

EXPOSURE DRAFT

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin of General Insurance Business) Regulations, 2015

In exercise of the powers conferred by clauses (y), (z) and (za) of sub-section (2) of section 114A of the Insurance Act, 1938 (4 of 1938), read with section 26 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), the Authority, in consultation with the Insurance Advisory Committee, hereby makes the following regulations, namely:-

1. SHORT TITLE AND COMMENCEMENT

These regulations may be called the Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin of General Insurers) Regulations, 2015.

They shall come into force from the date of their publication in the Official Gazette.

2. DEFINITIONS

In these regulations, unless the context otherwise requires

- (a) "Act" means the Insurance Act 1938 (4 of 1938) including the amendments as per Insurance Amendment Act 2015
- (b) "Allocated Loss Adjustment Expenses (ALAE)" are claim-related expenses that are directly attributable to a specific claim.
- (c) "Authority" means the Insurance Regulatory and Development Authority of India established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999) including the amendments to date.
- (d) "Case estimate" means the reserve for outstanding reported claims where each outstanding claim is individually assessed to arrive at an estimate of total payments to be made.
- (e) "Claim frequency" means the number of claims in a period per unit of exposure.
- (f) "Claim Reserves" means the reserves in respect of the claims which have already occurred and determined as the aggregate of outstanding claim reserves and incurred but not reported claim reserves. Claims reserve includes ALAE and ULAE.
- (g) "Exposure unit/measure" is the basic unit used by the insurer to measure the amount of risk insured, usually over a given period.

- (h) "Incurred But Not Enough Reported Reserves (IBNER)" means the reserve for reported claims that were not adequately reserved as on accounting date
- (i) "Incurred But Not Reported Claim Reserves (IBNR)" means the reserve for claims incurred but not reported on the Accounting date, and includes IBNER "
- (j) "Outstanding Claim Reserves (OS Reserves)" means the reserve set up in respect of the liability for all reported outstanding claims on the Accounting date.
- (k) "Premium Deficiency Reserve (PDR)" means the reserve held in excess of the unearned premium reserve, which allows for any expectation that the unearned premium reserve will be insufficient to cover the cost of claims and related expenses incurred during the period of unexpired risk.
- (l) "Unallocated Loss Adjustment Expense (ULAE)" means all external, internal and administrative claims handling expenses, including determination of coverage, that are not included in ALAE .
- (m) "Unearned Premium Reserve (UPR)" means an amount representing that part of the premium written which is attributable and to be allocated to the succeeding accounting periods.
- (n) "Unexpired Risk Reserves" means the reserves in respect of the liabilities for unexpired risks and determined as the aggregate of Unearned Premium Reserve and Premium Deficiency Reserve.

All words and expressions used herein and not defined but defined in the Insurance Act 1938 (4 of 1938), or in the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), or in any Rules or Regulations made there under, shall have the meanings respectively assigned to them in those Acts or Rules or Regulations.

3. APPLICABILITY

These regulations shall be applicable to all the insurers transacting general insurance business (including health insurance business) and stand-alone health insurers transacting health insurance business.

4. BOARD OVERSIGHT

- a) Every general insurer shall form a Board Level Technical Reserves Committee.
- b) The committee shall be headed by an independent director. The other members of the committee shall include (but not limited to) the Principal Officer (CEO), Appointed Actuary, and Chief Finance Officer. The Board can appoint/invite relevant senior staffs who play a role in the reserving process to be a part of the committee.

- c) The responsibility of the committee is to oversee the creation and implementation of a robust Technical Reserve Policy and ensure its compliance at all times.
- d) It is clarified, that while the Technical Reserve Committee is responsible to ensure implementation of a robust governance procedure as regards the setting up of the Technical Reserves within the insurance company, it does not impinge on the independence of Appointed Actuary in recommending the technical reserves as he/she deems appropriate in accordance with the legislation, regulations, established actuarial practices and/or Actuarial Practice Standards or guidelines prescribed by Institute of Actuaries of India.
- e) Every general insurer shall file a Board Approved Technical Reserve Policy, applicable for the next financial year, with the Authority 30 days before the end of current financial year

5. VALUATION OF ASSETS

Every general insurer shall prepare a statement of the value of assets in FORM IRDAI-GI-TA in accordance with **Schedule I**.

