

**CONSULTATION PAPER ON PROPOSED
Guidelines on International Financial Services Centres Authority (Assets, Liabilities,
and Solvency Margin of General, Health and Re-insurance business) Regulations,
2023**

Objective:

The objective of this consultation paper is to seek comments / views/ suggestions from public on the proposed Guidelines on International Financial Services Centres Authority (Assets, Liabilities, and Solvency Margin of General, Health and Re-insurance business) Regulations, 2023.

Background:

1. The International Financial Services Centres Authority (IFSCA) is the unified regulator for the development and regulation of financial products, financial services and financial institutions in the International Financial Services Centres (IFSCs) in India.
2. To facilitate the growth of insurance & reinsurance sector and to provide best in class regulatory framework, which is at par with top international jurisdictions, IFSCA has already notified relevant regulations dealing with the aspects of assets, liabilities, and solvency margin of insurance business. Now, accompanying the notified regulations, IFSCA proposes to notify the proposed guidelines.
3. These guidelines specify, *inter alia*, the format and contents of Annual Actuarial Report, Determination of Amount of Liabilities and Quarterly Certificate of Solvency and Capital Compliance.
4. The draft guidelines are placed on the website of the IFSCA at <https://ifsca.gov.in/PublicConsultation>. General public and stakeholders are requested to forward their comments / suggestions through e-mail to Insurance Dept. at insurance-dept@ifsca.gov.in with copy to Mrs. Riddhi Bhandari, General Manager, at riddhi.bhandari@ifsca.gov.in and Nitin Gupta, Assistant Manager, at g.nitin@ifsca.gov.in by 10th January, 2024 in the attached format. It is further requested to provide comments in MS Word or MS Excel format only.

**INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY
NOTIFICATION**

Gandhinagar, the __/__, 2023

DRAFT Guidelines on International Financial Services Centres Authority (Assets, Liabilities, and Solvency Margin of General, Health and Re-insurance business) Regulations, 2023

CHAPTER – 1

1. Objective -

These Guidelines aim to put in place a framework to address operational issues for requirements related to capital and solvency for undertaking general, health or re-insurance business by International Financial Service Centre Insurance Offices (IIOs).

2. Applicability –

These guidelines shall be applicable to International Financial Service Centre Insurance Offices (IIOs) registered with the Authority under International Financial Services Centres Authority (Registration of Insurance Business) Regulations, 2021 and falling under applicability provisions of International Financial Services Centres Authority (Assets, Liabilities, and Solvency Margin of General, Health and Re-insurance business) Regulations, 2023 (“ALSM GI Regulations”) notified on April 20, 2023.

3. Legal and Other Provisions –

In exercise of the powers conferred under section 28 read with sections 12 and 13 of the International Financial Services Centres Authority Act, 2019 read with the ALSM GI Regulations, the Authority hereby makes these Guidelines.

4. Short Title and Commencement –

- (1) These Guidelines may be called the International Financial Services Centres Authority (Assets, Liabilities, and Solvency Margin of General, Health and Re-insurance business) Guidelines, 2023.
- (2) These Guidelines shall come into force from the date of their issuance.

CHAPTER – 2
Reporting requirements
[Refer Reg. No. 5(1) of ALSM GI Regulations]

1. As per the regulation no.5(1) of ALSM GI Regulations, all IIOs shall submit the form ALSM-GI-A, ALSM-GI-L and ALSM-GI-SM on a quarterly basis.
2. All IIOs shall submit a quarterly certificate in terms of the solvency being maintained as per the format of Quarterly Certificate of Solvency and Capital Compliance as provided in the Annex I and Annex II. The certificates shall be signed by the following:
 - (a) For an IIO set up in an incorporated form in IFSC, by the appointed actuary and principal officer, as the case may be
 - (b) For an IIO set up in an unincorporated form in IFSC, by the appointed/signing actuary or the principal officer of the parent entity, as the case may be.
3. The Annual Actuarial report as per chapter 3 of these guidelines, shall be submitted to the Authority only by IIOs set up in IFSC in incorporated form.
4. All the reporting as per point 1 to 3 above, shall be submitted to the Authority within a time period of 45 days from the end of reporting period.
5. The Principal Officer of all IIOs shall submit the duly certified copy of any returns or submissions made to the home regulator in relation to the IIO to the Authority within 45 days from the date of such submission.

CHAPTER - 3
Annual Actuarial Report
[Refer Reg. No. 5(2)(a) of ALSM GI Regulations]

