



भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY OF INDIA

IRDA/F&I/ORD/ DATA/110 /06/2016

Final Order in the matter of HDFC Standard Life Insurance Co. Ltd.,

Based on the submissions to Show Cause Notice dated 6th August 2013; personal hearing chaired by the then Member (F&I) Shri R.K. Nair on 2nd January 2014 at the office of the Insurance Regulatory and Development Authority of India, 3rd Floor, Parishram Bhavan, Basheerbagh, Hyderabad and subsequent clarifications provided.

The Insurance Regulatory and Development Authority of India (herein after referred to as "the Authority") issued a certificate of registration bearing No.101 to HDFC Standard Life Insurance Co. Ltd (herein after referred to as "the insurer") on 23rd October, 2000 to carry on business of Life Insurance in India in terms of Section 3 of the Insurance Act, 1938. In terms thereof the insurer was subject to the terms and conditions of the certificate of registration and was also required to abide by the provisions of the Insurance Act, 1938 (herein after referred to as 'the Act'), the Insurance Regulatory and Development Authority Act, 1999 and other directions issued by the Authority from time to time by way of circulars and/or guidelines.

Charge:

On review of the Annual Financial Statements filed by the insurer with the Authority for the financial year 2011-12; it was observed that the insurer had transferred investment property of value ₹ 65.35 crore (Schedule- 8A) [herein after referred to as 'the property'] to Fixed Assets (Schedule-10).

The Authority sought an explanation vide letter dated 5th February 2013 in the matter. The Insurer submitted their response vide letter dated 8th March, 2013. Further submissions were made during personal interactions with the officials at the Authority on 1st July 2013 and subsequent clarifications were provided vide its email dated 11th July 2013. The gist of the submissions made by the insurer is as under:

1. In FY 2010-11 'the property' was purchased and held with the intent of earning capital appreciation;
2. Subsequently, in FY 2011-12 considering the growing business needs, it was decided to use the property for administrative and service purposes in insurance business. Accordingly, to comply with IRDAI accounting regulations it was reclassified from "Investment Property" (Schedule 8A) to Fixed Assets (Schedule 10) in Financial Statements at ₹ 65.35 crore. In their letter dated 8th March 2013, insurer further confirmed that the investment property was revalued in the FY 2010-11 and the market value of asset as on 31st March 2012 was ₹ 65.35 crore.
3. The movement of this property was from one accounting head to another accounting head to comply with IRDAI Accounting Regulations. The Insurer further contended that there was no transfer from shareholder funds to policyholder funds or vice versa. As such there was no non-compliance with the Circular No. IRDA/F&A/079/Feb-05 dated 25th February 2005.

The Authority examined the said reply of the insurer and issued Show Cause Notice vide letter dated 6th August, 2013. In response to the SCN, insurer replied vide letter dated 16th September, 2013. Further clarifications were sought vide letter dated 29th November, 2013. In response to the said letter, insurer replied vide letter dated 26th December, 2013. The Personal hearing was given on 2nd January, 2014 by the then Member (F&I) Shri R.K. Nair. Insurer responded to further clarifications sought on 3rd January 2014 and 7th February 2014 vide letter dated 22nd January 2014 and e-mail dated 18th February 2014 respectively. Further queries raised vide e-mail dated 3rd July 2015 and 29th July 2015 were responded to by the insurer vide e-mail dated 15th July 2015 and 6th August 2015 respectively. Based on the further discussions, extract of segmental accounts were furnished vide e-mail dated 21st September 2015.

Insurer's submissions:

The Insurer reiterated their submissions and provided further clarifications as sought. In their submissions dated 26th December 2013 the insurer had indicated that 'the property' was purchased from 'Shareholders/Non-Unit Pool Fund of Unit Linked business' and also submitted that 'the property' remained under the same fund even after the change of accounting classification. The change of property classification

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from one accounting head to another was only to ensure compliance with the directions and Regulations notified by the Authority.

In further submissions vide e-mail dated 15th July 2015, the insurer had indicated that ₹ 65.35 crore [the carrying value of the property as on 31st March 2012 under fixed asset] is at the 'Historical Cost'.

Decision:

Insurer's reclassification of the property from 'investment property' (Schedule 8A) to 'Fixed Asset' (Schedule 10) is not acceptable for the following reasons:

1. Investment property is held with an intent to earn rental income and capital appreciation. Fixed Assets are held for self-use and for administrative purposes. In the insurance sector as per the IRDA (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002, investment property is subject to revaluation every three years. Revaluation of Fixed asset which is accounted at historical cost is guided by Accounting Standard- AS 10 wherein the entire class of asset is to be revalued.
2. Rental income from investment property accrues to the same segment of policyholders from whose funds the property is purchased. By reclassifying it as fixed asset, the asset is applied for all segments and the accrual of rental income in a particular segment is affected.
3. The property being used for self-occupation will have to be classified as 'fixed asset'. Depreciation on such assets is to be charged to Revenue/P&L account based on the proportion of usage of office space for policyholders/shareholders purposes
4. 'Non-Unit Reserves' of Unit Linked business is applied, inter alia towards meeting expenses and liability arising out of mortality risks. While a proportion of controlled fund is permitted to be invested in real estate as per investment regulations, reclassification from 'investment property' shown under Schedule 8A (Investments Policyholders) to Scheduled 10 (Fixed Asset) tantamounts to moving an investment property away from Policyholders funds without

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corresponding inflow of assets/funds. 'Non-unit reserve' of unit linked business and shareholders' funds cannot be used interchangeably.

5. In the specific instance, insurer has submitted contradictory response on the price at which reclassification is carried out from investment property to fixed asset. Insurer's response dated 8th March 2013 indicated that 'the property' was revalued in 2010-11 and ₹ 65.35 crore was revaluation price of the property. In their e-mail dated 15th July 2015 the carrying value of the said property while reclassifying from investment property to fixed asset is shown at 'historical cost'. The value of the property is considered to be one provided by the insurer vide e-mail dated 15th July 2015. This is based on the provisions of AS 10 which requires revaluation of the entire class of assets if any asset is to be revalued.

In case the response of the insurer as per their letter dated 8th March 2013 is considered, it would mean that the transfer is affected at revalued amount while the carrying value of the other assets in that class would be at historical cost.

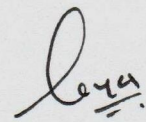
In view of the above, the Insurer is hereby directed to

1. Ensure that policyholders funds are compensated to the extent of
 - a. value of the property as on the date of transfer (as valued by an independent valuer); and
 - b. Interest compounded annually at the rate of interest on bank account calculated on the market value of the property for the period from the date of transfer to the date of infusion into policyholders' funds
2. Detailed disclosure of the Authority's direction in the matter shall be made under notes to accounts in the ensuing annual accounts
3. The revaluation reserve, if any, created on revaluation of investment property shall be applied only in accordance with clause 6 (a) of Schedule A of the IRDA (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002

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This order of the Authority shall be placed before the Board of the insurer in the ensuing Board meeting. A report confirming compliance with the above directions shall be filed with the Authority.

Place: Hyderabad
Date: 03 June 2016


Member (F&I)