6. DETERMINATION OF AMOUNT OF LIABILITIES

Every general insurer shall prepare a statement of the amount of liabilities in FORM IRDAI-GI-TR in accordance with **Schedule II**.

7. DETERMINATION OF SOLVENCY MARGIN

Every general insurer shall prepare a statement of solvency margin in FORM IRDAI-GI-SM in accordance with **Schedule III**.

8. BUSINESS OUTSIDE INDIA :

Where the insurer transacts insurance business in a country outside India, and submits statements or returns or any such particulars to a public authority of that country, the insurer shall enclose the same along with the Forms specified in accordance with these Regulations and as stipulated by the Authority from time to time

Provided that if Appointed Actuary is of the opinion that the liability and solvency norms outside India, where the insurer transacts business, results in lower liability and/or solvency requirement as compared to the liability and solvency norms existing in India , then he shall set aside additional reserves over and above the reserves shown in the statements or returns or any such particulars submitted to the public authority of a country outside India to comply with the liability and solvency norms existing in India

9. FURNISHING OF FORMS

The Forms, namely, FORM IRDAI-GI-TA, FORM IRDAI-GI-TR and FORM IRDAI-GI-SM shall be furnished separately for Business within India and Total Business transacted by the general insurer

10. PERSONAL VISIT OF APPOINTED ACTUARY TO THE AUTHORITY

The Authority may, if considered necessary and expedient, ask the Appointed Actuary to make a personal visit to the office of the Authority to elicit any further information.

SCHEDULE I

(See Regulation 5)

1. VALUATION OF ASSETS

(1) **VALUES OF ASSETS** The following assets should be placed with value zero:

- (a) Agents' and Intermediaries' balances and outstanding premiums in India, to the extent they are not realised within a period of thirty days;
- (b) Agents' and Intermediaries' balances and outstanding premiums outside India, to the extent they are not realisable ;
- (c) Sundry debts, to the extent they are not realisable;
- (d) Advances and receivables of an unrealisable character;
- (e) Furniture, fixtures, dead stock and stationery;
- (f) Deferred expenses;
- (g) Profit and loss appropriation account balance and any fictitious assets other than pre-paid expenses;
- (h) Reinsurer's balances outstanding for more than three months;
- (i) Leasehold improvements
- (j) Service Tax Unutilized Credit
- (k) Any other asset , which is considered inadmissible by the Authority

(2) All other assets of an insurer have to be valued in accordance with the Insurance Regulatory and Development Authority of India (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2015, Insurance Regulatory and Development Authority of India (Other forms of Capital) Regulations, 2015 and any other Regulations issued by the Authority.

2. STATEMENT OF ASSETS

Every general insurer shall prepare a statement of assets in form IRDA-GI-TA

FORMIRDAI-GI-TA

**STATEMENT OF ASSETS: << Name of General Insurer>>
As at 31st March 20XX**

Name of Insurer:
Registration Number:
Date of registration:
Classification: Business within India/ Total Business

(All amounts in Rupees of Lakhs)

Form AA			
Particulars (Amount in 000's)	Policyholders A/C	Shareholders A/C	Total
Investments			
Investments Shareholder' SCH 8			
Policyholders' SCH 8A			
Total Investments as per BS ----- (A)			
Inadmissible Investments as per Clause (3) of Schedule I ----- (B)			
Fixed assets			
Fixed assets as per BS ----- (C)			
Inadmissible Fixed assets as per Clause 2 of Schedule - I ----- (D)			
Current Assets			
Cash & Bank Balances as per BS ----- (E)			
Advances and Other assets as per BS ----- ---- (F)			
Total Current Assets as per BS ----- (G) = (E) + (F)			
Inadmissible Current assets as per Clause 2 of			

