's report

(1) An insurer carrying on life insurance business, after the commencement of these Regulations, should comply with the requirements of Schedule A.

(2) An insurer carrying on general insurance business, after the commencement of these Regulations, should comply with the requirements of Schedule B:

Provided that this sub-regulation should apply, *mutatis mutandis*, to reinsurers until separate regulations are made for them.

(3) The report of the auditors on the financial statements of every insurer and reinsurer should be in conformity with the requirements of Schedule C, or as near thereto as the circumstances permit.

Note: For details regarding Schedule A and Schedule B refer Annexure I and Annexure II respectively, given at the end of this Chapter.

AUDITOR'S REPORT SCHEDULE C (See Regulation 3):

The auditors should express their opinion on

- whether the balance sheet gives a true and fair view of the insurer's affairs as at the end of the financial year/period;

- whether the revenue account gives a true and fair view of the surplus or the deficit for the financial year/period;
- whether the profit and loss account gives a true and fair view of the profit or loss for the financial year/period; and
- whether the receipts and payments account gives a true and fair view of the receipts and payments for the financial year/period.

The auditor should also comply with other provisions stated in the IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.

3.5 Preparation of Financial Statements

After studying IRDA Regulations, let us work out few illustrations which will help you in understanding the procedure for preparation of financial statements of insurance companies.

Students are required to go through the formats of Revenue Account, Profit and Loss Account, Balance Sheet and its Schedules as prescribed in Part V of Schedule A for Life Insurance business given in Annexure I for better understanding of the illustration given here under.

Illustration 1

From the following balance as at 31st March, 20X2 in the books of the National Life Assurance Co. Ltd., prepare Profit and Loss Account and Balance Sheet.

	₹ '000		₹ '000
<i>Life Assurance Fund on 1st April, 20X1</i>	34,00,000	<i>Agents' Balances (Dr.)</i>	18,000
<i>Annuities paid (in India 72,500)</i>	81,750	<i>Advances to ceding companies</i>	47,000
<i>General Reserve</i>	2,25,000	<i>Due from Re-insurers</i>	38,500
<i>Deposit with the Reserve Bank</i>		<i>Due to Re-insurers</i>	47,500
— <i>Government Securities</i>	2,10,000	<i>Sundry Creditors</i>	1,800
<i>Indian Government Securities</i>	10,90,000	<i>Premiums : First year</i>	5,90,000
<i>Foreign Government Securities</i>	75,000	<i>Renewal</i>	1,20,000
<i>Loan on Company's Policies</i>	2,10,000	<i>Reinsurance accepted</i>	50,000
<i>Leasehold Buildings</i>	63,300	<i>Reinsurance ceded</i>	70,000
<i>Securities on which interest is guaranteed by the Government</i>	4,50,000	<i>Interim Bonus to Policy-holders</i>	22,500
<i>Stocks of Shares of companies incorporated in India</i>	14,50,000	<i>Commission –</i>	
<i>Share Capital (20,000 shares @ ₹ 100 each)</i>	20,00,000	<i>Direct : First year</i>	40,500
		<i>Renewal</i>	2,000
		<i>Reinsurance accepted</i>	12,000
		<i>Reinsurance ceded</i>	4,000
		<i>Claims</i>	

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Mortgages in India	14,32,500	By Death (in India 1,30,000)	2,00,000
Cash with Bankers on Current Account	40,500	By Maturity (in India 1,40,000)	2,20,000
Cash with Bankers on Deposit (short-term) Account	20,000	Bank Loan	21,750
Cash in hand	7,000	Salaries	30,400
State Government Securities	7,25,000	Auditors' Fees	5,400
Furniture and Fixtures	39,000	Law Charges	3,400
Outstanding Premiums	66,000	Rent paid	3,600
		Other Expenses of Management	750
		Travelling Expenses	1,950
		Interest and Rents Received (Gross)	2,16,000

Transfer the surplus amount if any to Life Fund for the year ended 31st March, 20X2. 5% dividend is also proposed on share capital.

Solution

Form A-RA

Name of Insurer: National Life Assurance Co. Ltd.

Registration no. and date of registration with IRDA: _____

Revenue Account for the year ended 31st March, 20X2

Policyholders' Account (Technical Account)

Particulars	Schedule		Current Year	Previous Year
		(₹'000)	(₹'000)	(₹'000)
Premiums earned – net				
(a) Premium	1	7,10,000		
(b) Reinsurance ceded		(70,000)		
(c) Reinsurance accepted		<u>50,000</u>	6,90,000	
Income from Investments				
(a) Interest, Dividends & Rent – Gross			2,16,000	
(b) Profit on sale/redemption of investments				
(c) (Loss on sale/redemption of investments)				

(d) Transfer/Gain on revaluation change in fair value				
Other Income (to be specified)				
Total (A)			9,06,000	
Commission	2	50,500		
Operating Expenses related to Insurance Business	3	45,500		
Provision for doubtful debts		—		
Bad debts written off				
Provision for tax				
Provisions (other than taxation)				
(a) For diminution in the value of investments (Net)				
(b) Others (to be specified)				
Total (B)			96,000	
Benefits Paid (Net)	4	5,01,750		
Interim Bonuses Paid		22,500		
Change in valuation of liability against life policies in force				
(a) Gross				
(b) (Amount ceded in Reinsurance)				
(c) Amount accepted in Reinsurance				
Total (C)			5,24,250	
Surplus [(A) – (B) – (C)]			2,85,750	
Appropriations				
Transfer to Shareholders' Account			2,85,750	
Transfer to Other Reserves (to be specified)			-	
Balance being Funds for Future Appropriations			-	
Total (D)			2,85,750	

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Form A-PL

Name of the Insurer:

Registration No. and Date of Registration with IRDA

Profit & Loss Account for the year ended 31st March, 20X2

Shareholders' Account (Non-technical Account)

Particulars	Schedule	Current Year	Previous Year
		(₹'000)	(₹'000)
Amount transferred from/to the Policyholders Account (Technical Account)		2,85,750	
Income From Investments			
(a) Interest, Dividends & Rent – Gross			
(b) Profit on sale/redemption of investments			
(c) (Loss on sale/redemption on investments)			
Other Income (To be specified)			
Total (A)			
Expense other than those directly related to the insurance business			
Bad debts written off			
Provisions (Other than taxation)			
(a) For diminution in the value of investments (Net)			
(b) Provision for doubtful debts			
(c) Other (to be specified)			
Total (B)			
Profit/(Loss) before tax			
Provision for Taxation			
Profit/(Loss) after tax			
Appropriations			
(a) Balance at the beginning of the year			
(b) Interim dividends paid during the year			
(c) Proposed final dividend		1,00,000	
(d) Dividend distribution on tax			
(e) Transfer to reserves/other accounts (to be specified)			
Profit carried forward to the Balance Sheet		<u>1,85,750</u>	

Notes :

- (a) Premium income received from business concluded in and outside India should be separately disclosed.
- (b) Reinsurance premiums whether on business ceded or accepted are to be brought into account gross (i.e., before deducting commissions) under the head reinsurance premiums.
- (c) Claims incurred should comprise claims paid, specific claim settlement costs wherever applicable and change in the outstanding provision for claims at the year-end.
- (d) Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or ₹ 5,00,000 whichever is higher, should be shown as a separate line item.
- (e) Fees and expenses connected with claims should be included in claims.
- (f) Under the sub-head "Others" should be included items like foreign exchange gains or losses and other items.
- (g) Interest, dividends and rentals receivable in connection with the investment should be stated as gross amount, the amount of income tax deducted at source being included under advance taxes paid and taxes deducted at source."
- (h) Income from rent should include only the realised rent. It should not include any notional rent.

Form A-BS

Name of the Insurer:

Registration No. and Date of Registration with IRDA

Balance Sheet as at 31st March, 20X2

	Schedule	Current Year	Previous Year
		(₹'000)	(₹'000)
Sources of Funds			
Shareholders' Funds			
Share Capital	5	20,00,000	
Reserves and Surplus	6	38,10,750	
Credit/[Debit] Fair value change account			
Sub-Total			
Borrowings	7	69,250	
Policyholders' Funds			
Credit/[Debit] Fair value change account			
Policy Liabilities			

5.40 Advanced Accounting

Insurance reserves			
Provision for linked liabilities			
Sub-Total			
Funds for future appropriations			
Total		58,80,000	
Application of Funds			
Investments	8	40,00,000	
Shareholders'			
Policyholders'			
Assets held to cover linked liabilities			
Loans	9	16,42,500	
Fixed Assets	10	1,02,300	
Current Assets			
Cash and Bank Balances	11	67,500	
Advances and Other Assets	12	1,69,500	
Sub-Total (A)		2,37,000	
Current Liabilities	13	1,800	
Provisions	14	1,00,000	
Sub-Total (B)		1,01,800	
Net Current Assets (C) = (A – B)		1,35,200	
Miscellaneous expenditure (to the extent not written off or adjusted)		—	
Debit Balance in profit & Loss Account (Shareholders' Account)			
Total		58,80,000	

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE-1: PREMIUM

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
1.	First year premiums	5,90,000	
2.	Renewal premiums	1,20,000	

3.	Single premiums		
	Total premiums	<u>7,10,000</u>	
	Premiums Income from business written :		
1.	In India		
2.	Outside India		
	Total premiums (Net)		

SCHEDULE-2: COMMISSION EXPENSES

Particulars	Current Year	Previous Year
	(₹ '000)	(₹ '000)
Commission paid		
Direct – First year premium	40,500	
– Renewal premiums	2,000	
– Single premiums		
Add : Commission on Re-insurance Accepted	12,000	
Less : Commission on Re-insurance Ceded	(4,000)	
Net Commission	50,500	

Notes :

The profit/commission, if any, are to be combined with the Re-insurance accepted or Re-insurance ceded figures.

SCHEDULE-3: OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

Particulars	Current Year	Previous Year
	(₹ '000)	(₹ '000)
1. Employees' remuneration & welfare benefits	30,400	
2. Travel, conveyance and vehicle running expenses	1,950	
3. Training expenses		
4. Rents, rates & taxes	3,600	
5. Repairs		
6. Printing & stationery		
7. Communication expenses		
8. Legal & professional charges	3,400	
9. Medical fees		
10. Auditors' fees, expenses etc.	5,400	

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(a) as auditor		
(b) as adviser or in any other capacity, in respect of		
(i) Taxation matters		
(ii) Insurance matters		
(iii) Managements services, and		
(c) in any other capacity		
11. Advertisement and publicity		
12. Interest & Bank Charges		
13. Others (to be specified)	750	
14. Depreciation		
Total	45,500	

Note: Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or '5,00,000 whichever is higher, should be shown as a separate line item.