1. The Appointed Actuary shall present to the Board of the IIO, an Annual Actuarial Report, comprising of the following:
 - (1) Business Projections for the subsequent 3 years
 - (2) Analysis of business growth
 - (3) Analysis of experience for the past 3 years
 - (4) Adequacy of premium
 - (5) Valuation methodology for each line of business
 - (6) Adequacy of reserves
 - (7) Reinsurance Requirement and cost benefit analysis
 - (8) Risk management framework in the company
 - (9) Adequacy of capital
 - (10) Investment and Asset Liability Matching
 - (11) Complaints and grievances of policy holders
 - (12) Current Financial Condition
 - (13) Future Financial Condition
 - (14) Any other item, as may be deemed essential from the business being undertaken by the insurer.
2. The Appointed Actuary must follow the following general guidance principles while preparing the Annual Actuarial Report:
 - (1) Assess materiality of risk for reporting based on judgment.
 - (2) Make recommendation on adverse findings
 - (3) Quantify uncertainty where feasible or otherwise provide qualitative description
 - (4) Provide detailed methodology and calculations for non standard approaches.
 - (5) State assumptions clearly along with its implications.
 - (6) Check reasonableness and accuracy of data provided to him/her for FCR.
 - (7) Highlight data not captured by company and the recommend plan to be enforced to capture such data.
 - (8) Specify reliance on other actuary or professionals work along with steps taken to ensure its objectivity.
 - (9) Specify limitations of the report.
 - (10) Set the target audience of the report and a note of cautions for other readers.

CHAPTER – 4

Determination of Amount of Liabilities

[Refer clause (b) of sub-regulation (1) of regulation 5 read with Schedule II of
ALSM GI Regulations]

1. Wherever applicable, the expressions 'lines of business' or 'business/ insurance segment' shall mean such lines of business as specified under Reg. 3(1)(o) of IFSCA (Re-insurance) Regulations, 2023 i.e.,

- (1) Fire (Other than Oil & Energy);
- (2) Marine Hull;
- (3) Marine Cargo;
- (4) Engineering;
- (5) Aviation;
- (6) Motor;
- (7) Health (including Personal Accident & Travel), other than policies issued by insurers transacting Life Insurance business;
- (8) Crop;
- (9) Trade Credit;
- (10) Oil & Energy;
- (11) Liability;
- (12) Miscellaneous;
- (13) Life (including health insurance policies issued by Life Insurers);
- (14) Any other segment (under Miscellaneous segment) which contributes more than ten percent of the Gross Written Premium of the Miscellaneous segment;
- (15) Any other segment as may be specified by the Authority from time to time.

2. Premium Reserves

(1) Unearned Premium Reserve (UPR):

- a) The unearned premium is "the premium corresponding to the time period remaining on an insurance policy", it is proportionate to the unexpired portion of the insurance.
- b) In general, UPR shall be computed at a policy level *Pro-rata temporis* (1/365th) method. The UPR computed shall be certified by the Statutory Auditor and the Chief Financial Officer of the IIO.
- c) In cases where the risk is disproportionately distributed during the policy period, the UPR may be computed so as to be proportionate to the unexpired quantum of risk such computation shall also be certified by the Appointed Actuary.

Provided, for the purpose of clarity, it is directed that the computation of UPR for IIOs set up in unincorporated form in IFSC shall be as per the home country regulations.

(2) **Premium Deficiency Reserve (PDR):**

- a) The PDR shall be calculated using sound actuarial principles, consistent with those used to determine other liabilities like IBNR.
- b) Though the PDR shall be maintained at the IIO level, PDR on class of business basis shall be monitored by the Appointed Actuary for verifying the sustainability of products and the authority may direct appropriate action.
- c) The PDR computed shall be certified by the Appointed Actuary of the IIO.

(3) **Unexpired Risk Reserve (URR):** Unexpired Risk Reserve is defined as sum total of UPR and PDR.

3. Claim Reserve

(1) The Claims Reserve shall be determined as the aggregate amount of Outstanding Claims Reserve and Incurred but Not Reported Claims Reserve (IBNR) as described below for the lines of business mentioned above.

(2) **Outstanding Claims Reserve:** The outstanding claims reserve shall be determined in the following manner -

- a) Where the amount of outstanding claims of the insurers is known, the amount is to be provided in full;
- b) Where the amount of outstanding claims can be reasonably estimated according to the insurer, insurer shall follow the 'case by case method' after taking into account the explicit allowance for changes in the settlement pattern or average claim amounts, expenses and inflation;
- c) For lines of business, where the Appointed Actuary is of the view that the statistical method is most appropriate for the estimation of Outstanding claims, the Appointed Actuary may use the appropriate statistical method of claims reserving instead of following case by case method. In such cases, the claims outstanding reserve shall be certified by Appointed Actuary. Where the Appointed Actuary identifies material changes in the claims handling practices, their impact on the outstanding claims reserve pattern shall be taken into account and reported.

(3) **Incurred But Not Reported Reserve (IBNR)**

- a) The IBNR claims reserve shall be determined using actuarial principles and methods detailed in para 4 below.
- b) The IBNR shall be estimated using appropriate actuarial principles and shall be certified by the Appointed Actuary.
- c) The Appointed Actuary shall estimate IBNR on both net of reinsurance and gross of reinsurance basis.
- d) The Appointed Actuary shall estimate the provision for IBNR for each year of occurrence and the figures shall be aggregated to arrive at the total amount to be provided.
- e) If estimate of IBNR provision for any year of occurrence is negative, the Appointed Actuary shall re-examine the underlying assumptions. Even after re-examination, if the mathematics produces negative value, the Appointed Actuary shall ignore the IBNR provision for that year of occurrence.
- f) The estimation process shall not discount the estimated future development of paid claims to the current date.
- g) The IBNR shall also provide for the following:
 - (i) Possible inadequacy in the Outstanding provisions – referred to as IBNER (incurred but not enough reported) reserves
 - (ii) Allocated loss adjustment expenses corresponding to IBNR
 - (iii) Other risks and factors that the appointed actuary may deem fit.