Schedule - I ----- (H)			
Current Liabilities & Provisions			
Current Liabilities as per BS ----- (I)			
Provisions as per BS ----- (J)			
Total Current Liabilities & Provisions ----- (K) = (I) + (J)			
Loans			
Loans as per BS ----- (L)			
Fair Value Change Account subject to minimum of zero----- (M)			
Total Assets as per BS ----- (N) = (A) + (C) + (G) - (K) + (L)	-	-	
Total Inadmissible assets ----- (O) = (B) + (D) + (H) + (M)	-	-	
Total Admissible assets for Solvency ----- (N) - (O)			

We certify that the statement has been prepared in accordance with **Schedule I**.

Name and Signature of Appointed Actuary

Name and Signature of Statutory Auditor

Place

Date

NOTES

The statement shall show the value of the above-mentioned categories of assets in accordance with Section (1) in Schedule I.

Schedule II
(See Regulation 6)

DETERMINATION OF AMOUNT OF LIABILITIES

1. DETERMINATION OF AMOUNT OF LIABILITIES

The amount of liabilities shall be determined on the Valuation Date separately for each line of business as listed in the FORM-IRDAI-GI-TR and in accordance with this regulation

The amount of liabilities for each line of business shall be determined as the aggregate of Unexpired Risk Reserves as mentioned in section 2 below and Claims Reserves as mentioned in section 3 below.

2. PREMIUM RESERVES

(a) Unearned Premium Reserve (UPR)

The UPR shall be calculated separately for each line of business as mentioned in the FORM IRDAI-GI-TR using 1/365 method of UPR estimation, where the AA is of the view that there is uniform spread of the risk over the period of insurance. For other risks, the AA may estimate & certify the adequacy of UPR based on his/her assessment of pattern of earning of risk over the period of insurance.

Under 1/365 method, UPR shall be recognized for short term, annual and long term policies in a manner such that the earned premium is recognized from the date of risk inception over the period of insurance contract.

(b) Premium Deficiency Reserve (PDR)

The PDR shall be calculated separately for each line of business as mentioned in the FORM IRDAI-GI-TR using sound actuarial principles. In such determination, negative PDR for a given line of business, if any, shall be ignored and shall not be set off against positive PDR for any other line of business, except for Motor OD and Motor TP lines of business to the extent that the policies are sold as a package policy. Such benefit of set would not be available to standalone TP policies.

In addition to the above, PDR shall be separately estimated for any product that contributes 10% or more of the Gross domestic premium income of the insurer for rolling twelve months. Premium Deficiency Reserve shall be certified by the Appointed Actuary.

(c) Unexpired Risk Reserve (URR)

1. Unexpired Risk Reserve is defined as sum total of UPR and PDR
2. URR on short period policies where policy term expires within the accounting period need not be recognized.
3. URR for each line of business as per Form IRDA-GI-TR separately shall not be less than:
 - a. 100% of the premium, net of reinsurance, received or receivable during the preceding 12 months, for Marine hull business, AND
 - b. 50% of the premium, net of reinsurance, received or receivable during the preceding 12 months, for all lines of business other than Marine Hull business
4. For determination of minimum URR for each line of business, the short term contracts that have matured within the accounting period may be excluded from the premium. This relaxation is not applicable to unexpired short term contracts.

3. CLAIMS RESERVE

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.

(a) Outstanding Claims Reserve

The outstanding claims reserve shall be determined in the following manner:

- I. Where the amount of outstanding claims of the insurers is known, the amount is to be provided in full; and
- II. 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;
- III. For lines of business such as Motor Own Damage, Health and Home insurance, the insurer may use appropriate statistical methods of claims reserving instead of following case by case method of estimating claims outstanding reserves. 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.

IV. Statistical methods of claims outstanding reserves shall not be used for any line of business other than those given in 3 (a) iii above.