SCHEDULE-4: BENEFITS PAID [NET]

Particulars	Current Year	Previous Year
	(₹'000)	(₹'000)
1. Insurance Claims		
(a) Claims by Death,	2,00,000	
(b) Claims by Maturity,	2,20,000	
(c) Annuities/Pensions in payment,	81,750	
(d) Other benefits, specify		
2. (Amount ceded in reinsurance) :		
(a) Claims by Death,		
(b) Claims by Maturity,		
(c) Annuities/Pensions in payment,		
(d) Other benefits, specify		
3. Amount accepted in reinsurance :		
(a) Claims by Death,		
(b) Claims by Maturity,		
(c) Annuities/Pensions in payment,		

(d) Other benefits, specify		
Total	5,01,750	
Benefits paid to claimants*	5,01,750	
* Benefits paid to claimants		
1. In India (72,500 + 1,30,000 + 1,40,000)		3,42,500
2. Outside India		1,59,250
Total Benefits paid (Net)		5,01,750

SCHEDULE-5: SHARE CAPITAL

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
1.	Authorised Capital Equity Shares of ₹ each		
2.	Issued Capital Equity Shares of ₹ each		
3.	Subscribed Capital Equity Shares of ₹ 100 each	20,00,000	
4.	Called-up Capital Equity Shares of ₹ each		
5.	Less : Calls unpaid		
	Add : Share forfeited (Amount Originally paid up)		
	Less : Par value of Equity Shares bought back		
	Less : Preliminary Expenses		
	Expenses including commission or brokerage on Underwriting or subscription of shares		
	Total	20,00,000	

Notes :

- (a) Particulars of the different classes of capital should be separated stated.
- (b) The amount capitalised on account of issue of bonus shares should be disclosed.
- (c) In case any part of the capital is held by a holding company, the same should be separately disclosed.

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SCHEDULE-5A: PATTERN OF SHAREHOLDING

[As certified by the Management]

Particulars	Current Year		Previous Year	
	Number of Shares	% of Holding	Number of Shares	% of Holding
Promoters				
• Indian				
• Foreign				
Others				
Total				

SCHEDULE-6: RESERVES AND SURPLUS

Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1. Capital Reserve		
2. Capital Redemption Reserve		
3. Share Premium		
4. Revaluation Reserve		
5. General Reserves	2,25,000	
Less : Debit balance in Profit and Loss Account, if any		
Less Amount utilised for Buy-back		
6. Catastrophe Reserve		
7. Life Fund		
Opening balance	34,00,000	
Transfer during the year	<u>1,87,750</u>	
8. Balance of profit in Profit and Loss Account	35,85,750	
Total	<u>38,10,750</u>	

Notes :

Additions to and deductions from the reserves should be disclosed under each of the specified heads.

SCHEDULE-7: BORROWINGS

Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1. Debentures/Bonds		

2. Banks	21,750	
3. Financial Institutions		
4. Other entities carrying on insurance business	47,500	
Total	69,250	

Notes :

- (a) The extent to which the borrowings are secured should be separately disclosed stating the nature of the security under each sub-head.
- (b) Amounts due within 12 months from the date of Balance Sheet should be shown separately.

The classification of investments as desired by schedule 8 and 8A of the format can't be done due to non-availability, of formation of shareholders' and policyholders' investments. Therefore, investments are shown as follows (included as total figure in the Balance Sheet)

SCHEDULE-8: INVESTMENTS

Particulars	Current Year	Previous Year
	(₹ '000)	(₹ '000)
Deposit with the RBI	2,10,000	
Indian Government Securities	10,90,000	
State Government Securities	7,25,000	
Foreign Government Securities	75,000	
Securities guaranteed by the Government	4,50,000	
Stock and shares of companies incorporated in India	14,50,000	
	40,00,000	

SCHEDULE-9: LOANS

Particulars	Current Year	Previous Year
	(₹ '000)	(₹ '000)
1. Security-wise classification		
Secured		
(a) On mortgage of property		
(aa) In India	14,32,500	
(bb) Outside India		
(b) On shares, Bonds, Govt. Securities, etc.		
(c) Loans against policies	2,10,000	

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(c) Others (to be specified)		
Unsecured		
Total	<u>16,42,500</u>	
2. Borrower-wise classification		
(a) Central and State Governments		
(b) Banks and Financial Institutions		
(c) Subsidiaries		
(d) Companies		
(e) Loans against policies		
(f) Others (to be specified)		
Total		
3. Performance-wise classification		
(a) Loans classified as standard		
(aa) In India		
(bb) Outside India		
Non-standard loans less provisions		
(aa) In India		
(bb) Outside India		
Total		
4. Maturity-wise classification		
(a) Short Term		
(b) Long Term		
Total		

Notes :

- (a) Short-term loans should include those, which are repayable within 12 months from the date of balance sheet. Long term loans should be the loans other than short-term loans.
- (b) Provisions against non-performing loans should be shown separately.
- (c) The nature of the security in case of all long term secured loans should be specified in each case. Secured loans for the purposes of his schedule, means loans secured wholly or partly against on asset of the company.
- (d) Loans considered doubtful and the amount of provision created against such loans should be disclosed.

SCHEDULE-10: FIXED ASSETS

(₹ '000)

Particulars	Cost/Gross Block	Depreciation	Net Block
Goodwill			
Intangibles (specify)			
Land-Freehold			
Leasehold Property			63,300
Buildings			
Furniture & Fittings			39,000
Information Technology			
Equipment			
Vehicles			
Office Equipment			
Others (Specify nature)			
Total			<u>1,02,300</u>
Work in progress			
Grand total			
PREVIOUS YEAR			

Notes :Assets included in land, property and building above exclude Investment Properties as defined in note (e) to Schedule 8.

SCHEDULE-11: CASH AND BANK BALANCES

Particulars	Current Year	Previous Year
	(₹ '000)	(₹ '000)
1. Cash (including cheques, drafts and stamps)	7,000	
2. Bank Balances		
(a) Deposit Accounts		
(aa) Short-term (due within 12 months of the date of Balance Sheet)	20,000	
(bb) Others		
(b) Current Accounts	40,500	
(c) Others (to be specified)		

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3. Money at Call and Short Notice		
(a) With Banks		
(b) With other Institutions		
4. Others (to be specified)		
Total	67,500	
Balances with non-scheduled banks included in 2 and 3 above		
CASH & BANK BALANCES		
1. In India		
2. Outside India		
TOTAL		

Note: Bank balance may include remittances in transit. If so, the nature and amount should be separately stated.

SCHEDULE – 12

ADVANCES AND OTHER ASSETS

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
	ADVANCES		
1.	Reserve deposits with ceding companies	47,000	
2.	Application money for investments		
3.	Prepayments		
4.	Advances to Directors/Officers		
5.	Advance tax paid and taxes deducted at source (Net of provision for taxation)		
6.	Others (to be specified)		
	TOTAL (A)	47,000	
	OTHER ASSETS		
1.	Income accrued on investments		
2.	Outstanding Premiums	66,000	
3.	Agents' Balances	18,000	
4.	Foreign Agencies Balances		

5.	Due from other entities carrying on insurance business (including reinsures)	38,500	
6.	Due from subsidiaries/ holding		
7.	Deposit with Reserve Bank of India [Pursuant to section 7 of Insurance Act, 1938]		
8.	Others (to be specified)		
	TOTAL (B)	1,22,500	
	TOTAL (A+B)	1,69,500	

Notes:

- (a) *The items under the above heads should not be shown net of provisions for doubtful amounts. The amount of provision against each head should be shown separately.*
- (b) *The term 'officer' should conform to the definition of that term as given under the Companies Act, 2013.*
- (c) *Sundry debtors will be shown under item 8 (Others)*

SCHEDULE – 13

CURRENT LIABILITIES

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
1.	Agents' Balances		
2.	Balances due to other insurance companies		
3.	Deposits held on re-insurance ceded		
4.	Premiums received in advance		
5.	Unallocated Premium		
6.	Sundry creditors	1,800	
7.	Due to subsidiaries/ holding company		
8.	Claims Outstanding		
9.	Annuities due		
10.	Due to Officers/ Directors		
11.	Others (to be specified)		
	TOTAL	1,800	

SCHEDULE – 14

PROVISIONS

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
1	For taxation (less advance tax paid and taxes deducted at source)		
2	For proposed dividends	1,00,000	
3	For dividend distribution tax		
4	Others (to be specified)		
	TOTAL	1,00,000	

Students are required to go through the formats of Revenue Account, Profit and Loss Account, Balance Sheet and its Schedules as prescribed in Part V of Schedule B for General Insurance business given in Annexure II for better understanding of illustrations given here under.

Illustration 2

Prepare Revenue Account in proper form for the year ended 31st March, 20X2, from the following particulars related to Goma General Insurance Co. for the year 20X1 – 20X2:

	Related to Direct business (₹)	Related to Reinsurance business (₹)
<i>Premiums:</i>		
<i>Amount received</i>	30,00,000	2,40,000
<i>Receivable at the beginning</i>	1,80,000	24,000
<i>Receivable at the end</i>	2,40,000	36,000
<i>Amount paid</i>	--	3,60,000
<i>Payable at the beginning</i>	--	30,000
<i>Payable at the end</i>	--	42,000
<i>Claims:</i>		
<i>Amount paid</i>	18,00,000	1,80,000
<i>Payable at the beginning</i>	60,000	12,000
<i>Payable at the end</i>	1,20,000	18,000

Amount recovered	–	1,20,000
Receivable at the beginning	–	18,000
Receivable at the end	–	12,000

Commission:

Amount paid	72,000	10,800
Amount received	--	14,400

Additional Information

(i) Interest, dividend and rent received		30,000
Income-tax in respect of above		6,000
(ii) Management expenses including ₹ 12,000 related to legal expenses regarding claims		1,32,000

Provision for income tax existing at the beginning of the year was ₹ 1,95,000, the income-tax actually paid during the year ₹ 1,68,000 and the provision necessary at the year end ₹ 2,07,000.

The net premium income of the company during the year 20X0 – 20X1 was ₹ 24,00,000 on which reserve for unexpired risk @ 50% and additional reserve @ 7 ½ % was created. This year, the balance to be carried forward is 50% of net premium on reserve for unexpired risk and 5% on additional reserve.

