

IRDA/F&A/CIR/MISC/123/6/2022

Date: 15th June, 2022

CIRCULAR

To

CMD/ CEO of GIC and FRBs including Lloyds

Sub: Accounting of Premium, claims and related expenses on estimation basis

1. At present, para 2 of Part I of Schedule B of the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditors Report of Insurance Companies) Regulations, 2002 provides as under for recognition of premium:

“2. Premium

- (i) *Premium shall be recognized as income over the contract period or the period of risk, whichever is appropriate.*
 - (ii) *“Premium received in Advance” is the premium where the period of inception of the risk is outside the accounting period and is to be shown under current liabilities.*
 - (iii) *“Unallocated premium” includes premium deposit and premium which has been received but for which risk has not commenced. It is to be shown under current liabilities.”*
2. The Authority has carried out an analysis of the premium recognized by the FRBs and GIC Re and observed that while some of the FRBs are accounting for the premium on “actual” basis, some others are doing so on “estimation” basis.
3. It is further observed that no uniform method / procedure has been followed by the reinsurers on accounting of the premium on estimation basis. The premium is accounted on estimation basis by the Reinsurer due to the following reasons:
 - (i) lag or delay in receiving the statement of accounts from the Insurer(s); and/or
 - (ii) alignment of accounting practices with parent organization.

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4. Given that a significant part of the premium is being accounted on estimation basis, a need is felt to lay down guidelines to govern the accounting and disclosures of premium recognized on estimation basis in the annual report. Accordingly, the Authority, in exercising its powers given under Section 14 (2) lays down the following framework where under the FRBs/Reinsurers shall ensure that in annual financial statements no premium is accrued / accounted on estimate basis at least upto 3rd quarter of each financial year. However, for the fourth quarter ending on 31st March, where the statement of accounts has not been received in time, the premium, losses and related expenses may be accounted on estimation basis. However, in estimation of the said income and expenses, the reinsurers shall ensure that:

- a)** a consistent methodology is followed across the entire portfolio;
- b)** the estimates shall be trued up as actual values emerge;
- c)** a statement shall be included in the annual report stating total premium, claims and expenses accounted for during the financial year and premium, claims and expenses accounted on estimation basis;
- d)** complete disclosure shall be made for three years (including the current Financial Year) giving the segment wise break up of premium, claims and expenses accounted on estimation basis and its actual experience as per the attached formats – Annexure 1 and Management’s comments on variation, if any, beyond 10% on a yearly basis under Notes to Accounts if the actual figures are available at the time of closing of books of accounts for the said financial year. In case of the information not being available, the above referred submissions shall be made in the annual report for the next financial year; and
- e)** If the actual figures are not available at the time of closure of books of accounts for the financial year, any deviation beyond $\pm 10\%$ shall be reported to the Authority in the format referred in above para 4(d) within 15 days from the end of first quarter of the next financial year.

5. This circular is effective from financial year 2022-23 onwards.

Executive Director –F & I

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