(b) Incurred But Not Reported (IBNR) Claims Reserve

The incurred but not reported (IBNR) claims reserve shall be determined using actuarial principles and methods detailed in section 4 below

The IBNR shall be estimated using appropriate actuarial principles and shall be certified by the Appointed Actuary.

The Appointed Actuary shall estimate IBNR on both net of reinsurance and gross of reinsurance basis.

AA 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. IBNR shall include related claims handling expenses, commonly known as Allocated Loss Adjustment Expense (ALAE) and Unallocated Loss Adjustment Expense (ULAE). Provision for ULAE reserve shall be explicitly made by Appointed Actuary on the basis of appropriate expense allocation

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.

The estimation process shall not discount the estimated future development of paid claims to the current date.

4. ACTUARIAL METHODS

The following Standard Actuarial Methods may be used for the estimation of IBNR reserves:

- Basic Chain Ladder Method (both on incurred and paid claims)
- Bornhuetter Ferguson Method (both on incurred and paid claims)
- Frequency – Severity Method

The AA shall use more than one method to arrive at an estimate that he believes is adequate to meet the future liabilities. AA may use methods other than standard actuarial methods of IBNR estimation. In his annual report submission to the Regulator, AA 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. Where the results of different methods or assumptions differ significantly, an AA must comment on the likely reasons for the differences and explain the basis for the choice of results.

5. APPLICABILITY TO REINSURANCE

(a) This Schedule shall also apply to the valuation of general insurance business in the books of reinsurers.

(b) As regards the business ceded by insurers, this Schedule shall be applicable to the net sums at risk retained by the insurer.

6. DETERMINATION OF OTHER LIABILITIES

The general insurer shall place a proper value in respect of the following items:

- provision for bad and doubtful debts; reserve for dividends declared or recommended, and outstanding dividends in full;
- amount due to insurance companies carrying on insurance business, in full;
- amount due to sundry creditors, in full;
- provision for taxation, in full; and
- foreign exchange reserve

7. STATEMENT OF LIABILITIES

Every general insurer shall prepare a statement of liabilities in FORM IRDA-GI-TR certified by the Appointed Actuary and the Statutory Auditor approved by the Authority in accordance with Section 64V of the Act.

The statement shall be furnished to the Authority along with the returns mentioned in section 15 of the Act.

The general insurer shall further any additional information in accordance with the directions issued by the Authority from time to time.

FORMIRDAI-GI-TR

Insurance Regulatory and Development Authority of India
(Assets, Liabilities, and Solvency Margin of General Insurers) Regulations, 2015

TABLE I
STATEMENT OF LIABILITIES: << Name of General Insurer>>
As at 31st March 20XX

Name of Insurer:
Registration Number:
Date of registration:
Classification: Business within India/ Total Business

(All amounts in Rupees of Lakhs)

Reserve	Gross Reserve	Net Reserve
Unearned Premium Reserve (UPR)		
Premium Deficiency Reserve (PDR)		
Unexpired Risk Reserve (URR)		
Outstanding Claim Reserve		
Catastrophe Reserve		
Large claim Reserve		
IBNR Reserve		
Total Reserves for Technical Liabilities		

8. Certification

a) **The Appointed Actuary shall not put forward or certify any figures, which lack credibility, with serious reservations.**

b) **Certification from the Appointed Actuary**

I certify that, I have checked the data to the best of my ability and I am satisfied that they are consistent, reliable and complete and also I certify that the outstanding claims reserves estimated using statistical methods, UPR for risks having uneven risk pattern, PDR and IBNR reserves in the statement above have been determined using actuarial principles and in the manner prescribed in the Insurance Regulatory and Development Authority of India (Assets, Liabilities and Solvency Margin of General Insurers) Regulations, 2015. These reserves, estimated as on the 31st day of March of(year of investigation) represent, in my opinion, a fair reflection of the expected future experience.