Solution

FORM B – RA

Name of the Insurer : Goma General Insurance Company

Registration no. and date of registration with IRDA :

Revenue Account for the year ended 31.3.20X2

	Particulars	Schedule	Amount (₹)
1.	Premium earned (Net)	1	27,03,000
2.	Profit/Loss on sales/Redemption of investment	-	-
3.	Other	-	-
4.	Interest, dividend & rent (Gross)	-	30,000
	Total (A)		<u>27,33,000</u>
1.	Claims incurred (Net)	2	19,44,000
2.	Commission	3	68,400
3.	Operating expenses related to insurance business	4	1,20,000
	Total (B)		<u>21,32,400</u>
	Operating profit/Loss from insurance business (C) = (A-B)		<u>6,00,600</u>

5.52 Advanced Accounting

Appropriation:

Transfer to Shareholders account	-
Transfer to Catastrophe Reserve	-
Transfer to other reserves	-
Total (D)	-
Schedule – 1 Premium Earned (Net)	
Particulars	₹
Premium received from direct business (W.N.1)	30,60,000
Add: Premium on reinsurance accepted ₹ (2,40,000 + 36,000 – 24,000)	<u>2,52,000</u>
	33,12,000
Less: Premium on reinsurance ceded ₹ (3,60,000 + 42,000 – 30,000)	<u>(3,72,000)</u>
Net Premium	29,40,000
Adjustment for change in reserve for unexpired risk (W.N.2)	<u>(2,37,000)</u>
Total premium earned (Net)	27,03,000

Schedule – 2 Claims Incurred (Net)

Particulars	₹
Claims paid (Direct)	18,00,000
Add: Legal expenses regarding claims	<u>12,000</u>
	18,12,000
Add: Reinsurance Accepted	<u>1,80,000</u>
	19,92,000
Less: Reinsurance ceded ₹ (1,20,000 + 12,000 – 18,000)	<u>(1,14,000)</u>
	18,78,000
Add: Claims outstanding at the end ₹ (1,20,000 + 18,000)	1,38,000
Less: Claims outstanding at the beginning ₹ (60,000 + 12,000)	<u>(72,000)</u>
Total claim incurred	<u>19,44,000</u>

Schedule –3 Commission

Particulars	₹
Commission paid Direct	72,000
Add: Re-insurance accepted	<u>10,800</u>
	82,800
Less: Commission on re-insurance ceded	<u>(14,400)</u>
Net commission	68,400

Schedule – 4 Operating Expenses related to Insurance Business

Particulars	₹
Expenses of management ₹ (1,32,000 – 12,000)	1,20,000

Working Notes:

1. Calculation of premium received from direct business

Premium on direct business	30,00,000
Add: Premium outstanding at the end	<u>2,40,000</u>
	32,40,000
Less: Premium outstanding at the beginning	<u>(1,80,000)</u>
	30,60,000

2. Computation of change in reserve for unexpired risk

	₹
Reserve for unexpired risk for the year 20X1-X2 (29,40,000 x 50%)	14,70,000
Add: Additional reserve for unexpired risk for the year 20X1-X2 (29,40,000 x 5%)	<u>1,47,000</u>
	16,17,000
Less: Reserve for unexpired risk for the year 20X0-X1 (24,00,000 x 50%)	(12,00,000)
Additional reserve for unexpired risk for the year (24,00,000 x 7.5%)	<u>(1,80,000)</u>
	<u>2,37,000</u>

Illustration 3

Metro General Insurance Company submits the following information for the year ended 31st March, 20X2:

Particulars	Director Business (₹)	Reinsurance (₹)
Premium received	75,25,000	8,25,000
Premium paid	-	4,90,000
Claim paid during the year	49,70,000	5,10,000
Claim payable:		
1 st April, 20X1	6,85,000	95,000
31 st March, 20X2	7,38,000	70,000
Claims received	-	3,95,000

5.54 Advanced Accounting

Claims receivable:		
1 st April, 20X1	-	75,000
31 st March, 20X2	-	1,25,000
Expenses of Management	2,90,000	-
Commission:		
On Insurance accepted	1,60,000	15,000
On Insurance ceded	-	18,000

The following additional information are also available:

- (1) Expenses of Management include ₹ 45,000 Surveyor's fees and ₹ 55,000 Legal expenses for settlement of claims.
- (2) Reserve for unexpired risk is to be maintained @ 40%. The balance of Reserve for unexpired risk as on 01.04.20X1 was ₹ 28,40,000.

You are required to make the Revenue Account for the year ended 31st March, 20X2.

Solution

Form B-RA (Prescribed by IRDA)

Metro General Insurance Company

Registration no. and date of registration with IRDA

Revenue Account for the year ended 31st March, 20X2

Particulars	Schedule	Amount (₹)
Premium earned (Net)	1	75,56,000
Total (A)		<u>75,56,000</u>
Claims incurred (Net)	2	51,63,000
Commission	3	1,57,000
Operating expenses related to insurance business	4	<u>1,90,000</u>
Total (B)		<u>55,10,000</u>
Operating profit from insurance business (A-B)		20,46,000

Schedules forming part of Revenue Account

Schedule 1: Premium Earned (Net)

Particulars	Amount (₹)
Premium from direct business written	75,25,000
Add: Premium on reinsurance accepted	8,25,000
Less: Premium on reinsurance ceded	<u>(4,90,000)</u>

Net Premium	78,60,000
Adjustment for change in Reserve for unexpired risk (W.N.2)	<u>(3,04,000)</u>
Total Premium earned (net)	<u>75,56,000</u>

Schedule 2: Claims Incurred (Net)

Particulars	Amount (₹)
Claims paid - Direct (W.N.1)	51,23,000
Add: Re-insurance accepted (W.N.1)	4,85,000
Less: Re-insurance ceded (W.N.1)	<u>(4,45,000)</u>
Net Claims paid	<u>51,63,000</u>

Schedule 3: Commission

Particulars	Amount (₹)
Commission paid	1,60,000
Add: Reinsurance accepted	15,000
Less: Commission on reinsurance ceded	<u>(18,000)</u>
Net Commission	<u>1,57,000</u>

Schedule 4: Operating Expenses related to Insurance Business

Particulars	Amount (₹)
Expenses of management (2,90,000 – 45,000 – 55,000)	<u>1,90,000</u>
	<u>1,90,000</u>

Working Notes:

1. Claims incurred

Particulars	Direct Business (₹)	Re-insurance accepted (₹)	Re-insurance Ceded (₹)
Paid / received	49,70,000	5,10,000	3,95,000
Add: Outstanding at the end of the year	7,38,000	70,000	1,25,000
Add: Expenses in connection with settlement of claims (45,000 + 55,000)	1,00,000		
Less: Outstanding at the beginning of the year	(6,85,000)	(95,000)	(75,000)
	<u>51,23,000</u>	<u>4,85,000</u>	<u>4,45,000</u>

5.56 Advanced Accounting

2. Change in Reserve for unexpired risk

Particulars	Amount (₹)
Opening Reserve as on 31 st March, 20X1	28,40,000
Less: Closing Reserve as on 31 st March, 20X2 (₹ 78,60,000 x 40%)	<u>(31,44,000)</u>
	<u>3,04,000</u>

Illustration 4

The following are the Balances of Hercules Insurance Co. Ltd. as on 31st March, 20X2 :

	(₹ in '000)
Capital	320,00
Balances of Funds as on 1.4.20X1	
Fire Insurance	800,00
Marine Insurance	950,00
Miscellaneous Insurance	218,65
Unclaimed Dividends	8,50
Amount Due to Other Insurance Companies	34,50
Sundry Creditors	72,50
Deposit and Suspense Account (Cr.)	22,80
Profit and Loss Account (Cr.)	80,40
Agents Balances (Dr.)	135,00
Interest accrued but not due (Dr.)	22,50
Due from other Insurance Companies	64,50
Cash in Hand	3,50
Balance in Current Account with Bank	74,80
Furniture and Fixtures WDV (cost 100,00)	58,00
Stationery Stock	1,40
Expenses of Management	
Fire Insurance	280,00
Marine Insurance	168,00
Miscellaneous Insurance	40,00
Others	<u>30,00</u>
Outstanding premium	82,00
Donation Paid (No 80G Benefit)	10,00
Transfer Fees	1,00
Reserve for Bad Debts	11,70
Income Tax Paid	120,00
Mortgage Loan (Dr.)	975,00

Sundry Debtors		25,00
Government Securities Deposited with RBI		37,00
Government Securities		1020,00
Debentures		465,50
Equity Shares of Joint Stock Companies		225,00
Claims Less Re-insurance		
Fire	450,00	
Marine	358,90	
Miscellaneous	<u>68,00</u>	876,90
Premium Less Re-insurance		
Fire	1762,50	
Marine	1022,50	
Miscellaneous	<u>262,25</u>	3047,25
Interest and Dividends Received on Investments (Net)		46,80
Tax Deducted at Source		11,70
Commission		
Fire	500,00	
Marine	350,00	
Miscellaneous	<u>80,00</u>	930,00
<i>You are required to make the following provisions :</i>		
<i>Depreciation on Furniture—10% of Original Cost</i>		
Impairment on investments of Joint Stock Companies Shares		10,00
Transfer to General Reserve		10,00
<i>Outstanding claims as on 31.3.20X2</i>		
Fire	200,00	
Marine	50,00	
Miscellaneous	32,50	

Provision for tax @ 50%. Proposed dividends @20%. Provision for the unexpired risks is to be made as follows:

- (a) On Marine Policies 100% Premium less reinsurance.
- (b) On Other Policies 50% Premium less reinsurance.

You are required to prepare the revenue and profit and loss account for the year ended 31.3.20X2 of the company.

5.58 Advanced Accounting

Solution

Form B – RA (Prescribed by IRDA)
Hercules Insurance Co. Ltd.

Registration no. and date of registration with IRDA

Revenue Account for the year ended 31st March, 20X2

Fire and Marine and Misc Insurance Businesses

	Schedule	Fire Current Year	Marine Current Year	Misc. Current Year
		₹ '000	₹ '000	₹ '000
Premiums earned (net)	1	1681,25	950,00	349,77
Total (A)		<u>1681,25</u>	<u>950,00</u>	<u>349,77</u>
Claims incurred (net)	2	650,00	408,90	100,50
Commission	3	500,00	350,00	80,00
Operating expenses related to Insurance business	4	<u>280,00</u>	<u>168,00</u>	<u>40,00</u>
Total (B)		<u>1430,00</u>	<u>926,90</u>	<u>220,50</u>
Profit from Fire/Marine/Misc. Insurance business (A–B)		251,25	23,10	129,27

Schedules forming part of Revenue Account

Schedule –1

Premiums earned (net)	Fire Current Year	Marine Current Year	Misc. Current Year
	₹ '000	₹ '000	₹ '000
Premiums Less reinsurance (net)	1762,50	1022,50	262,25
Change in provision for unexpired risk (W.N.1)	<u>(-)81,25</u>	<u>(-) 72,50</u>	<u>87,52</u>
Premiums earned (net)	<u>1681, 25</u>	<u>950,00</u>	<u>349,77</u>
Schedule – 2			
Claims incurred (net)	650,00	408,90	100,50
Schedule – 3			
Commission paid	500,00	350,00	80,00
Schedule – 4			
Operating expenses related to insurance business			
Expenses of Management	280,00	168,00	40,00

Form B-PL

Hercules Insurance Co. Ltd.