4. Actuarial Methods

- (1) The following Standard Actuarial Methods may be used for the estimation of IBNR reserves:
 - a) Basic Chain Ladder Method (both on incurred and paid claims)
 - b) Bornhuetter Ferguson Method (both on incurred and paid claims)
 - c) Frequency – Severity Method
- (2) The Appointed Actuary shall use more than one method to arrive at an estimate that he believes is adequate to meet the future liabilities.
- (3) Appointed Actuary may use methods other than standard actuarial methods of IBNR estimation.
- (4) In his annual report submission to the Regulator, Appointed Actuary should provide an explanation of the rationale underlying the selection of a particular method over the other available methods along with the advantages and disadvantages of doing so.

- (5) Where the results of different methods or assumptions differ significantly, an Appointed Actuary must comment on the likely reasons for the differences and explain the basis for the choice of results.

5. Determination of Other Liabilities: The IIO shall place a proper value in respect of the following items

- (1) provision for bad and doubtful debts; reserve for dividends declared or recommended, and outstanding dividends in full;
- (2) amount due to insurance companies carrying on insurance business, in full;
- (3) amount due to sundry creditors, in full;
- (4) provision for taxation, in full; and
- (5) foreign exchange reserve.

Quarterly Certificate of Solvency and Capital Compliance (QSC -1)

(on Parent entity Letterhead)

I, [Appointed Actuary's Full Name], the duly appointed actuary/signing actuary of [Entity Name], hereby certify that, as of [Date], our examination and analysis of the company's financial position and risk exposure, in accordance with the prevailing regulations and standards set forth by [Regulatory Authority or Relevant Legislation], confirms that the solvency capital required by these regulations is being maintained by the company.

My assessment, conducted in accordance with generally accepted actuarial principles and practices, includes an evaluation of the company's assets, liabilities, and risk profile. We have considered all relevant factors, including the following:

1. **Assessment of Insurance Liabilities:** We have reviewed and assessed the insurance liabilities of the company, including policy reserves, claims liabilities, and other obligations, in accordance with the methodologies prescribed by the regulatory authority.
2. **Risk Assessment:** We have evaluated the company's exposure to various risks, including underwriting, investment, operational, and market risks, and have determined that the company has adequate financial resources to cover these risks.
3. **Capital Adequacy:** Based on our assessment, we confirm that the solvency capital maintained by the company exceeds the minimum capital requirements mandated by the prevailing regulations.
4. **Compliance with Reporting Requirements:** We have ensured that all reporting requirements stipulated by the regulatory authority have been met in a timely and accurate manner.

This certificate is issued in accordance with the duties and responsibilities vested in the appointed actuary as defined by [Applicable Regulations]. It is intended to provide assurance to GIFT-IFSCA, that [IIO set up in IFSC] is in compliance with the solvency capital requirements as of the specified date.

[Signature of Appointed Actuary]

[Name of Appointed Actuary]

[Credentials of Appointed Actuary]

[Date]

Quarterly Certificate of Solvency and Capital Compliance (QSC -2)

(by Principal officer of Parent Entity)

[on Parent Entity Letterhead]

I, [Principal Officer's Full Name], the duly appointed Principal Officer of [Entity Name], hereby certify that, as of [Date], our company is in full compliance with the solvency capital requirements stipulated by the prevailing regulations and standards set forth by [Regulatory Authority or Relevant Legislation].

This certificate affirms the following:

1. We have conducted a thorough assessment of our financial position, including the evaluation of assets, liabilities, and risk exposures. Based on this assessment, we confirm that our solvency capital exceeds the minimum capital requirements mandated by the [home country regulatory authority].
2. We have diligently complied with all reporting obligations, submissions, and deadlines as prescribed by the [regulatory authority]. Our financial statements and reports accurately reflect our financial position and are submitted in accordance with the regulatory guidelines of [home country regulatory authority].
3. Our risk management framework aligns with the requirements set by the [home country regulatory authority].
4. We maintain a strong governance structure and oversight mechanisms to ensure ongoing compliance with regulatory requirements as required by [home country regulatory authority].

This certificate is issued in accordance with the duties and responsibilities of the principal officer as defined by [Applicable Regulations or Company Bylaws]. It is intended to provide assurance to GIFT-IFSCA that [Parent Entity Name] is in compliance with the solvency capital requirements as of the specified date.

Sincerely,

[Signature of Principal Officer]

[Name of Principal Officer]

[Title of Principal Officer]

[Date]

Format for providing comments / suggestions

Proposed Guidelines on International Financial Services Centres Authority (Assets, Liabilities, and Solvency Margin of General, Health and Re-insurance business) Regulations, 2023

Inputs / Comments suggested by:

Page No. of Draft Guidelines	Guid. No.	Sub-Guid. No. /Para No.	Comments / Suggestions / Suggested modifications	Rationale