



Liyaquat Khan
President

9th April, 2012

Submission to IRDA

Comments on the circular no: IRDA/NL/GDL/RIN/015/01/2012 dated 6 January 2012 on the subject – “Guidelines on submission of information on Cross Border reinsurers not having any presence in India”.

This note provides the comments from the Advisory Group on Life Insurance of the Institute of Actuaries of India and does not constitute views of the Council of the Institute.

Submission:

1. Para 3 of the circular reads as follows:

“All insurers and reinsurance intermediaries **The solvency of the reinsurer and their parent company, where applicable, should not be lower than standards prescribed for Indian insurers.....**and adequacy of their technical reserving methodologies of the reinsurer.”

Assessing the solvency of a reinsurer is a complex exercise and we believe there are no established standards to compare the solvency mechanism as applicable in any two countries. It may be noted that the solvency standards of different countries vary depending on the development of the industry in that country amongst other factors. As insurers deal with many reinsurers operating in different countries, it is extremely difficult to ensure the solvency standards of those countries to be on par with solvency standards of India.

The established practice of choosing a reinsurer is using the credit rating from reputed credit rating agencies worldwide such as S&P, Moody or A.M. Best just to mention some. The credit ratings including the rationale for awarding such rating are available publicly. We believe that this criterion should be easy to verify while choosing a reinsurer.

Recommendation 1:

We suggest modifying the said para as follows:

“All insurers and reinsurance intermediaries shall ensure that the cross border reinsurers who accept their reinsurance business are legal entities in their home country and are regulated and supervised by their home supervisors. All insurers

should choose a reinsurer with a rating of minimum of BBB of Standard and Poor or equivalent rating of any international rating agency. Further, an insurer should obtain a “Certificate of Solvency” from a reinsurer issued by their home insurance regulatory authority on an annual basis.”

- 2. Para 6 specifies that *insurer should bring to the notice of authority any material information as regards the cross border reinsurers that would impair the ability of the reinsurer to meet the commitments towards cedants.***

We believe that an insurer can only know the details of the company which are publicly available. It is extremely difficult to know any material information which is not available in public domain locally. Further what constitutes “material information” is at the best subjective.

Recommendation 2:

We would suggest modifying the said para as follows:

“Insurers and the reinsurance intermediaries should bring to the notice of Authority the proposed steps they intend to take in the event a cross border reinsurer with whom they transact reinsurance business becomes insolvent in its home country or the credit rating of such reinsurer drops below the minimum level prescribed by the Authority. Furthermore, in the event that the insurance company or reinsurance intermediary decides to take action in terms of this requirement, the Authority should be notified within 45 days of the action taken.”

- 3. Section D of information sheet provided in Annexure 1 requires the details of existing relationship. We would like to bring to your attention that the information related to a particular insurer or reinsurer is confidential in nature. Providing information in the current format might breach the confidentiality of the relationship.**

Recommendation 3:

We would suggest the adoption of any one of these three alternatives:

- a) Remove the Section D from the information sheet,*
- b) Submit the details only of a particular insurer while submitting the information sheet through that particular insurer,*
- c) Allow cross border reinsurers to submit the details of all relationships within India directly to the Authority.*

- 4. The insurers are expected to file the reinsurance programme at least forty five days before the commencement of each financial year. The circular therefore brings in to attention some consequential effects.**



Recommendation 4:

It is recommended that the Authority instruct insurers to submit the information format along with the reinsurance programme.

Recommendation 5:

Other relevant matters;

- 1) It may be clarified whether this circular applies to life insurers. This recommendation is made in the background of the circular having originated from General Insurance Department of IRDA.
- 2) As per the circular the effective date is 1 April 2012. This appears to contradict para 2 of the circular as the information sheet is to be submitted before 31 March, 2012. It may therefore be clarified if the information sheet is to be submitted before 31 March 2012 to write the business on or after 1 April 2012.

We thank IRDA for the opportunity to comment.

Regards,

Liyaquat Khan