Registration No. and date of registration with IRDA

Profit and Loss Account for the year 31st March, 20X2

Particulars	Schedule	Current Year	Previous Year
		₹ ' (000)	₹ ' (000)
Operating Profit/(Loss)			
(a) Fire Insurance		251,25	
(b) Marine Insurance		23,10	
(c) Miscellaneous		129,27	
Income From Investments			
Interest, Dividend & Rent–Gross		58,50	
Other Income			
Transfer Fees		<u>1,00</u>	
Total (A)		<u>463,12</u>	
Provisions (Other than taxation)			
Depreciation of Furniture		10,00	
Impairment of Investments		10,00	
Other Expenses –			
Expenses of Management		30,00	
Donation		<u>10,00</u>	
Total (B)		<u>60,00</u>	
Profit Before Tax (A-B)		403,12	
Provision for Taxation		<u>206,56</u>	
Profit After Tax		196,56	
Appropriations			
Interim dividends paid during the year		—	
Proposed final dividend (320 x 20%)		64,00	
Dividend distribution tax		—	
Transfer to General Reserves		<u>10,00</u>	
		<u>12,256</u>	
Balance of profit/loss brought forward from last year		<u>80,40</u>	
Balance carried forward to Balance Sheet		<u>202,96</u>	

5.60 Advanced Accounting

Working Notes:

1. Reserve for unexpired risk 50% of net premium for fire and miscellaneous and 100% of net premium for marine.

Particulars	Fire	Marine	Misc.
Fund as on 1.4.20x1	800,00	950,00	218,65
Fund as on 31.3.20x1	881,25	1022,50	131,13
	(50%)	(100%)	(50%)
Adjustment for change in reserve	81,25	72,50	(87,52)

2. Provision for Taxation ₹
Net Profit before tax 403,12
Add : Donation 10,00
Taxable Profit 413,12
Tax 50%

ANNEXURE I

SCHEDULE A for Life Insurance Business

PART I: Accounting principles for preparation of financial statements

1. Applicability of Accounting Standards---Every Balance Sheet, Revenue Account [Policyholders' Account], Receipts and Payments Account [Cash Flow statement] and Profit and Loss Account [Shareholders' Account] of an insurer shall be in conformity with the Accounting Standards (AS) issued by the ICAI, to the extent applicable to insurers carrying on life insurance business, except that:

1. Accounting Standard 3 (AS 3) – Cash Flow Statements – Cash Flow Statement shall be prepared only under the Direct Method.
2. Accounting Standard 17 (AS 17) - Segment Reporting – shall apply to all insurers irrespective of the requirements regarding listing and turnover mentioned therein.
2. **Premium** – Premium shall be recognised as income when due. For linked business the due date for payment may be taken as the date when the associated units are created.
3. **Acquisition Costs** – Acquisition costs, if any, shall be expensed in the period in which they are incurred.

Acquisition costs are those costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts. The most essential test is the obligatory relationship between costs and the execution of insurance contracts (i.e., commencement of risk).

4. **Claims Cost** –The ultimate cost of claims shall comprise the policy benefit amount and specific claims settlement costs, wherever applicable.

5. Actuarial Valuation – Liability for Life Policies – The estimation of liability against life policies shall be determined by the appointed actuary of the insurer pursuant to his annual investigation of the life insurance business. Actuarial assumptions are to be disclosed by way of notes to the account.

The liability shall be so calculated that together with future premium payments and investment income, the insurer can meet all future claims (including bonus entitlements to policyholders) and expenses.

6. Procedure to determine value of investments. – An insurer shall determine the values of investments in the following manner:-

(a) **Real Estate – Investment Property** – The value of investment property shall be determined at historical cost, subject to revaluation at least once in every three years. The change in the carrying amount of the investment property shall be taken to Revaluation Reserve.

The insurer shall assess at each balance sheet date whether any impairment of the investment property has occurred.

Gains/ losses arising due to changes in the carrying amount of real estate shall be taken to equity under 'Revaluation Reserve'. The 'Profit on sale of investments' or 'Loss on sale of investments', as the case may be, shall include accumulated changes in the carrying amount previously recognised in equity under the heading 'Revaluation Reserve' in respect of a particular property and being recycled to the relevant Revenue Account or Profit and Loss Account on sale of that property.

The bases for revaluation shall be disclosed in the notes to accounts. The Authority may issue directions specifying the amount to be released from the revaluation reserve for declaring bonus to the policyholders. For the removal of doubt, it is clarified that except for the amount that is released to policyholders as per the Authority's direction, no other amount shall be distributed to shareholders out of Revaluation Reserve Account.

An impairment loss shall be recognised as an expense in the Revenue/Profit and Loss Account immediately, unless the asset is carried at re-valued amount. Any impairment loss of a re-valued asset shall be treated as a revaluation decrease of that asset and if the impairment loss exceeds the corresponding revaluation reserve, such excess shall be recognised as an expense in the Revenue/Profit and Loss Account.

(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 amortisation.

(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 on the balance sheet date. For the purpose of calculation of fair value, the lowest of the last quoted closing price at the stock exchanges where the securities are listed shall be taken.

5.62 Advanced Accounting

The insurer shall assess on each balance sheet date whether any impairment of listed equity security(ies)/ derivative(s) instruments has occurred.

An active market shall mean a market, where the securities traded are homogenous, availability of willing buyers and willing sellers is normal and the prices are publicly available.

Unrealised gains/ losses arising due to changes in the fair value of listed equity shares and derivative instruments shall be taken to equity under the head 'Fair Value Change Account'. The 'Profit on sale of investments' or 'Loss on sale of investments', as the case may be, shall include accumulated changes in the fair value previously recognised in equity under the heading 'Fair Value Change Account' in respect of a particular security and being recycled to the relevant Revenue Account or Profit and Loss Account on actual sale of that listed security.

The Authority may issue directions specifying the amount to be released from the Fair Value Change Account for declaring bonus to the policyholders. For the removal of doubt, it is clarified that except for the amount that is released to policyholders as per the Authority's prescription, no other amount shall be distributed to shareholders out of Fair Value Change Account. Also, any debit balance in Fair Value Change Account shall be reduced from profit/free reserves while declaring dividends.

The insurer shall assess, on each balance sheet date, whether any impairment has occurred. An impairment loss shall be recognised as an expense in Revenue/Profit and Loss Account to the extent of the difference between the re-measured fair value of the security/investment and its acquisition cost as reduced by any previous impairment loss recognised as expense in Revenue/Profit and Loss Account. Any reversal of impairment loss, earlier recognised in Revenue/Profit and Loss Account shall be recognised in Revenue/Profit and Loss Account.

- (d) **Unlisted and other than actively traded Equity Securities and Derivative Instruments** – Unlisted equity securities and derivative instruments and listed equity securities and derivative instruments that are not regularly traded in active markets shall be measured at historical cost. Provision shall be made for diminution in value of such investments. The provision so made shall be reversed in subsequent periods if estimates based on external evidence show an increase in the value of the investment over its carrying amount. The increased carrying amount of the investment due to the reversal of the provision shall not exceed the historical cost.

For the purposes of this regulation, a security shall be considered as being not actively traded, if as per guidelines governing mutual funds laid down from time to time by SEBI, such a security is classified as "thinly traded".

7. **Loans** – Loans shall be measured at historical cost subject to impairment provisions. The insurer shall assess the quality of its loan assets and shall provide for impairment. The impairment provision shall not be lower than the amounts derived on the basis of guidelines

prescribed from time to time by the Reserve Bank of India that apply to companies and financial institutions.

8. Linked Business – The accounting principles used for valuation of investments are to be consistent with principles enumerated above. A separate set of financial statements, for each segregated fund of the linked businesses, shall be annexed.

Segregated funds represent funds maintained in accounts to meet specific investment objectives of policyholders who bear the investment risk. Investment income/ gains and losses generally accrue directly to the policyholders. The assets of each account are segregated and are not subject to claims that arise out of any other business of the insurer.

9. Funds for Future Appropriation – The funds for future appropriation shall be presented separately.

The funds for future appropriation represent all funds, the allocation of which, either to the policyholders or to the shareholders, has not been determined by the end of the financial year.

PART II: Disclosures forming part of Financial Statements

A. The following shall be disclosed by way of notes to the Balance Sheet:

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 dispute, not provided for
 - (f) Reinsurance Obligations to the extent not provided for in accounts
 - (g) Others (to be specified).
2. Actuarial assumptions for valuation of liabilities for life policies in force.
3. Encumbrances to assets of the company in and outside India.
4. Commitments made and outstanding for Loans, Investments and Fixed Assets.
5. Basis of amortisation of debt securities.
6. Claims settled and remaining unpaid for a period of more than six months as on the balance sheet date.
7. Value of contracts in relation to investments, for:
 - (a) Purchases where deliveries are pending;
 - (b) Sales where payments are overdue.
8. Operating expenses relating to insurance business: basis of allocation of expenditure to various segments of business.

5.64 Advanced Accounting

9. Computation of managerial remuneration.
10. Historical costs of those investments valued on fair value basis.
11. Basis of revaluation of investment property.

B. The following accounting policies shall form an integral part of the financial statements:

1. All significant accounting policies in terms of the accounting standards issued by the ICAI, and significant principles and policies given in Part I of Accounting Principles. Any other accounting policies, followed by the insurer, shall be stated in the manner required under Accounting Standard AS 1 issued by the ICAI.
2. Any departure from the accounting policies shall be separately disclosed with reasons for such departure.

C. The following information shall also be disclosed:

1. Investments made in accordance with any statutory requirement should be disclosed separately together with its amount, nature, security and any special rights in and outside India;
2. Segregation into performing/ non performing investments for purpose of income recognition as per the directions, if any, issued by the Authority;
3. Assets to the extent required to be deposited under local laws or otherwise encumbered in or outside India;
4. Percentage of business sector-wise;
5. A summary of financial statements for the last five years, in the manner as may be prescribed by the Authority;
6. Bases of allocation of investments and income thereon between Policyholders' Account and Shareholders' Account;
7. Accounting Ratios as may be prescribed by the Authority.

PART III: General instructions for preparation of Financial Statements

1. The corresponding amounts for the immediately preceding financial year for all items shown in the Balance Sheet, Revenue Account, Profit and Loss Account and Receipts and Payments Account shall 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 amount, the amount of income tax deducted at source should be included under 'advance taxes paid' and taxes deducted at source.
1. (I) For the purposes of financial statements, unless the context otherwise requires -

- (a) the expression 'provision' shall, subject to (II) below mean any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or retained by way of providing for any known liability or loss of which the amount cannot be determined with substantial accuracy;
 - (b) the expression 'reserve' shall not, subject to as aforesaid, include any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability or loss;
 - (c) the expression 'capital reserve' shall not include any amount regarded as free for distribution through the profit and loss account; and the expression 'revenue reserve' shall mean any reserve other than a capital reserve;
 - (d) The expression "liability" shall include all liabilities in respect of expenditure contracted for and all disputed or contingent liabilities.
- (II) Where:
- (a) any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or
 - (b) any amount retained by way of providing for any known liability or loss, is in excess of the amount which in the opinion of the directors is reasonably necessary for the purpose, the excess shall be treated as a reserve and not provision.
5. The company shall make provisions for damages under lawsuits where the management is of the opinion that the award may go against the insurer.
6. Extent of risk retained and re-insured shall be separately disclosed.
7. Any debit balance of the Profit and Loss Account shall be shown as deduction from uncommitted reserves and the balance, if any, shall be shown separately.

PART IV: Contents of Management Report

There shall be attached to the financial statements, a management report duly authenticated by the management.

PART V: Preparation of Financial Statements

1. An insurer shall prepare the Revenue Account [Policyholders' Account], Profit and Loss Account [Shareholders' Account] and the Balance Sheet in Form A-RA, Form A-PL and Form A-BS, as prescribed in this Part, or as near thereto as the circumstances permit.
- Provided that an insurer shall prepare Revenue Account and Balance Sheet for the under mentioned businesses separately and to that extent the application of AS 17 shall stand modified:-
- (a) Participating policies and Non-participating policies;
 - (b) (i) Linked business [As defined in regulation 2 (i) of the IRDA (Registration of Indian Insurance Companies) Regulations, 2000]
 - (ii) Non-Linked business separately for Ordinary Life, General Annuity, pensions and Health Insurance;

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Business within India and business outside India.