Qualifications, if any:

Name of the Insurer:

Place:

Date:

Name and Signature of the Appointed Actuary

c) Certification by Principal officer:

I certify that:

- (a) Full and accurate particulars of every policy and claim have been furnished to the Appointed Actuary: <name of the actuary> for the purpose of the determination of Technical Reserves as on the 31st Day of March of 20XX.
- (b) The data provided to the Appointed Actuary reconciles with the Audited Financials as at 31st Day of March 20XX.
- (c) The Appointed Actuary has been made aware of any information pertaining to underwriting, claims and reinsurance policies and practices followed by the Insurer

Qualifications, if any:

Name of the Insurer:

Place:

Date:

Name and Signature of the Principal Officer

d) Certification from Statutory Auditor

I certify that

- a) the UPR for risks having even risk pattern have been determined in the manner prescribed in the Insurance Regulatory and Development Authority of India (Assets, Liabilities and Solvency Margin of General Insurers) Regulations, 2015.
- b) the outstanding claims reserves above, as defined in Schedule II 3 a i and ii of the Insurance Regulatory and Development Authority of India (Assets, Liabilities and Solvency Margin of General Insurers) Regulations, 2015, represent a fair and reasonable estimate of the liability.

Qualifications, if any (in regard to the determination of liabilities):

Place:

Date:

Name and Signature of the Statutory Auditor

SCHEDULE III

DETERMINATION OF SOLVENCY MARGIN – GENERAL INSURANCE BUSINESS

(See Regulation 7)

1. Interpretation :In this Schedule,
 - (a) **“Available Solvency Margin (ASM)”** shall be calculated as the excess of value of assets (furnished in Form IRDA-GI-TA) over the value of liabilities (furnished in Form IRDAI-GI-TR) with further adjustments as shown in Table IB of FORM IRDAI-GI-SM.
 - (b) **“Solvency Ratio”** means the ratio of the amount of Available Solvency Margin to the amount of Required Solvency Margin as specified in form IB
2. Every insurer at all time shall maintain its Available Solvency Margin at a level, which is not less than fifty per cent of the amount of minimum capital as stated under Section 6 of the Act and one hundred per cent of Required Solvency Margin, whichever is higher. Failing this, the Authority shall act in accordance with Sub-section (2) of Section 64VA of the Act.
3. **“Control level of Solvency”** shall mean the Solvency Ratio on the breach of which the Authority shall act in accordance with Sub-section (3) of Section 64VA of the Act. Such a breach would be where the Solvency Ratio falls below150%.
4. **Determination of Required Solvency Margin (RSM):** Every general insurer shall determine the Required Solvency Margin, the Available Solvency Margin, and the Solvency Ratio in FORM IRDA-GI-SM.

FORMIRDAI-GI-SM

Insurance Regulatory and Development Authority of India
(Assets, Liabilities, and Solvency Margin of General Insurers) Regulations, 2015

TABLE I

STATEMENT OF SOLVENCY MARGIN: << Name of General Insurer>>

As at 31st March 20XX

Name of Insurer:
Registration Number:
Date of registration:
Classification: Business within India / Total Business

TABLE IA: REQUIRED SOLVENCY MARGIN BASED ON NET PREMIUM AND NET INCURRED CLAIMS

(All amounts in Rupees of Lakhs)

