

**CONSULTATION PAPER ON PROPOSED
Guidelines on IFSCA (Assets, Liabilities, and Solvency Margin of Life 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 Life 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 Abstract of Actuarial Report and Quarterly Certificate of Solvency and Capital Compliance.
4. The draft guidelines are placed on the website of the IFSCA at <https://ifsc.gov.in/PublicConsultation>. General public and stakeholders are requested to forward their comments / suggestions through e-mail to Insurance Dept. at insurance-dept@ifsc.gov.in with copy to Mrs. Riddhi Bhandari, General Manager, at riddhi.bhandari@ifsc.gov.in and Nitin Gupta, Assistant Manager, at g.nitin@ifsc.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 Life 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 life 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 and Abstract of Actuarial Report for Life Insurance Business) Regulations, 2023 (“ALSM LI 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 LI 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 Life 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 LI Regulations]

1. As per the regulation no. 5(1) of ALSM LI Regulations, all IIOs shall submit the form ALSM-L-A, ALSM-L-L, ALSM-L-SM1, ALSM-L-SM2 and ALSM-L-SM3 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 Abstract of 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

Abstract of Actuarial Report

[Refer Reg. No. 5(2)(a) of ALSM LI Regulations]

1. The Appointed Actuary shall present to the Board of the IIO an Abstract of Actuarial Report, annually, comprising of the following:

(1) **Certification by the Appointed Actuary**

“I, (name of AA), the Appointed Actuary of (name of insurer), hereby certify, with regard to the liabilities under the policies held by the insurer at the Report Date, to the best of my knowledge:

- a) that I have complied with the provisions of the Insurance Act, 1938, Regulations, Rules and Directions of the IFSCA including the guidelines;
- b) that I have taken into account all contingencies appropriate to the business that is valued and that the assumptions employed in the valuation are appropriate;
- c) that the mathematical reserves have been based on accurate data and have been calculated and reported accurately, subject to the following qualifications (list the qualifications, if any);
- d) that I have calculated the Required Solvency Margin accurately; and
- e) that the mathematical reserves along with the Required Solvency Margin make good and sufficient provision for all the unmatured obligations under the terms of the policies on the books of the insurer.

Place:

Signature of the Appointed Actuary

Date:

Name of the Appointed Actuary

(2) **Overview of the Business Operations**

Provide a brief overview of the business operations of the insurer and the promoter companies of the insurer covering the following:

- a) Business Projections for the subsequent 3 years along with the analysis of experience for the past 3 years, to include the current year
- b) Analysis of business growth

- c) Adequacy of premium
- d) Reinsurance Requirement and cost benefit analysis
- e) Details of Products and their overall performance
- f) Insurer's operational structure, jurisdictions of operation (countries, states in India), market share, etc.
- g) Major events that had taken place during the year relevant to the operations of the insurer or the promoter companies (e.g., mergers, acquisitions, a new business activity, significant financial loss, changes in the company structure, etc.).
- h) Financial highlights from the latest published financial statements of the promoter companies (assets, liabilities, profits for the year, etc.)

(3) Summary of Business Movements and Net Lapse Ratios

This section provides a summary of the business movements during the year in Table 3.1

Table 3.1: Moment Statistics

For each line of business, furnish for individual business, separately for the business in force and the new business:

Table A: Business in Force

Name of the Line of Business	Current Financial Year					Previous Financial Year				
	Average SA per contract	Average Premium per 1000 SA	Death Rate (Number of Death/ Number of contracts)	Lapse Rate (Number of Lapses/ Number of contracts)	Surrender Rate (Number of Surrenders/ Number of contracts)	Average SA per contract	Average Premium per 1000 SA	Death Rate (Number of Death/ Number of contracts)	Lapse Rate (Number of Lapses/ Number of contracts)	Surrender Rate (Number of Surrenders/ Number of contracts)

Notes:

- (i) SA means the Face amount of the insurance contract.
- (ii) Average Premium means the Average Annualised Premium for the said SA.