- 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.

FORM A-RA

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

REVENUE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20__.

Policyholders' Account (Technical Account)

Particulars	Schedule	Current Year (₹ '000)	Previous Year (₹ '000).
Premiums earned – net			
Premium	1		
Reinsurance ceded			
Reinsurance accepted-			
Income from Investments			
Interest, Dividends & Rent – Gross			
Profit on sale/redemption of investments			
(Loss on sale/ redemption of investments)			
Transfer/Gain on revaluation/change in fair value*			
Other Income (to be specified)			
TOTAL (A)			
Commission	2		
Operating Expenses related to Insurance Business	3		
Provision for doubtful debts			
Bad debts written off			
Provision for Tax			
Provisions (other than taxation)			
(a) For diminution in the value of investments (Net)			
(b) Others (to be specified)			
TOTAL (B)			
Benefits Paid (Net)	4		
Interim Bonuses Paid			
Change in valuation of liability in respect of life policies			

(a) Gross**			
(b) Amount ceded in Reinsurance			
(c) Amount accepted in Reinsurance			
TOTAL (C)			
SURPLUS/ (DEFICIT) (D) =(A)-(B)-(C)			
APPROPRIATIONS			
Transfer to Shareholders' Account			
Transfer to Other Reserves (to be specified)			
Balance being Funds for Future Appropriations			
TOTAL (D)			

Notes:

* Represents the deemed realised gain as per norms specified by the Authority.

** represents Mathematical Reserves after allocation of bonus

The total surplus shall be disclosed separately with the following details:

- (a) Interim Bonuses Paid:
- (b) Allocation of Bonus to policyholders:
- (c) Surplus shown in the Revenue Account:
- (d) Total Surplus: [(a)+(b)+(c)].

See Notes appended at the end of Form A-PL

FORM A-PL

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20__.

Shareholders' Account (Non-technical Account)

Particulars	Schedule	Current Year	Previous Year
		(₹ '000)	(₹ '000)
Amounts transferred from/to the Policyholders Account (Technical Account)			
Income From Investments			
(a) Interest, Dividends & Rent – Gross			
(b) Profit on sale/redemption of investments			
(c) (Loss on sale/ redemption of investments)			

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Other Income (To be specified)			
TOTAL (A)			
Expense other than those directly related to the insurance business			
Bad debts written off			
Provisions (Other than taxation)			
(a) For diminution in the value of investments (Net)			
(b) Provision for doubtful debts			
(c) Others (to be specified)			
TOTAL (B)			
Profit/ (Loss) before tax			
Provision for Taxation			
Profit / (Loss) after tax			
APPROPRIATIONS			
Balance at the beginning of the year			
Interim dividends paid during the year			
Proposed final dividend			
Dividend distribution on tax			
Transfer to reserves/ other accounts (to be specified)			
Profit carried -----to the Balance Sheet			

Notes to Form A-RA and A-PL.

- (a) Premium income received from business concluded in and outside India shall be separately disclosed.
- (b) Reinsurance premiums whether on business ceded or accepted are to be brought into account gross (i.e. before deducting commissions) under the head reinsurance premiums.
- (c) Claims incurred shall comprise claims paid, specific claims settlement costs wherever applicable and change in the outstanding provision for claims at the year-end.
- (d) Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or ₹ 5,00,000 whichever is higher, shall be shown as a separate line item.
- (e) Fees and expenses connected with claims shall be included in claims.
- (f) Under the sub-head "Others" shall be included items like foreign exchange gains or losses and other items.

- (g) *Interest, dividends and rentals receivable in connection with an investment should be stated as gross amount, the amount of income tax deducted at source being included under 'advance taxes paid and taxes deducted at source'.*
- (h) *Income from rent shall include only the realised rent. It shall not include any notional rent.*

FORM A-BS

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

BALANCE SHEET AS AT 31ST MARCH, 20____.

	Schedule	Current Year	Previous Year
		(₹ '000)	(₹ '000)
Sources of Funds			
<i>Shareholders' Funds:</i>			
Share Capital	5		
Reserves and Surplus	6		
Credit/[Debit] Fair Value Change Account			
Sub-Total			
Borrowings	7		
<i>Policyholders' Funds:</i>			
Credit/[Debit] Fair Value Change Account			
Policy Liabilities			
Insurance Reserves			
Provision for Linked Liabilities			
Sub-Total			
Funds for Future Appropriations			
Total			
Application of Funds			
Investments			
Shareholders'	8		
Policyholders'	8A		
Assets held to cover Linked Liabilities	8B		
Loans	9		

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Fixed Assets	10		
Current Assets			
Cash and Bank Balances	11		
Advances and Other Assets	12		
Sub-Total (A)			
Current Liabilities	13		
Provisions	14		
Sub-Total (B)			
Net Current Assets (C) = (A – B)			
Miscellaneous Expenditure (To the extent not written off or adjusted)	15		
Debit Balance in Profit & Loss Account (Shareholders' Account)			
Total			

CONTINGENT LIABILITIES

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
1.	Partly paid-up investments		
2.	Claims, other than against policies, not acknowledged as debts by the company		
3.	Underwriting commitments outstanding (in respect of shares and securities)		
4.	Guarantees given by or on behalf of the Company		
5.	Statutory demands/ liabilities in dispute, not provided for		
6.	Reinsurance obligations to the extent not provided for in accounts		
7.	Others (to be specified)		
	Total		

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE – 1

PREMIUM

	Particulars	Current Year (₹'000)	Previous Year (₹'000)
1	First year premiums		
2	Renewal Premiums		
3	Single Premiums		
	TOTAL PREMIUM		

SCHEDULE- 2

COMMISSION EXPENSES

Particulars	Current Year (₹'000)	Previous Year (₹'000)
Commission paid		
Direct – First year premiums		
- Renewal premiums		
- Single premiums		
Add: Commission on Re-insurance Accepted		
Less: Commission on Re-insurance Ceded		
Net Commission		

Note: The profit/ commission, if any, are to be combined with the Re-insurance accepted or Re-insurance ceded figures.

SCHEDULE – 3

OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

	Particulars	Current Year (₹'000)	Previous Year (₹'000)
1.	Employees' remuneration & welfare benefits		
2	Travel, conveyance and vehicle running expenses		
3	Training expenses		
4	Rents, rates & taxes		
5	Repairs		
6	Printing & stationery		
7	Communication expenses		
8	Legal & professional charges		
9	Medical fees		

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10	Auditors' fees, expenses etc as auditor as adviser or in any other capacity, in respect of Taxation matters Insurance matters Management services; and c) in any other capacity		
11	Advertisement and publicity		
12	Interest & Bank Charges		
13	Others (to be specified)		
14	Depreciation		
	TOTAL		

Note : Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or ₹ 5,00,000 whichever is higher, shall be shown as a separate line item.

SCHEDULE – 4

BENEFITS PAID [NET]

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1.	Insurance Claims Claims by Death, Claims by Maturity, Annuities/Pension payment, Other benefits, specify		
2.	(Amount ceded in reinsurance): Claims by Death, Claims by Maturity, Annuities/Pension payment, Other benefits, specify		
3.	Amount accepted in reinsurance: Claims by Death, Claims by Maturity, Annuities/Pension payment, Other benefits, specify		
	TOTAL		

Notes:

- Claims include specific claims settlement costs, wherever applicable.
- Legal and other fees and expenses shall also form part of the claims cost, wherever applicable.

SCHEDULE – 5

SHARE CAPITAL

	Particulars	Current Year (₹'000)	Previous Year (₹'000)
1.	Authorised Capital Equity Shares of ₹ each		
2.	Issued Capital Equity Shares of ₹each		
3.	Subscribed Capital Equity Shares of ₹each		
4.	Called-up Capital Equity Shares of ₹each Less : Calls unpaid Add : Shares forfeited (Amount originally paid up) Less : Par value of Equity Shares bought back Less : Preliminary Expenses Expenses including commission or brokerage on Underwriting or subscription of shares		
	TOTAL		

Notes:

- (a) Particulars of the different classes of capital should be separately stated.
- (b) The amount capitalised on account of issue of bonus shares should be disclosed.
- (c) In case any part of the capital is held by a holding company, the same should be separately disclosed.

SCHEDULE – 5A

PATTERN OF SHAREHOLDING

[As certified by the Management]

Shareholder	Current Year		Previous Year	
	Number of Shares	% of Holding	Number of Shares	% of Holding
Promoters				
Indian				
Foreign				
Others				
TOTAL				

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SCHEDULE – 6

RESERVES AND SURPLUS

	Particulars	Current Year (₹'000)	Previous Year (₹'000)
1.	Capital Reserve		
2.	Capital Redemption Reserve		
3.	Share Premium		
4.	Revaluation Reserve		
5.	General Reserves Less: Debit balance in Profit and Loss Account, if any Less: Amount utilized for Buy-back		
6.	Catastrophe Reserve		
7.	Other Reserves (to be specified)		
8.	Balance of profit in Profit and Loss Account		
	TOTAL		

Note: Additions to and deductions from the reserves shall be disclosed under each of the specified heads.

SCHEDULE - 7

BORROWINGS

	Particulars	Current Year (₹'000)	Previous Year (₹'000)
1.	Debentures/ Bonds		
2.	Banks		
3.	Financial Institutions		
4.	Others (to be specified)		
	TOTAL		

Notes:

- (a) The extent to which the borrowings are secured shall be separately disclosed stating the nature of the security under each sub-head.
- (b) Amounts due within 12 months from the date of Balance Sheet should be shown separately

SCHEDULE – 8

INVESTMENTS-SHAREHOLDERS

	Particulars	Current Year	Previous Year
		(₹'000)	(₹'000)
	LONG TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Other Investments		
	Shares		
	Equity		
	Preference		
	Mutual Funds		
	Derivative Instruments		
	Debentures/ Bonds		
	Other Securities (to be specified)		
	Subsidiaries		
	Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	SHORT TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Other Investments		
	(a) Shares		
	Equity		
	Preference		
	Mutual Funds		
	Derivative Instruments		
	Debentures/ Bonds		
	Other Securities (to be specified)		
	Subsidiaries		
	Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		

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5.	Other than Approved Investments		
	TOTAL		

Note: See Notes appended at the end of Schedule- 8B

SCHEDULE- 8A**INVESTMENTS-POLICYHOLDERS**

	Particulars	Current Year	Previous Year
		(₹'000)	(₹'000)
	LONG TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Shares		
	Equity		
	Preference		
	Mutual Funds		
	Derivative Instruments		
	Debentures/ Bonds		
	Other Securities (to be specified)		
	Subsidiaries		
	(g) Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	SHORT TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	(a) Shares		
	Equity		
	Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/ Bonds		
	(e) Other Securities (to be specified)		
	(f) Subsidiaries		

	(g) Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	TOTAL		

Note: See Notes appended at the end of Schedule- 8B

SCHEDULE- 8B

ASSETS HELD TO COVER LINKED LIABILITIES

	Particulars	Current Year	Previous Year
		(₹'000)	(₹'000)
	LONG TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Shares		
	(aa) Equity		
	(bb) Preference		
	Mutual Funds		
	Derivative Instruments		
	Debentures/ Bonds		
	Other Securities (to be specified)		
	Subsidiaries		
	Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	SHORT TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	(a) Shares		
	(aa) Equity		
	(bb) Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/ Bonds		
	(e) Other Securities (to be specified)		

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	(f) Subsidiaries		
	(g) Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	TOTAL		

Notes (applicable to Schedules 8 and 8A & 8B):

- (a) Investments in subsidiary/holding companies, joint ventures and associates shall be separately disclosed, at cost.
- (i) Holding company and subsidiary shall be construed as defined in the Companies Act, 2013:
- (ii) Joint Venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.
- (iii) Joint control - is the contractually agreed sharing of power to govern the financial and operating policies of an economic activity to obtain benefits from it.
- (iv) Associate - is an enterprise in which the company has significant influence and which is neither a subsidiary nor a joint venture of the company.
- (v) Significant influence (for the purpose of this schedule) -means participation in the financial and operating policy decisions of a company, but not control of those policies. Significant influence may be exercised in several ways, for example, by representation on the board of directors, participation in the policymaking process, material inter-company transactions, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiaries, 20 percent or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20 percent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence is clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.
- (b) Aggregate amount of company's investments other than listed equity securities and derivative instruments and also the market value thereof shall be disclosed.
- (c) Investment made out of Catastrophe reserve should be shown separately.
- (d) Debt securities will be considered as "held to maturity" securities and will be measured at historical costs subject to amortisation
- (e) 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.

