



ORDER

Ref: IRDA/F&A/ORD/MISC/017/01/2019

23.01.2019

Committee on Domestic Systemically Important Insurers (D-SIIs)

1. Some Insurers, due to their size, cross-jurisdictional activities, complexity, lack of substitutability and interconnectedness, become systemically important. The disorderly failure of these insurers, if any, has the potential to cause significant disruption to the essential services they provide to the policyholders, and in turn, to the overall economic activity of the country. Therefore, the continued functioning of Systemically Important Insurers (SIIs) is critical for the uninterrupted availability of uninterrupted insurance services to the real economy.

SIIs are perceived as insurers that are 'Too Big To Fail (TBTF)'. This perception of TBTF creates an expectation of government support for these insurers at the time of distress. Due to this perception, these insurers enjoy certain advantages in the markets. However, the perceived expectation of government support amplifies risk taking, reduces market discipline, creates competitive distortions, and increases the probability of distress in the future. These considerations require that SIIs should be subjected to additional regulatory measures to deal with the systemic risks and moral hazard issues posed by the SIIs.

2. In 2010, Financial Stability Board (FSB) asked the IAIS to develop a process to identify those globally active insurance-dominated financial conglomerates whose distress or disorderly failure, because of their size, complexity and interconnectedness would cause significant disruption to the global financial system and economic activity. IAIS developed its first methodology (2013 Methodology) to assess potential globally systemically important insurers with a provision that it is to be reviewed every three years in order to capture improvements noted by IAIS Members, developments in the insurance sector,

changes in insurers' activities or products, growth in the global insurance markets, and improvements in methods and approaches for measuring systemic importance in the insurance sector and the broader financial sector. IAIS employed the 2013 Methodology for G-SII identifications in 2013, 2014, and 2015.

As part of its scheduled three year review, in November 2015, the IAIS released a public consultation document that outlined proposed revisions to the 2013 Methodology. The revised methodology described herein (2016 Methodology). The 2016 Methodology will be employed by the IAIS beginning in 2016. The next revisions to the G-SII assessment methodology will begin in 2018 and be effective in 2019. The IAIS further required all member countries to have a regulatory framework to deal with Domestic Systemically Important Insurers (D-SIIs).

3. In India, the insurance sector has grown exponentially in last fifteen years and a few of the insurers have a sizable market share and are interconnected with other financial institutions as well.
4. In light of the above background, the Authority is of view that there is need to identify Insurers who are systemically important for insurance sector in India and put in place a system of enhanced regulatory framework for such Systemically Important Insurers.
5. As a first step in this direction, the Authority constitute a committee under the chairmanship of Mr. Pravin Kutumbe, Member-F&I with the following members
 - (i) Mrs. Y P Bharat, Chief General Manager, Member;
 - (ii) Mr H. Ananthakrishnan, Chief General Manager, Member;
 - (iii) Mr V Jayant Kumar, Chief General Manager, Member;
 - (iv) Mr. S P Chakraborty, General Manager, Member
 - (v) Mr Srinivasa Rao Yelchuri, Deputy General Manager, Member

Mr. R K Sharma, General Manager shall act as Member Convener of the Committee. Further, the Committee may co-opt or invite official/s from other financial sector regulators in India.



6. The term of reference of the Committee shall be as under:
- (i) Study methodology followed by IAIS for identification of SII;
 - (ii) Study methodology followed by other financial regulators more particularly RBI for identification of SIFIs;
 - (iii) Develop a paper on Assessment Methodology for SII in India;
 - (iv) Recommend enhanced supervision measures for SII in India;
 - (v) Any other matter ancillary and incidental thereto.
7. The committee shall submit its report within a period of 6 months from the date of this order.


(M Pulla Rao)
Executive Director-General