**Ref:** MetLife-UP-3000

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| **Client name:** American Life Insurance Company, Bangladesh Branch (MetLife) | | |
| **Accounting period:** 01 January 2021 to 31 December 2021 | | |
|  | |  |
| **Work done by** | **:** Hasan Shahriar Khan | **Date:** 16-04-2022 |
| **Work reviewed by** | **:** Israt Jahan | **Date:** 16-04-2022 |

**Interest Income from bonds and FDRs Procedures**

**We have summarized the current practice regarding Interest income from govt. bonds and FDRs as per discussion with following process owner of MetLife.**

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| --- | --- |
| **Name** | **Designation** |
| Mr. Md. Imran Shikdar, CFA | Manager, Finance |

American Life Insurance Company, Bangladesh Branch manages its interest income from investment in govt. bonds and FDRs by its well-designed process.

1. **Interest Income From Fixed Deposits with Banks:** Fixed Deposit (FDR and Takaful) with Banks consist of following three categories:
2. Long term (More than 1 year)
3. Short term (Up to 1 year)
4. Takaful Deposits (Islamic)

The local investment team inputs the details of FDR investment in Black Rock Aladin which is interfaced with PAM. The calculation of interest and interest accrual journal both are performed by PAM. Interest on FDR is given/realized on maturity. But the company accrues the interest on monthly basis. At each month end, PAM passes an automated valuation entry regarding interest income based on the rate, maturity, frequency and cost price inputted by local team. Since PAM is interfaced with PeopleSoft, the valuation entry passed in PAM automatically updates interest income ledger in PeopleSoft.

**New FDR**

When a new FDR is purchased, following booking entry is passed in Black Rock Aladin by local investment team,

Investment……………………………………Dr.

Investment Suspense …………………………….Cr.

**Cash match entry**: The following entry is manually posted in PAM by US Securities Team after getting the Bank Statements from Bangladesh by every 10 days interval.

Investment Suspense……………………………………..Dr.

Bank …………………………………………………………………Cr.

**Interest recognition:** At the end of each month an automated valuation entry is made through PAM to People Soft for interest accrual of FDRs.

Interest accrued but not due…………………………………Dr.

Interest income.……………………..…………………………….. Cr.

**Interest realization:** On maturity an automated entry is posted through PAM to People Soft:

Investment suspense (with principle and interest)…………………Dr.

Investment……………………………………………………………………………….Cr.

Interest accrued but not due…………………………………………..………Cr.

**Cash match entry:** When the interest is realized, a manual entry is posted to People Soft by local investment team after getting the Bank Statements.

Cash at Bank…………………………………………………………….……Dr.

Investment suspense (with principle and interest)…………………Cr.

1. **Interest Income from Government Treasury Bonds:** Treasury bonds consist of different categories of Government Treasury Bond for different tenure varied from 02 years to 20 years.

When a new bond is purchased, an initial entry is posted in Black Rock Aladin by Regional investment team (Hong Kong). They initially inputs all the details of bonds including cost price, book yield, market yield, coupon rate, maturity, frequency and any amortization or premium. Black Rock Aladin is interfaced with PAM. All data inputted in Black Rock is automatically transferred to PAM. And PAM is interfaced with PeopleSoft. At the month end, PAM automatically passes an valuation entry for interest income based on the information provided by Regional team. Coupons are paid on semi-annual basis. But interest is accrued monthly.

**New Bond:**

When a new bond is purchased, following booking entry is made in Black Rock Aladin by US Securities team,

Interest income (Accrued interest from issue date to purchase date) ……...Dr.

Investment…………………………………….……………………………………………….………………Dr.

Investment suspense (with principle and Accrued interest)……………...Cr.

**Cash match entry:**

After ten days, US securities team gives cash match entry after getting the bank statements from local investment team,

Investment suspense…………………………………………………Dr.

Bank…………………………………………………………………………….Cr.

**Interest recognition:** At the end of each month, an automated valuation entry is made in the system for interest accrual of Govt. bonds.

Interest accrued but not due…………………………………………..………Dr.

Interest income…………………………………………………………………………Cr.

For amortization of discount of a bond, following entry is passed-

Investment (by Amortization of discount)………………….……….Dr.

Interest Income………………………………………………………………………Cr.

For amortization of premium of a bond, following entry is passed-

Interest income…………………………….…………………Dr.

Investment (by Amortization of premium)……………Cr.

**Interest realization**

On the coupon date, when the interest is realized, all accrued interest up to coupon date is reversed and a manual entry is posted to People Soft by local investment team after getting the Bank Statements.

Interest income (accrued amount)………………………………….Dr.

Interest accrued but not due……………………………………………Cr.

Bank……………………………………………………………Dr.

Interest Income (actual amount)…………………………Cr.

**What could go wrong:**

Interest income may be understated or overstated due to wrong input of investment information.

**Control points:**

1. Investment related information are inputted by local investment team whenever a new investment is made and this information is reviewed by delegated authority of the same team.

2. Interest income is automatically calculated in PAM. PAM has interface with GL.