- (f) Investments maturing within twelve months from balance sheet date and investments made with the specific intention to dispose of within twelve months from balance sheet date shall be classified as short-term investments

SCHEDULE - 9

LOANS

	Particulars	Current Year	Previous Year
		(₹'000)	(₹'000)
1.	SECURITY-WISE CLASSIFICATION		
	<i>Secured</i>		
	(a) On mortgage of property		
	In India		
	Outside India		
	(b) On Shares, Bonds, Govt. Securities, etc.		
	(c) Loans against policies		
	(d) Others (to be specified)		
	<i>Unsecured</i>		
	TOTAL		
2.	BORROWER-WISE CLASSIFICATION		
	(a) Central and State Governments		
	(b) Banks and Financial Institutions		
	(c) Subsidiaries		
	(d) Companies		
	(e) Loans against policies		
	(f) Others (to be specified)		
	TOTAL		
3.	PERFORMANCE-WISE CLASSIFICATION		
	(a) Loans classified as standard		
	In India		
	Outside India		
	(b) Non-standard loans less provisions		
	In India		
	Outside India		
	TOTAL		
4.	MATURITY-WISE CLASSIFICATION		
	(a) Short Term		
	(b) Long Term		
	TOTAL		

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Notes:

- (a) Short-term loans shall include those, which are repayable within 12 months from the date of balance sheet. Long term loans shall be the loans other than short-term loans.
- (b) Provisions against non-performing loans shall be shown separately.
- (c) The nature of the security in case of all long term secured loans shall be specified in each case. Secured loans for the purposes of this schedule, means loans secured wholly or partly against an asset of the company.
- (d) Loans considered doubtful and the amount of provision created against such loans shall be disclosed.

SCHEDULE - 10

FIXED ASSETS

(₹ '000)

Particulars	Cost/ Gross Block				Depreciation				Net Block	
	Opening	Additions	Deductions	Closing	Up to Last Year	For The Year	On Sales/ Adjustments	To Date	As at year end	Previous Year
Goodwill										
Intangibles (specify)										
Land-Freehold										
Leasehold Property										
Buildings										
Furniture & Fittings										
Information Technology Equipment										
Vehicles										
Office Equipment										
Others (Specify nature)										
TOTAL										
Work in progress										
Grand Total										
PREVIOUS YEAR										

Note: Assets included in land, property and building above exclude Investment Properties as defined in note (e) to Schedule 8.

SCHEDULE- 11

CASH AND BANK BALANCES

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
1.	Cash (including cheques, drafts and stamps)		
2.	Bank Balances		
	Deposit Accounts		
	Short-term (due within 12 months of the date of Balance Sheet)		
	Others		
	Current Accounts		
	Others (to be specified)		
3.	Money at Call and Short Notice		
	With Banks		
	With other Institutions		
4.	Others (to be specified)		
	TOTAL		
	Balances with non-scheduled banks included in 2 and 3 above		
	CASH & BANK BALANCES		
1	In India		
2	Outside India		
	TOTAL		

Note: Bank balance may include remittances in transit. If so, the nature and amount shall be separately stated.

SCHEDULE – 12

ADVANCES AND OTHER ASSETS

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
	ADVANCES		
1.	Reserve deposits with ceding companies		

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2.	Application money for investments		
3.	Prepayments		
4.	Advances to Directors/Officers		
5.	Advance tax paid and taxes deducted at source (Net of provision for taxation)		
6.	Others (to be specified)		
	TOTAL (A)		
	OTHER ASSETS		
1.	Income accrued on investments		
2.	Outstanding Premiums		
3.	Agents' Balances		
4.	Foreign Agencies Balances		
5.	Due from other entities carrying on insurance business (including reinsures)		
6.	Due from subsidiaries/ holding company		
7.	Deposit with Reserve Bank of India [Pursuant to section 7 of Insurance Act, 1938]		
8.	Others (to be specified)		
	TOTAL (B)		
	TOTAL (A+B)		

Notes:

- (a) The items under the above heads shall not be shown net of provisions for doubtful amounts. The amount of provision against each head should be shown separately.
- (b) The term 'officer' should conform to the definition of that term as given under the Companies Act, 2013.
- (c) Sundry debtors will be shown under item 8 (Others)

SCHEDULE – 13

CURRENT LIABILITIES

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
1.	Agents' Balances		
2.	Balances due to other insurance companies		

3.	Deposits held on re-insurance ceded		
4.	Premiums received in advance		
5.	Unallocated premium		
6.	Sundry creditors		
7.	Due to subsidiaries/ holding company		
8.	Claims Outstanding		
9.	Annuities Due		
10.	Due to Officers/ Directors		
11.	Others (to be specified)		
	TOTAL		

SCHEDULE – 14

PROVISIONS

Particulars		Current Year	Previous Year
		(₹'000)	(₹'000)
1.	For taxation (less payments and taxes deducted at source)		
2.	For proposed dividends		
3.	For dividend distribution tax		
4.	Others (to be specified)		
	TOTAL		

SCHEDULE – 15

MISCELLANEOUS EXPENDITURE

(To the extent not written off or adjusted)

Particulars		Current Year	Previous Year
		(₹'000)	(₹'000)
1.	Discount Allowed in issue of shares/ debentures		
2.	Others (to be specified)		
	TOTAL		

Notes:

(a) No item shall be included under the head "Miscellaneous Expenditure" and carried forward unless:

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- 1 *some benefit from the expenditure can reasonably be expected to be received in future, and*
 - 2 *the amount of such benefit is reasonably determinable.*
- (b) *The amount to be carried forward in respect of any item included under the head "Miscellaneous Expenditure" shall not exceed the expected future revenue/other benefits related to the expenditure.*

ANNEXURE II

SCHEDULE B for General Insurance Business

PART I: Accounting principles for preparation of financial statements

1. Applicability of Accounting Standards---Every Balance Sheet, Receipts and Payments Account [Cash Flow statement] and Profit and Loss Account [Shareholders' Account] of the insurer shall be in conformity with the Accounting Standards (AS) issued by the ICAI, to the extent applicable to the insurers carrying on general insurance business, except that:

1. Accounting Standard 3 (AS 3) – Cash Flow Statements – Cash Flow Statement shall be prepared only under the Direct Method.
2. Accounting Standard 13 (AS 13) – Accounting for Investments, shall not be applicable.
3. Accounting Standard 17 (AS 17) - Segment Reporting – shall apply to all insurers irrespective of the requirements regarding listing and turnover mentioned therein.

2. Premium--Premium shall be recognised as income over the contract period or the period of risk, whichever is appropriate. Premium received in advance, which represents premium income not relating to the current accounting period, shall be disclosed separately in the financial statements.

A reserve for unexpired risks shall be created as the amount representing that part of the premium written which is attributable to, and to be allocated to the succeeding accounting periods and shall not be less than as required under section 64 V(1) (ii) (b) of the Act.

Premium Received in Advance, which represents premium received prior to the commencement of the risk, shall be shown separately under the head '*Current Liabilities*' in the financial statements.

3. Premium Deficiency--Premium deficiency shall be recognised if the sum of expected claim costs, related expenses and maintenance costs exceeds related reserve for unexpired risks.

4. Acquisition Costs---Acquisition costs, if any, shall be expensed in the period in which they are incurred.

Acquisition costs are those costs that vary with, and are primarily related to, the acquisition of new and renewal insurance contracts. The most essential test is the obligatory relationship between costs and the execution of insurance contracts (i.e. commencement of risk).

5. Claims--The components of the ultimate cost of claims to an insurer comprise the claims under policies and specific claims settlement costs. Claims under policies comprise the claims made for losses incurred, and those estimated or anticipated under the policies following a loss occurrence.

A liability for outstanding claims shall be brought to account in respect of both direct business and inward reinsurance business. The liability shall include: -

- (a) Future payments in relation to unpaid reported claims;
- (b) Claims Incurred But Not Reported (IBNR) including inadequate reserves [sometimes referred to as Claims Incurred But Not Enough Reported (IBNER)],

which will result in future cash/asset outgo for settling liabilities against those claims. Change in estimated liability represents the difference between the estimated liability for outstanding claims at the beginning and at the end of the financial period.

The accounting estimate shall also include claims cost adjusted for estimated salvage value if there is sufficient degree of certainty of its realisation.

Actuarial Valuation of claim liability – in some cases

Claims made in respect of contracts where the claims payment period exceeds four years shall be recognised on an actuarial basis, subject to regulations that may be prescribed by the Authority. In such cases, certificate from a recognised actuary as to the fairness of liability assessment must be obtained. Actuarial assumptions shall be suitably disclosed by way of notes to the account.

6. Procedure to determine the value of investments.---An insurer shall determine the values of investments in the following manner:-

(a) Real Estate – Investment Property-- Investment Property shall be measured at historical cost less accumulated depreciation and impairment loss, residual value being considered zero and no revaluation being permissible.

The Insurer shall assess at each balance sheet date whether any impairment of the investment property has occurred.

An impairment loss shall be recognised as an expense in the Revenue/Profit and Loss Account immediately.

Fair value as at the balance sheet date and the basis of its determination shall be disclosed in the financial statements as additional information.

(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 amortisation.

(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 the purpose of calculation of fair value, the lowest of the last quoted closing price of the stock exchanges where the securities are listed shall be taken.

The insurer shall assess on each balance sheet date whether any impairment of listed equity security(ies)/ derivative(s) instruments has occurred.

An active market shall mean a market, where the securities traded are homogenous, availability of willing buyers and willing sellers is normal and the prices are publicly available.

