

## **SCHEDULE - 16**

### **SIGNIFICANT ACCOUNTING POLICIES**

#### **1. ACCOUNTING CONVENTION**

1.1 The financial statements are drawn up in accordance with the Regulatory provisions of section 11(1) of the Insurance Act, 1938; regulations framed under Insurance Regulatory and Development Authority Act, 1999, read with the provisions of sub-sections (1) , (2) and (5) of section 211 and sub-section (5) of section 227 of the Companies Act, 1956. These financial statements prepared under the historical cost convention and on accrual basis, comply with the Insurance Regulatory and Development Authority (Preparation of financial statements and Auditors' Report of Insurance Companies) Regulation 2002 and are in conformity with the requirements of Accounting Standards prescribed by Companies (Accounting Standards) Rules, 2006 and the provisions of the Companies Act, 1956 to the extent applicable, and conform to practices prevailing in the credit insurance industry unless otherwise stated.

#### **1.2 USE OF ESTIMATES:**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures relating to contingent liabilities as at the date of financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Difference between the actual result and estimates are recognized in periods in which the results are known / materialised.

#### **2. FIXED ASSETS AND DEPRECIATION**

2.1 Fixed Assets are stated at cost of acquisition less depreciation.

2.2 Depreciation is provided on straight-line method at the relevant rates as per Schedule XIV to the Companies Act, 1956, except for Vehicles and IT hardware for which the depreciation rate has been changed to 20% with effect from 01<sup>st</sup> April, 2011. Assets added/disposed off during the year are depreciated on a pro-rata basis with reference to the date of addition/disposal.

- 2.3 Assets costing less than Rs. 5,000 and mobile hand sets are fully depreciated in the year of purchase.
- 2.4 Leased Assets are amortised over the period of lease.
- 2.5 The computer software forming integral part of hardware which comprises pre-loaded software and the software procured for loading in the newly bought-out hardware is capitalized along with the hardware.
- 2.6 The Software development and acquisition costs which meet the recognition criteria of AS – 26 – Intangible Assets issued by Companies Accounting Standard Rules, 2006 are capitalised under the head “Intangibles” and amortised on a straight-line basis over the useful life of the Asset subject to a maximum period of 5 years.
- 2.7 Projects under commissioning are carried forward at cost as Capital Work-in-Progress (CWIP) and represents payments made to contractors including advances and directly attributable cost.

### **3. IMPAIRMENTS**

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any indications exist, the assets recoverable amount is estimated. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount.

### **4. INVESTMENTS**

- 4.1 Short Term Money Market Instruments such as Commercial Papers and Certificate of Deposit, are shown at their discounted value and the difference between the acquisition cost and the redemption value is apportioned on time basis and recognised as accrued income.
- 4.2 Contracts for purchase and sale of shares, bonds, debentures, etc., are accounted for as “Investments” as on date of Transaction.
- 4.3 The cost of investments include premium on acquisition, expenses like brokerage, transfer stamps, transfer charges, etc., and is net of incentive/fee if any, received thereon.
- 4.4 Dividend is accounted for as income in the year of declaration. Dividend on shares/interest on debentures under objection/pending delivery is accounted for, on realisation. Interim dividend is accounted where the warrants are dated 31<sup>st</sup> March or earlier.

- 4.5 Profit/Loss on realisation of investments is computed by taking Weighted Average Book Value as cost of investments except Government Securities which are held to maturity and profit/loss on such investments are worked out on First In First Out Basis (FIFO).
- 4.6 Investment in Government Securities, debt securities and redeemable preference shares are considered as held till maturity and valued at cost. However, in terms of Insurance Regulatory and Development Authority Regulations the premium paid at the time of acquisition of securities is amortised over the residual period of maturity.
- 4.7
- a) Investments in Mutual Fund/s are valued at Net Asset Value (NAV) at the year-end and the difference between cost/book value and NAV is accounted in Fair Value Change Account. However, if there is impairment in value, the same is charged to Revenue and the book value of investment is reduced accordingly. Any reversal of impairment loss earlier recognised, shall be taken to revenue to the extent of reduction in impairment recognised earlier.
  - b) In case of non-availability of NAV as at the Balance Sheet date, investment is shown at cost.
- 4.8
- a) Investment Portfolio in respect of Equity/Equity related instruments are segregated into Actively Traded and Thinly Traded as prescribed by Insurance Regulatory and Development Authority Regulations. The shares are treated as thinly traded by taking into consideration transactions in the month of March on both NSE and BSE.
  - b) Actively Traded Equity/Equity related instruments will be valued as per IRDA guidelines. The difference between weighted average cost and quoted value is accounted in Fair Value Change Account.
- 4.9 Investment in thinly traded Equity shares and unlisted equity shares are shown at cost. However, difference between cost and break-up value is provided for as diminution in value. Further, if the published accounts of an unlisted Company are not available for last three accounting years ending on or immediately preceding the date of working out provision for thinly/unlisted shares or if the break-up value is negative then the provision is made for the entire cost.

