Circular No. IRDA/F&A/CIR/217/12/2010

December 27, 2010

To
All Life Insurers

Sub: Recognition of Surplus arising in non-participating funds as profit / loss in the Profit & Loss Account

Authority has observed that there is no uniform approach followed by the insurers for transfer of the surplus to the Profit & Loss Account. A few of the insurers are doing it on quarterly basis while a few are doing on yearly basis.

In view of the same, it is clarified that the surplus arising in non-participating funds may be recognized as profit in the Profit & Loss Account on quarterly basis provided that

a. Financial Statement are audited on quarterly basis
b. The surplus to be transferred to Profit & Loss Account must be certified and recommended by the Appointed Actuary of the company.
c. A disclosure to this effect should be made in the financial statement.
d. In any case the amount transferred must not exceed the yearly profit. The difference if any must be adjusted in the 4th quarter. In case the variation in the surplus is in excess of 10% or ₹5crores, which is higher, then the company shall submit to the Authority an explanation stating reasons for variation along with the annual financial statement. The explanation of variations so submitted shall be approved by Board of Directors.

In case of deficit, insurers will continue to follow the existing practices of making the shortfall good by transferring the funds from shareholders account or recognizing the deficit in the profit & loss account on quarterly basis.

(J Hari Narayan)