Unrealised gains/losses arising due to changes in the fair value of listed equity shares and derivative instruments shall be taken to equity under the head 'Fair Value Change Account'. The 'Profit on sale of investments' or 'Loss on sale of investments', as the case may be, shall include accumulated changes in the fair value previously recognised in equity under the heading Fair Value Change Account in respect of a particular security and being recycled to Profit and Loss Account on actual sale of that listed security.

For the removal of doubt, it is clarified that balance or any part thereof shall not be available for distribution as dividends. Also, any debit balance in the said Fair Value Change Account shall be reduced from the profits/free reserves while declaring dividends.

The insurer shall assess, at each balance sheet date, whether any impairment has occurred. An impairment loss shall be recognised as an expense in Revenue/Profit and Loss Account to the extent of the difference between the remeasured fair value of the security/ investment and its acquisition cost as reduced by any previous impairment loss recognised as expense in Revenue/Profit and Loss Account. Any reversal of impairment loss, earlier recognised in Revenue/Profit and Loss Account shall be recognised in Revenue/Profit and Loss Account.

(d) Unlisted and other than actively traded Equity Securities and Derivative Instruments-

Unlisted equity securities and derivative instruments and listed equity securities and derivative instruments that are not regularly traded in active market will be measured at historical costs. Provision shall be made for diminution in value of such investments. The provision so made shall be reversed in subsequent periods if estimates based on external evidence show an increase in the value of the investment over its carrying amount. The increased carrying amount of the investment due to the reversal of the provision shall not exceed the historical cost.

For the purposes of this regulation, a security shall be considered as being not actively traded, if as per guidelines governing mutual funds laid down from time to time by SEBI, such a security is classified as "thinly traded".

7. Loans--Loans shall be measured at historical cost subject to impairment provisions.

The insurer shall assess the quality of its loan assets and shall provide for impairment. The impairment provision shall not be lower than the amounts derived on the basis of guidelines prescribed from time to time by the Reserve Bank of India, that apply to companies and financial institutions.

8. Catastrophe Reserve -- Catastrophe reserve shall be created in accordance with norms, if any, prescribed by the Authority. Investment of funds out of catastrophe reserve shall be made in accordance with prescription of the Authority.

PART II: Disclosures forming part of Financial Statements

A. The following shall be disclosed by way of notes to the Balance Sheet:

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 dispute, not provided for
 - (f) Reinsurance obligations to the extent not provided for in accounts
 - (g) Others (to be specified)
2. Encumbrances to assets of the company in and outside India.
3. Commitments made and outstanding for Loans, Investments and Fixed Assets.
4. Claims, less reinsurance, paid to claimants in/outside India.
5. Actuarial assumptions for determination of claim liabilities in the case of claims where the claims payment period exceed four years.
6. Ageing of claims – distinguishing between claims outstanding for more than six months and other claims.
7. Premiums, less reinsurance, written from business in/outside India.
8. Extent of premium income recognised, based on varying risk pattern, category wise, with basis and justification therefor, including whether reliance has been placed on external evidence.
9. Value of contracts in relation to investments, for:
 - (a) Purchases where deliveries are pending;
 - (b) Sales where payments are overdue.
10. Operating expenses relating to insurance business: basis of allocation of expenditure to various classes of business.
11. Historical costs of those investments valued on fair value basis.
12. Computation of managerial remuneration.
13. Basis of amortisation of debt securities.

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14. (a) Unrealised gain/losses arising due to changes in the fair value of listed equity shares and derivative instruments are to be taken to equity under the head 'Fair Value Change Account' and on realisation reported in profit and loss Account.
(b) Pending realisation, the credit balance in the 'Fair Value Change Account' is not available for distribution.
15. Fair value of investment property and the basis therefor.
16. Claims settled and remaining unpaid for a period of more than six months as on the balance sheet date.

B. The following accounting policies shall form an integral part of the financial statements:

1. All significant accounting policies in terms of the accounting standards issued by the ICAI, and significant principles and policies given in Part I of Accounting Principles. Any other accounting policies followed by the insurer shall be stated in the manner required under Accounting Standard AS 1 issued by the ICAI.
2. Any departure from the accounting policies as aforesaid shall be separately disclosed with reasons for such departure.

C. The following information shall also be disclosed:

1. Investments made in accordance with any statutory requirement should be disclosed separately together with its amount, nature, security and any special rights in and outside India.
2. Segregation into performing/ non performing investments for purpose of income recognition as per the directions, if any, issued by the Authority.
3. Percentage of business sector-wise.
4. A summary of financial statements for the last five years, in the manner as may be prescribed by the Authority.
5. Accounting Ratios as may be prescribed by the Authority.
6. Basis of allocation of Interest, Dividends and Rent between Revenue Account and Profit and Loss Account.

PART III: GENERAL INSTRUCTIONS FOR PREPARATION OF FINANCIAL STATEMENTS

1. The corresponding amounts for the immediately preceding financial year for all items shown in the Balance Sheet, Revenue Account and Profit and 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 as gross value, the amount of income tax deducted at source being included under 'advance taxes paid'.

4. Income from rent shall not include any notional rent.
5. (I) For the purposes of financial statements, unless the context otherwise requires -
 - (a) the expression 'provision' shall, subject to note II below mean any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or retained by way of providing for any known liability or loss of which the amount cannot be determined with substantial accuracy;
 - (b) the expression "reserve" shall not, subject to as aforesaid, include any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability;
 - (c) the expression capital reserve shall not include any amount regarded as free for distribution through the profit and loss account; and the expression "revenue reserve" shall mean any reserve other than a capital reserve;
 - (d) The expression "liability" shall include all liabilities in respect of expenditure contracted for and all disputed or contingent liabilities.
- (II) Where:
 - (a) any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or
 - (b) any amount retained by way of providing for any known liability is in excess of the amount which in the opinion of the directors is reasonably necessary for the purpose, the excess shall be treated for the purposes of these accounts as a reserve and not as a provision.
 1. The company should make provisions for damages under lawsuits where the management is of the opinion that the award may go against the insurer.
 2. Extent of risk retained and reinsured shall be separately disclosed.
 3. Any debit balance of Profit and Loss Account shall be shown as deduction from uncommitted reserves and the balance if any, shall be shown separately.

PART IV: CONTENTS OF MANAGEMENT REPORT

There shall be attached to the financial statements, a management report duly authenticated by the management.

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,

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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.

FORM B-RA

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

REVENUE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20__.

	Particulars	Schedule	Current Year (₹ '000)	Previous Year (₹ '000)
1.	Premiums earned (Net)	1		
2.	Profit/ Loss on sale/redemption of Investments			
3.	Others (to be specified)			
4.	Interest, Dividend & Rent – Gross			
	TOTAL (A)			
1.	Claims Incurred (Net)	2		
2.	Commission	3		
3.	Operating Expenses related to Insurance Business	4		
	TOTAL (B)			
	Operating Profit/(Loss) from Fire/ Marine/Miscellaneous Business C= (A - B)			
	APPROPRIATIONS			
	Transfer to Shareholders' Account			
	Transfer to Catastrophe Reserve			

Transfer to Other Reserves (to be specified)			
TOTAL (C)			

FORM B-PL

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20__.

	Particulars	Schedule	Current Year	Previous Year
			(₹ '000)	(₹ '000)
1.	OPERATING PROFIT/(LOSS)			
	Fire Insurance			
	Marine Insurance			
	(c) Miscellaneous Insurance			
2.	INCOME FROM INVESTMENTS			
	(a) Interest, Dividend & Rent – Gross			
	(b) Profit on sale of investments			
	Less: Loss on sale of investments			
3.	OTHER INCOME (To be specified)			
	TOTAL (A)			
4.	PROVISIONS (Other than taxation)			
	For diminution in the value of investments			
	For doubtful debts			
	Others (to be specified)			
5.	OTHER EXPENSES			
	Expenses other than those related to Insurance Business			
	Bad debts written off			
	Others (To be specified)			
	TOTAL (B)			
	Profit Before Tax			
	Provision for Taxation			
	APPROPRIATIONS			
	Interim dividends paid during the year			
	Proposed final dividend			
	Dividend distribution tax			

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Transfer to any Reserves or Other Accounts (to be specified)			
Balance of profit/ loss brought forward from last year			
Balance carried forward to Balance Sheet			

Notes: to Form B-RA and B- PL

- (a) Premium income received from business concluded in and outside India shall be separately disclosed.
- (b) Reinsurance premiums whether on business ceded or accepted are to be brought into account gross (i.e. before deducting commissions) under the head reinsurance premiums.
- (c) Claims incurred shall comprise claims paid, specific claims settlement costs wherever applicable and change in the outstanding provision for claims at the year-end.
- (d) Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or ₹ 5,00,000 whichever is higher, shall be shown as a separate line item.
- (e) Fees and expenses connected with claims shall be included in claims.
- (f) Under the sub-head "Others" shall be included items like foreign exchange gains or losses and other items.
- (g) Interest, dividends and rentals receivable in connection with an investment should be stated as gross amount, the amount of income tax deducted at source being included under 'advance taxes paid and taxes deducted at source'..
- (h) Income from rent shall include only the realised rent. It shall not include any notional rent.

FORM B-BS

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

BALANCE SHEET AS AT 31ST MARCH, 20__.

	Schedule	Current Year	Previous Year
Sources of Funds		(₹'000)	(₹'000)
Share Capital	5		
Reserves and Surplus	6		
Fair Value Change Account			
Borrowings	7		

Total			
Application of Funds			
Investments	8		
Loans	9		
Fixed Assets	10		
Current Assets			
Cash and Bank Balances	11		
Advances and Other Assets	12		
Sub-Total (A)			
Current Liabilities	13		
Provisions	14		
Sub-Total (B)			
Net Current Assets (C) = (A - B)			
Miscellaneous Expenditure (To the extent not written off or adjusted)	15		
Debit Balance in Profit And Loss Account			
Total			

CONTINGENT LIABILITIES

Particulars	Current Year	Previous Year
	(₹ '000)	(₹ '000)
1. Partly paid-up investments		
2. Claims, other than against policies, not acknowledged as debts by the company		
3. Underwriting commitments outstanding (in respect of shares and securities)		
4. Guarantees given by or on behalf of the Company		
5. Statutory demands/ liabilities in dispute, not provided for		
6. Reinsurance obligations to the extent not provided for in accounts		
7. Others (to be specified)		
TOTAL		

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE – 1

PREMIUM EARNED [NET]

	Particulars	Current Year	Previous Year
		(₹'000)	(₹'000)
	Premium from direct business written		
	Add: Premium on reinsurance accepted		
	Less : Premium on reinsurance ceded		
	Net Premium		
	Adjustment for change in reserve for unexpired risks		
	Total Premium Earned (Net)		

Note: Reinsurance premiums whether on business ceded or accepted are to be brought into account, before deducting commission, under the head of reinsurance premiums.

SCHEDULE – 2

CLAIMS INCURRED [NET]

	Particulars	Current Year	Previous Year
		(₹'000)	(₹'000)
	Claims paid		
	Direct		
	Add :Re-insurance accepted		
	Less :Re-insurance Ceded		
	Net Claims paid		
	Add Claims Outstanding at the end of the year		
	Less Claims Outstanding at the beginning		
	Total Claims Incurred		

Notes:

- (a) Incurred But Not Reported (IBNR), Incurred but not enough reported [IBNER] claims should be included in the amount for outstanding claims.
- (b) Claims includes specific claims settlement cost but not expenses of management
- (c) The surveyor fees, legal and other expenses shall also form part of claims cost.
- (d) Claims cost should be adjusted for estimated salvage value if there is a sufficient certainty of its realisation.