4.10 Investment in Listed Equity/Equity related instruments/Preference shares made in those Companies, which are making losses continuously for last three years and where capital is eroded, are considered to have Impairment in value. Further, if the published accounts of a Company are not available for last three accounting years ending on or immediately preceding the date of working out Impairment in value, it is presumed that the value of investments is fully impaired and is written off to a nominal value of Re 1/- per Company.

4.11 A) Valuation of investments considered to have impairment in value is done as under:

- a) In respect of Actively Traded Equity shares: - Least of Cost Price, Market Price or Break-up Value provided Break-up Value is positive. However, if the Break-up Value is negative the nominal value is taken at Rs. 1/- per Company.
- b) In respect of Other Than Actively Traded Equity Shares: - Lower of Cost Price or Break-up Value provided Break-up Value is positive. However, if Break-up Value is negative the nominal value is taken at Rs. 1/- per Company.
- c) In respect of preference shares, if the dividend is not received for the last three years: - The preference shares are written down to a value which will bear to its face value, the same proportion as value taken/which would have been taken for writing down equity shares bears to the face value of the equity shares. However, if the equity shares are written off to Re.1/- per Company, preference shares also will be written off to a nominal value of Re. 1/- per Company.

B) Once the value of investment in listed equity/equity related instruments/preference shares is impaired in accordance with the above mentioned policy, the reversal of such impairment losses are recognised in revenue/profit & loss account only when the accumulated losses of such investee companies are completely wiped out and capital is fully restored as per the latest available published accounts on or immediately preceding the date of working out the reversal.

4.12 REVERSE REPO Transactions are treated as secured lending transactions and accordingly disclosed in the financial statements. The difference between total consideration at the 1<sup>st</sup> and 2<sup>nd</sup> leg of the transaction is treated as income.

4.13 “Collateralised Borrowing and Lending Obligation“(CBLO), which is issued at Discount to the Face Value, is treated as Money Market Instrument as per Reserve Bank of India Notification. Discount earned at the time of lending through CBLO is shown as income, which is apportioned on time basis.

4.14 a) Unrealised gain, losses arising due to changes in the fair value of listed equity shares are taken 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.

## **5. PREMIUM INCOME**

5.1 Premium Income in respect of Transfer Guarantees, Export Credit Insurance for Banks (Export Performance), Short Term Policies, Export Credit Insurance for Banks and Domestic Credit insurance policies and Domestic Credit insurance for banks, received upto the end of the year is accounted for after verification of the relevant declaration forms/documents received from exporter/bank and on receipt of premium due for the risk undertaken.

5.2 Premium Income in respect of Long Term policies/ Export Credit Insurance for Banks relating to Project and Term Exports, Lines of Credit and Overseas Investment Insurance, is apportioned over the period of policy/guarantee on the basis of the schedule of payments/exports as and when drawn up from time to time.

## **6. RESERVE FOR UNEXPIRED RISKS**

Reserve for unexpired risks is created at 50% of net premium income for the year.

## **7. PREMIUM DEFICIENCY**

Premium deficiency is recognised when the sum of expected claim costs and related expenses exceed the reserve for un-expired risks.