Table B: New Business

Name of the Line of Business	Current Financial Year					Previous Financial Year				
	Average SA per contract	Average Premium per 1000 SA	Death Rate (Number of Death/ Number of contracts)	Lapse Rate (Number of Lapses/ Number of contracts)	Surrender Rate (Number of Surrenders/ Number of contracts)	Average SA per contract	Average Premium per 1000 SA	Death Rate (Number of Death/ Number of contracts)	Lapse Rate (Number of Lapses/ Number of contracts)	Surrender Rate (Number of Surrenders/ Number of contracts)

Notes:

- (i) SA means the Face amount of the insurance contract.
- (ii) Average Premium means the Average Annualised Premium for the said SA.

(4) Reinsurance

Provide the following information with regard to the reinsurance arrangements made by the insurer.

- a) Retention Limits – Describe the retention limits for various classes of business – both for standard and sub-standard business. Explain how these limits were determined. Provide details of any reinsurance arrangements made for group business.

- b) Reinsurers – Provide the following particulars of the reinsurers:
 - (i) Name of the reinsurer.
 - (ii) Rating of the reinsurer.
 - (iii) Type of reinsurance agreement.
 - (iv) Effective date of the agreement.
 - (v) Nature of advice, if any, provided by the reinsurer for product design and pricing.

- c) Reinsurance Premium Statistics – Provide the reinsurance premium statistics in respect of the year’s new business and total business as per the table below:

	Current Year		Previous Year	
	New Business	Total Business	New Business	Total Business
1. Gross Annual Premiums				
(a) Basic Coverages				
(b) Riders				
(c) Total				
2. Reinsurance Premiums				
(a) Basic Coverages				
(b) Riders				
(c) Total				
3. Ratio of Reinsurance (Premiums to Gross Premiums)				
(a) Basic Coverages				
(b) Riders				
(c) Total				

(5) Analysis of Expenses

This section provides the details of the expenses for the year. The following information should be given.

- a) Expense Allocation Method - Describe the method of allocation of expenses between different lines of business, first year and renewal, and between

different functions such as selection, underwriting, policy issue, premium collection, policy maintenance, claims, etc. For this purpose, any group business (under each line of business) should be considered as a separate line of business.

- b) Analysis of Expenses - Provide an analysis of the expenses incurred during the year separated for each line of business written by the insurer.

(6) Reserves

This section sets out a summary of reserves held at the Report Date and provides a full description of the valuation methods and bases used by the Appointed Actuary. The following information should be included.

- a) Reserve Summary - Show in Table 6.1 a summary of reserves (i.e. Mathematical Reserves) at the Report Date after allocation of current year’s bonus, if any) for all lines of business.

Table 6.1

	Current Year			Previous Year		
	Gross	Ceded	Net	Gross	Ceded	Net
Line 1						
Line 2						
Line 3...						
TOTAL						

NOTE: The lines of business shall be in accordance with the lines specified under IFSCA (Preparation and Presentation of Financial Statements of International Financial Service Centre Insurance Offices) Regulations, 2022.

- b) Negative and Deficiency Reserves - During the process of computing reserves, any negative reserves would have been set to zero and any reserves less than the guaranteed surrender values would have been set to the guaranteed surrender values. Provide a summary of such values for each line of business. It should be noted that the reserves shown in Table 6.1 would be after having set the reserves to these minimums.

Table 6.2

	Current Year			Previous Year		
	Negative Reserves	Deficiency Reserves	Total	Negative Reserves	Deficiency Reserves	Total

Line 1						
Line 2						
Line 3...						
TOTAL						

NOTE: The lines of business shall be in accordance with the lines specified under IFSCA (Preparation and Presentation of Financial Statements of International Financial Service Centre Insurance Offices) Regulations, 2022.