SCHEDULE- 3

COMMISSION

<i>Particulars</i>	<i>Current Year</i>	<i>Previous Year</i>
	(₹ '000)	(₹ '000)
Commission paid		
Direct		
Add: Re-insurance Accepted		
Less: Commission on Re-insurance Ceded		
Net Commission		

Note: The profit/ commission, if any, are to be combined with the Re-insurance accepted or Re-insurance ceded figures.

SCHEDULE – 4

OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
1.	Employees' remuneration & welfare benefits		
2.	Travel, conveyance and vehicle running expenses		
3.	Training expenses		
4.	Rents, rates & taxes		
5.	Repairs		
6.	Printing & stationery		
7.	Communication		
8.	Legal & professional charges		
9.	Auditors' fees, expenses etc		
	(a) as auditor		
	(b) as adviser or in any other capacity, in respect of		
	(i) Taxation matters		
	(ii) Insurance matters		
	(iii) Management services; and		
	(c) in any other capacity		
10.	Advertisement and publicity		
11.	Interest & Bank Charges		
12.	Others (to be specified)		
13.	Depreciation		
	TOTAL		

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Note: Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or ₹ 5,00,000 whichever is higher, shall be shown as a separate line item.

SCHEDULE – 5

SHARE CAPITAL

Particulars		Current Year	Previous Year
		(₹ '000)	(₹ '000)
1.	Authorised Capital Equity Shares of ₹ each		
2.	Issued Capital Equity Shares of ₹each		
3.	Subscribed Capital Equity Shares of ₹each		
4.	Called-up Capital Equity Shares of ₹each		
	Less : Calls unpaid		
	Add : Equity Shares forfeited (Amount originally paid up)		
	Less : Par Value of Equity Shares bought back		
	Less : Preliminary Expenses including commission or brokerage on Underwriting or subscription of shares		
	TOTAL		

Notes:

- Particulars of the different classes of capital should be separately stated.
- The amount capitalised on account of issue of bonus shares should be disclosed.
- In case any part of the capital is held by a holding company, the same should be separately disclosed.

SCHEDULE – 5A

SHARE CAPITAL

PATTERN OF SHAREHOLDING

[As certified by the Management]

Shareholder	Current Year Number of Shares	Previous Year	
		% of Holding	Number of Shares % of Holding
Promoters			

Indian				
Foreign				
Others				
TOTAL				

SCHEDULE – 6

RESERVES AND SURPLUS

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
1.	Capital Reserve		
2.	Capital Redemption Reserve		
3.	Share Premium		
4.	General Reserves		
	Less: Debit balance in Profit and Loss Account		
	Less: Amount utilized for Buy-back		
5.	Catastrophe Reserve		
6.	Other Reserves (to be specified)		
7.	Balance of Profit in Profit & Loss Account		
	TOTAL		

Note: Additions to and deductions from the reserves should be disclosed under each of the specified heads.

SCHEDULE - 7

BORROWINGS

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
1.	Debentures/ Bonds		
2.	Banks		
3.	Financial Institutions		
4.	Others (to be specified)		
	TOTAL		

Notes:

- (a) The extent to which the borrowings are secured shall be separately disclosed stating the nature of the security under each sub-head.
- (b) Amounts due within 12 months from the date of Balance Sheet should be shown separately

SCHEDULE -8

INVESTMENTS

	Particulars	Current Year	Previous Year
		(₹'000)	(₹'000)
	LONG TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Other Investments		
	(a) Shares		
	Equity		
	Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/ Bonds		
	(e) Other Securities (to be specified)		
	(f) Subsidiaries		
	(g) Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	SHORT TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Other Investments		
	(a) Shares		
	Equity		
	Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/ Bonds		
	(e) Other Securities (to be specified)		
	(f) Subsidiaries		
	(g) Investment Properties-Real Estate		

4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	TOTAL		

Notes:

- (a) Investments in subsidiary/holding companies, joint ventures and associates shall be separately disclosed, at cost.
- (i) *Holding company and subsidiary shall be construed as defined in the Companies Act, 2013:*
- (ii) *Joint Venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.*
- (iii) *Joint control - is the contractually agreed sharing of power to govern the financial and operating policies of an economic activity to obtain benefits from it.*
- (iv) *Associate - is an enterprise in which the company has significant influence and which is neither a subsidiary nor a joint venture of the company.*
- (v) *Significant influence (for the purpose of this schedule) - means participation in the financial and operating policy decisions of a company, but not control of those policies. Significant influence may be exercised in several ways, for example, by representation on the board of directors, participation in the policymaking process, material inter-company transactions, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiaries, 20 percent or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20 percent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence is clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.*
- (b) *Aggregate amount of company's investments other than listed equity securities and derivative instruments and also the market value thereof shall be disclosed.*
- (c) *Investments made out of Catastrophe reserve should be shown separately.*
- (d) *Debt securities will be considered as "held to maturity" securities and will be measured at historical cost subject to amortisation.*
- (e) *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.*

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- (f) *Investments maturing within twelve months from balance sheet date and investments made with the specific intention to dispose of within twelve months from balance sheet date shall be classified as short-term investments*

SCHEDULE - 9**LOANS**

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
1.	SECURITY-WISE CLASSIFICATION Secured (a) On mortgage of property In India Outside India (b) On Shares, Bonds, Govt. Securities (c) Others (to be specified) Unsecured TOTAL		
2.	BORROWER-WISE CLASSIFICATION (a) Central and State Governments (b) Banks and Financial Institutions (c) Subsidiaries (d) Industrial Undertakings (e) Others (to be specified) TOTAL		
3.	PERFORMANCE-WISE CLASSIFICATION (a) Loans classified as standard In India Outside India (b) Non-performing loans less provisions In India Outside India TOTAL		
4.	MATURITY-WISE CLASSIFICATION (a) Short Term (b) Long Term TOTAL		

Notes:

- (a) Short-term loans shall include those, which are repayable within 12 months from the date of balance sheet. Long term loans shall be the loans other than short-term loans.
- (b) Provisions against non-performing loans shall be shown separately.
- (c) The nature of the security in case of all long term secured loans shall be specified in each case. Secured loans for the purposes of this schedule, means loans secured wholly or partly against an asset of the company.
- (d) Loans considered doubtful and the amount of provision created against such loans shall be disclosed.

SCHEDULE – 10

FIXED ASSETS

(₹'000)

Particulars										
	Cost/ Gross Block				Depreciation				Net Block	
	Opening	Additions	Deductions	Closing	Upto Last Year	For The Year	On Sales/ Adjust-ments	To Date	As at year end	Previous Year
Goodwill										
Intangibles (specify)										
Land- Freehold										
Leasehold										
Property Buildings										
Furniture & Fittings										
Information Technology										
Equipment										
Vehicles										
Office Equipment										
Others (Specify nature)										
TOTAL										

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Work in progress										
Grand Total										
PREVIOUS YEAR										

Note: Assets included in land, building and property above exclude Investment Properties as defined in note (e) to Schedule 8.

SCHEDULE- 11

CASH AND BANK BALANCES

Particulars		Current Year	Previous Year
		(₹ '000)	(₹ '000)
1.	Cash (including cheques, drafts and stamps)		
2.	Bank Balances		
	Deposit Accounts		
	(aa) Short-term (due within 12 months)		
	(bb) Others		
	Current Accounts		
	Others (to be specified)		
3.	Money at Call and Short Notice		
	With Banks		
	With other Institutions		
4.	Others (to be specified)		
	TOTAL		
	Balances with non-scheduled banks included in 2 and 3 above		

Note : Bank balance may include remittances in transit. If so, the nature and amount should be separately stated.

SCHEDULE – 12

ADVANCES AND OTHER ASSETS

Particulars		Current Year	Previous Year
		(₹ '000)	(₹ '000)
	ADVANCES		
1.	Reserve deposits with ceding companies		

2.	Application money for investments		
3.	Prepayments		
4.	Advances to Directors/Officers		
5.	Advance tax paid and taxes deducted at source (Net of provision for taxation)		
6.	Others (to be specified)		
	TOTAL (A)		
	OTHER ASSETS		
1.	Income accrued on investments		
2.	Outstanding Premiums		
3.	Agents' Balances		
4.	Foreign Agencies Balances		
5.	Due from other entities carrying on insurance business (including reinsures)		
6.	Due from subsidiaries/ holding		
7.	Deposit with Reserve Bank of India [Pursuant to section 7 of Insurance Act, 1938]		
8.	Others (to be specified)		
	TOTAL (B)		
	TOTAL (A+B)		

Notes:

- (a) The items under the above heads shall not be shown net of provisions for doubtful amounts. The amount of provision against each head should be shown separately.
- (b) The term 'officer' should conform to the definition of that term as given under the Companies Act, 2013.
- (c) Sundry Debtors will be shown under item 9(others)

SCHEDULE – 13

CURRENT LIABILITIES

	Particulars	Current Year	Previous Year
		(₹'000)	(₹'000)
1.	Agents' Balances		
2.	Balances due to other insurance companies		
3.	Deposits held on re-insurance ceded		

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4.	Premiums received in advance		
5.	Unallocated Premium		
6.	Sundry creditors		
7.	Due to subsidiaries/ holding company		
8.	Claims Outstanding		
9.	Due to Officers/ Directors		
10.	Others (to be specified)		
	TOTAL		

SCHEDULE – 14**PROVISIONS**

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
1	Reserve for Unexpired Risk		
2	For taxation (less advance tax paid and taxes deducted at source)		
3	For proposed dividends		
4	For dividend distribution tax		
5	Others (to be specified)		
	TOTAL		

SCHEDULE – 15**MISCELLANEOUS EXPENDITURE**

(To the extent not written off or adjusted)

	Particulars	Current Year	Previous Year
		(₹ '000)	(₹ '000)
1.	Discount Allowed in issue of shares/ debentures		
2.	Others (to be specified)		
	TOTAL		

Notes:

- (a) No item shall be included under the head "Miscellaneous Expenditure" and carried forward unless:

1. *some benefit from the expenditure can reasonably be expected to be received in future, and*
 2. *the amount of such benefit is reasonably determinable.*
- (b) *The amount to be carried forward in respect of any item included under the head "Miscellaneous Expenditure" shall not exceed the expected future revenue/other benefits related to the expenditure.*

Summary

Life Insurance Business : The insurance company carrying life insurance business is required to prepare Balance sheet form A – BS Revenue account [Policy holders' account] Form A- RA Profit and loss account form A-PL. These forms have been given in the IRDA Regulations, 2002.

General Insurance Business: The insurance company carrying on general insurance business is required to prepare Balance sheet form B – BS Revenue account [Policy holders' account] Form B- RA Profit and loss account form B-PL. These forms have been given in the IRDA Regulations, 2002.

No form has been specified for cash flow statement for both Life insurance and General Insurance.