## **8. LIABILITY ON ACCOUNT OF CLAIMS AND ACCOUNTING OF ESTIMATED RECOVERIES.**

- 8.1 Liability towards outstanding claims comprises of claims preferred and outstanding at the year end. Further, the provision for Claims Incurred But Not Reported (IBNR), Provision for Claims Incurred But Not Enough Reported (IBNER) are accounted for as per actuarial valuation as at end of the year.
- 8.2 The estimated recoveries (other than transfer delay recoveries) in respect of claims paid are accounted for on the basis of assessment of each case. However, the recoveries in respect of claims paid and outstanding for recovery for more than three years as on the Balance Sheet date are estimated at 100 (Rupees one hundred only) even if higher recovery provision is estimated on such assessments. The estimated recoveries on account of transfer delay claims paid, is accounted on the basis of the Corporation's current perceptions based on the available information and past experience.
- 8.3 No provision is made for following claims which are treated as Contingent Liability:
- (i) Claims rejected by the Corporation and not acknowledged as debts in respect of which legal action and/or arbitration has been initiated except cases where there have been adverse ruling. Such cases have been provided under claims in the financial statements.
  - (ii) Claims preferred by Banks where, as confirmed by them, compromise proposals for recovery of dues are under negotiation.

Interest claimed, if any, in respect of cases referred to (i) & (ii) is not considered either for the purpose of contingent liability or for provision.

## **9. REINSURANCE**

- 9.1 Insurance premium on ceding of the risk is recognised in the year in which the risk commences. Any subsequent revision to premium ceded is recognised in the year of such revision. Adjustment to reinsurance premium arising on cancellation of policies is recognised in the year in which it is cancelled

- 9.2 Commission received on reinsurance ceded is recognized as income in the period in which reinsurance premium is ceded.
- 9.3 Profit commission under re-insurance treaties, wherever applicable, is recognized in the year of final determination of the profits and as intimated by re-insurer.
- 9.4 Amounts received/receivable from the re-insurers, under the terms of the reinsurance arrangement, are recognized together with the recognition of the claim.

## **10. EXPENSES OF MANAGEMENT**

- 10.1 Management expenses, other than those directly related to other businesses of the Corporation, incurred by the Corporation are considered as expenses relating to the insurance business and are therefore charged to revenue account. Expenses relating to investment are apportioned between Revenue and Profit & Loss Account in the same proportion as stated in Significant Accounting Policy No.10.2.
- 10.2 The income from interest and dividends is apportioned between Profit and Loss Account and Revenue Accounts in the ratio of Shareholders' Fund and Policyholder's Fund respectively at the beginning of the financial year. Shareholders fund consists of Share Capital and Free Reserves including Borrowings. Policyholders Fund consists of provisions for outstanding claims and reserves for unexpired risks.
- 10.3 Printing and Stationery items are treated as consumed in the year of purchase.

## **11. EMPLOYEE BENEFITS:**

- 11.1 The Corporation provides for gratuity, a defined benefit plan covering all eligible employees. The plan provides a lump sum payment to eligible employees on retirement or on termination of employment based on the salary of the respective employee and the years of employment with the Corporation. The Corporation contributes to a gratuity fund maintained by Insurance Company. The amount of contribution is determined based upon actuarial valuations as at the year end. Such contributions are charged off to the Revenue Account.

- 11.2 Provision is made for the shortfall between the actuarial valuation as per Projected Unit Credit Method and the funded balance with the Insurance Company as at the Balance Sheet date.
- 11.3 As per Corporation's policy, employees are eligible to encash leave standing to the credit of employees at the time of resignation/retirement subject to terms and conditions. Provision for short-term compensated absences is made on the basis of an estimate of availment of the leave balance to the credit of the employees as at the Balance Sheet date. Long-term compensated absences are provided for based on actuarial valuation as at Balance Sheet date.
- 11.4. Provident Fund is a Defined Benefit Plan. Corporation's contribution towards the fund is charged to the Revenue Account. In case the return of the Provident Fund Trust's corpus is below the Statutory Prescribed Minimum, the Corporation will have to fund the shortfall.
- 11.5. Employees are eligible to receive Provident Fund benefits through a defined benefit plan in which employees make monthly contributions to the plan, @ 10%, of the covered employees' basic salary. The Corporation contributes an equal amount in case of the eligible employees who have joined the Corporation on or before 31/03/2010 and have not opted for pension benefit. The Corporation has established a Provident Fund Trust to which contributions towards Provident Fund are made and contributions towards Provident Fund are charged to the Revenue Account on an accrual basis. The Corporation guarantees the specified rate of return on such contributions on a periodical basis. The Corporation will meet the shortfall in the return, if any.
- 11.6 Employees are eligible to receive Pension benefits through a defined benefit plan to which the Corporation contributes to the plan, @ 10%, of the covered employee's basic salary. Employees who have joined the Corporation on or before 31/03/2010, and have opted to receive Pension benefit are covered under the Pension Plan. The Corporation has established a Pension Fund Trust to which contributions towards Pension are made each month. Contributions towards Pension Fund are charged to the Revenue Account on an accrual basis. The Corporation will evaluate the net liability based on an actuarial valuation of the Obligation and the Fair Value of the Assets to meet the obligation and provides for the same as on the date of Balance Sheet.