- c) Valuation Systems: The insurer may have a variety of valuation systems (including any manual systems) in place. Provide a detailed description of each system covering the following aspects:
- (i) How the policy data needed for valuation is accessed.
 - (ii) How the valuation bases are supplied to the system.
 - (iii) The general approach used by the system in computing and reporting reserves.
 - (iv) Various accuracy and reconciliation checks provided by the system.
- d) Valuation Methods and Bases: For each line of business describe the following aspects of valuation. While discussing a line of business, any variations in methods or bases for different blocks of business within that line should be clearly indicated. Any group business written by the insurer should be discussed separately.
- (i) Describe the valuation methods used. Indicate the nature of approximations used, if any.
 - (ii) For the different lines of business, describe the various parameters that were taken into account. Discuss the manner in which inherent guarantees provided under the policies were provided for.
 - (iii) For each valuation parameter, discuss in detail how the Expected levels and the Margins for Adverse Deviations (MAD's) were determined. If the Expected levels were based on any internal studies, provide details of the study and the conclusions derived from such studies. Discuss how the levels of MAD's were established. If any valuation parameter was reflected in an implicit manner (instead of in an explicit manner, as required by the Regulations), discuss the appropriateness of using the implicit approach. In establishing the

valuation interest rate, describe how the effect of changing interest rate scenarios caused by the mismatch between the asset and liability cash flows was reflected. Provide details of any scenario testing done.

(7) New Business

Provide the following information with regard to the products that are currently being sold by the insurer.

- a) Pricing Policy – Describe the pricing policy followed by the insurer with regard to the profitability measure used and the extent to which the insurer is able to achieve its objective. Indicate the extent to which a cross-subsidy exists between different product lines.
- b) Adequacy of Pricing – The AA should provide an opinion on the adequacy (or otherwise) of the premium rates under all products currently sold by the insurer. For any plans which, in the opinion of the AA, are not adequately priced, the insurer’s plans for repricing (or withdrawal) of such products should be discussed.
- c) New Business Strain – New business strain is defined as the excess of the reserves set up at the Report Date in respect of the new business written during the year over the estimated asset share in respect of such business. An analysis of the new business strain should be provided in Table 8.1 below. If the level of the new business strain exceeds the level envisaged in pricing the products, reasons for such excess should be set out.

Table 7.1 New Business Strain

	Current Year	Previous Year
Line 1		
Line 2		
Line 3...		
TOTAL		

NOTE: In column (1), lines of business shall be in accordance with the lines specified under IFSCA (Preparation and Presentation of Financial Statements of International Financial Service Centre Insurance Offices) Regulations, 2022.

(8) Distribution of Surplus

- a) Bonus Philosophy – Provide a description of the insurer’s philosophy on bonuses and distribution of surplus. Describe how expenses and investment income are allocated to the par fund.
- b) Current Year’s Bonus Scales – Set out the bonus scale for the current year and describe how these were determined.

- c) Appropriation of Surplus – Provide details of appropriation of surplus for the current year in Table 8.1 below.

	Current Year	Previous Year
1. Amount of Surplus (USD)		
(a) Unallocated Surplus at the Beginning of the Year		
(b) Valuation Surplus of the Year		
(c) Total Surplus $(=(a)+(b))$		
2. Appropriation to Par Policyholders		
(a) Amount (USD)		
(b) % of Total Surplus		
3. Appropriation to Shareholders		
(a) Amount (USD)		
(b) % of Total Surplus		
4. Unallocated Surplus at the End of Year		

(9) Build Up of the Policyholders Fund (USD)

Set out the build up of the policyholders funds in Table 9.1 below

	Current Year			Previous Year		
	Par	Non-Par	Total	Par	Non-Par	Total
1. At the beginning of the year						
2. Increase during the year						
3. At the end of the year						

(10) General Guidance Principles:

The Appointed Actuary must follow the following general guidance principles while preparing the Abstract of Actuarial Report:

- a) Assess materiality of risk for reporting based on judgment.
- b) Make recommendation on adverse findings
- c) Quantify uncertainty where feasible or otherwise provide qualitative description
- d) Provide detailed methodology and calculations for non standard approaches.
- e) State assumptions clearly along with its implications.
- f) Check reasonableness and accuracy of data provided to him/her for FCR.
- g) Highlight data not captured by company and the recommend plan to be enforced to capture such data.
- h) Specify reliance on other actuary or professionals work along with steps taken to ensure its objectivity.

- i) Specify limitations of the report.
- j) Set the target audience of the report and a note of cautions for other readers.

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 Life 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