(1)	(2)	(3)	(4)	(5)		(7)	(8)	(10)	(11)		
				WRITTEN PREMIUMS						INCURRED CLAIMS	
				GWP	NWP					GIC	NIC
	MOTOR										
1	Motor OD - Private Car							75%	75%		
2	Motor OD - Two Wheeler							75%	75%		
3	Motor OD- Commercial Vehicle							75%	75%		
4	Motor TP - Private Car							75%	75%		
5	Motor TP - Two Wheeler							75%	75%		
6	Motor TP - Commercial Vehicle (Declined Pool)							75%	75%		
7	Motor TP - Commercial Vehicle (TP Pool)							75%	75%		
8	Motor TP - Commercial Vehicle (Other than Pool)							75%	75%		
	HEALTH										
9	Health Insurance - Individual							75%	75%		
10	Health Insurance - Group - Government Schemes							75%	75%		
11	Health Insurance - Group - Employer/Employee Schemes							75%	75%		
12	Health Insurance - Group - Other Schemes							75%	75%		
	PERSONAL ACCIDENT										
13	Personal Accident - Individual							70%	70%		
14	Personal Accident - Group (Government Schemes)							70%	70%		
	Personal Accident - Group (Others)							70%	70%		
15	TRAVEL							70%	70%		
16	FIRE							50%	50%		
	MARINE										
17	Marine Cargo & Others							60%	60%		
18	Marine Hull							50%	50%		
	OTHER MISCELLANEOUS										
19	Engineering							50%	50%		
20	Aviation							50%	50%		
21	Product Liability							75%	75%		
22	Liability insurance							75%	75%		
23	Workmen Compensation/ Employer's Liability							70%	70%		
24	Crop Insurance							70%	70%		
25	Weather Insurance							70%	70%		
26	Credit Insurance							70%	70%		
27	Other Miscellaneous							70%	70%		
	TOTAL										
				RSM =	Higher of RSM1 and RSM2						

NOTES

(3) = Gross Written Premium including Inward Reinsurance

(4) = Net Written Premium

(5) = Gross Incurred Claims including impact of Gross IBNR

(6) = Net Incurred Claims including impact of Net IBNR

(3) and (4) are calculated as 'Trailing 12 Months Data'

(5) and (6) are calculated as Maximum of 'Trailing 12 Months Data' or 'Trailing 36 Months Data divided by 3'

(7)RSM 1 in the above table means Required Solvency Margin based on net premiums, and shall be determined as **Twenty Percent (20%)** of the amount which is the higher of the Gross Premiums multiplied by a Factor A as specified in the Table 1(A) and the Net Premiums.

(8) RSM 2 in the above table means Required Solvency Margin based on net incurred claims and shall be determined as **Thirty Percent (30%)** of the amount which is the higher of the Gross Net Incurred Claims multiplied by a Factor B as specified in the Table above and the Net Incurred Claims.

(9) RSM means Required Solvency Margin and shall be the higher of the amounts of RSM 1 and RSM 2 for each LOB separately.

TABLE IB: AVAILABLE SOLVENCY MARGIN AND SOLVENCY RATIO

Name of Insurer:
Registration Number:
Date of registration:
Classification: Business within India / Total Business

(All amounts in Rupees of Lakhs)

(1)	(2)	(3)
ITEM NO.	DESCRIPTION	AMOUNT
	POLICYHOLDER'S FUNDS	
(A)	Available Assets	
	Deduct:	
(B)	Liabilities	
(C)	Other Liabilities	
(D)	Excess in Policyholders' funds (A) - (B) - (C)	
	SHAREHOLDER'S FUNDS	
(E)	Available Assets	
	Deduct:	
(F)	Other Liabilities	
(G)	Excess in Shareholders' funds (E) - (F)	
(H)	TOTAL ASM (D)+(G)	
(I)	Total RSM	
(J)	SOLVENCY RATIO (Total ASM/ Total RSM)	

1. Certification:

I _____, the Statutory Auditor, hereby certify that the above statements have been prepared in accordance with the Section 64VA of the Insurance Act, 1938, and the amounts mentioned therein are true to the best of my knowledge.

Place

Date:

Name and Signature of the Statutory Auditor

Countersignature:

Principal Officer:

Appointed Actuary

NOTES:

1. Item A shall be the amount of the Adjusted Value of Assets in respect of policyholders' funds as mentioned in FORM IRDA-GI-TA.
2. Item B shall be the amount of Total Liabilities as mentioned in FORM IRDA-GI-TL.
3. Item C shall be the amount of other liabilities arising in respect of policyholders' funds and as mentioned in the Balance Sheet
4. Items D shall be the amount of the Total Assets in respect of shareholders' funds as mentioned in FORM IRDA-GI-TL.
5. Item E shall be the amount of other liabilities arising in respect of shareholders' funds and as mentioned in the Balance Sheet