- 11.7 Those employees who have joined the Corporation on or after 01.04.2010 are eligible to be the members of a Defined Contribution Plan (New Pension Scheme) in which employees make monthly contributions to the plan @ 10% of the their basic salary and Dearness Allowance (DA). The Corporation contributes an equal amount in case of the eligible employees. The Corporation's contribution's are charged to the Revenue Account on an accrual basis
- 11.8 All other Long Term Benefits are provided for on Actuarial Basis.
- 11.9 The actuarial gains/losses on the employee benefits are immediately recognized in the Revenue Account.

## **12. INCOME TAX**

- 12.1 Provision for Tax is made on the basis of taxable profits computed for the current accounting period in accordance with the Income Tax Act, 1961. MAT paid in accordance with the Tax Laws, which gives raise to future economic benefits in form of tax credit against future Income Tax liability, is recognised as an asset in the balance sheet if there is convincing evidence that the Corporation will pay normal tax in future years and the resulting asset can be measured reliably.
- 12.2 Deferred Tax is calculated at the tax rates and laws that have been enacted or substantially enacted as of the Balance Sheet date and is recognized on timing difference that originate in one period and are capable of reversal in one or more subsequent periods. Where there is unabsorbed carry forward business losses or depreciation, deferred tax assets are recognized only if there is virtual certainty of realisation of such assets. Other deferred tax assets are recognised only to the extent that there is a reasonable certainty of realisation in future.

## **13. PROVISIONS, CONTINGENT LIABILITIES & CONTINGENT ASSETS**

- 13.1 A provision is recognised when an enterprise has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on management estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates.

13.2 Contingent Liabilities are disclosed when the Corporation has a possible obligation or a present obligation and it is probable that a cash outflow will not be required to settle the obligation.

13.3 Contingent assets are neither recognised nor disclosed in the financial statements.

#### **14. FACTORING**

14.1 Factoring Service Charges including interest are accounted as and when accrued.

14.2 Debts Factored are included under the head Current Assets as Sundry Debtors. Such debtors are classified as performing and non-performing assets, based on the guidelines issued by the IRDA. Performing debtors are classified as Standard assets, Non-Performing debtors are classified into sub-standard, doubtful and loss assets, based on the classification criteria stipulated by IRDA

14.3 The unpaid balances of the price of debts factored and due to the clients on collection are included under Current Liabilities and are reflected in the form of Factoring Margin Account.

14.4 Gain and loss arising on account of differences in foreign exchange rates on settlement/translation of monetary assets and liabilities are charged to clients

14.5 Provision for factoring debts is made as per IRDA norms notified from time to time. Such provision includes provision at the rate of 0.40% on standard assets. Provisions are made for NPAs as per the guidelines prescribed by the regulatory authorities, subject to minimum provisions as prescribed below by the IRDA :

Substandard Assets:

- i. A general provision of 10%
- ii. Additional provision of 10% for exposures which are unsecured ab-initio (where realisable value of security is not more than 10 % ab-initio)

Doubtful Assets:

-Secured portion:

- i. Upto one year – 20%
- ii. One to three years – 30%

	iii. More than three years – 100%
-Unsecured portion	100%
Loss Assets:	100%

#### **15. NEIA TRUST ACCOUNT:**

The administrative charges received from NEIA Trust is being allocated equally throughout the cover period.

#### **16. FOREX TRANSACTIONS:**

- 16.1 Initial Recognition – Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency approximately at the date of the transaction.
- 16.2 Conversion – Foreign currency monetary items are reported using the closing rate. Non-monetary items, which are carried in terms of historical cost denominated in a foreign currency, are reported using the exchange rate at the date of the transaction.
- 16.3 Exchange Differences – Exchange differences arising on the settlement or conversion of monetary items, are recognized as income or as expenses in the period in which they arise and are charged to revenue account.