Public Comments – ALSM GI

The consultation paper seeking comments/views from public on the draft IFSCA (Assets, Liabilities, and Solvency Margin of General, Health and Re-insurance business) Regulations, 2022 was issued by IFSCA on 29-Dec-2022. The following comments have been received:

Page No. of Draft Regu.	Reg. No.	Sub-Regu No. / Para No.	Comments / Suggestions / Suggested modifications	Rationale
8	Schedule I	(1).(1).(a)	Service Tax Unutilized Credit outstanding for more than ninety days. Service tax is now subsumed in Goods and Service tax (GST) and accordingly Service Tax can be modified to GST.	Service tax is now subsumed in Goods and Service Tax (GST) and accordingly Service Tax can be modified to GST.
1	Point 4 of Conulation paper	Back ground	**Applicability and Reporting**	Every home regulator will have its own prescribed solvency computation methodology which may lead to lack comparability and consistency. Further computing as per the draft regulation will lead to uniformity in assessment and reporting.
			As per draft regulation for an IIO that is set up in an unincorporated form in the IFSC and if its home country falls within SCR-RC 1 to SCR-RC 6 in Sovereign Credit Rating by any international rating agency recognized by the International Association of Insurance Supervisors (IAIS), it shall be allowed to maintain its capital requirements in accordance with the home country regulations.	
		Para	**Suggestion:-**	
		(i)(a) & (b) and (ii)(a) & (b)	We suggest that all IIO's, whether incorporated and unincorporated, should cater to the requirement of proposed ASLM regulation. The capital requirement applicability as per the home regulation and computing and reporting solvency as per the draft regulation will lead to inconsistency in submission to IFSCA. Hence it is suggested that all IIO's, whether incorporated and	

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			unincorporated, should cater to the requirement of proposed ALSM regulation	
27	5	Schedule 1	As per IFSCA regulation on valuation of Assets to be placed with value zero - Agents' and Intermediaries' balances and outstanding premiums, to the extent they are not realized within a period of thirty days are valued zero.	Every home regulator will have its own prescribed solvency computation methodology which may lead to lack comparability and consistency. Further computing as per the draft regulation will lead to uniformity in assessment and reporting.
		Para 1	**Suggestion**	
			Indian parent entity/ Head office (HO) follow's IRDAI regulation 2002 where in Agents' and Intermediaries' balances and outstanding premiums, to the extent they are not realizable are valued zero thus we suggest same to be followed by IFSCA.	
33		Schedule III, Table IA: Required Solvency Margin based on Net Premium and Net Incurred Claims	Table 1A (7) and (8): Factor of 0.5 for calculation of RSM1 and RSM2 should reflect the true reinsurance cover purchased against each LOB. This will lead to either higher or lower overall RSM for an insurance company from the current level given the level of actual reinsurance purchased for each LOB and therefore more optimal capital requirement will be achieved against an optimal reinsurance arrangement purchased by an insurer	RSM 1 is calculated from premium side and RSM 2 is calculated from the claims side. Higher of RSM 1 and RSM 2 is the RSM. Factors currently prescribed as 0.5 for RSM1 and RSM2 calculation should be zero. RSM should be calculated based on actual reinsurance cover. For example, for motor, the factor is 0.5 which means that 50% is covered by way of reinsurance. However, that may not be the case in all scenarios. Credit of actual reinsurance arrangement should be given in each case. For instance, in case of fire, some may reinsure to the extent of 80% but they get a credit of 50% only. Changes are to move away from prescriptions based regulations

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				The RBC/Economic Capital will eventually replace all the required capital calculations currently in the form of RSM prescribed by the ALSM regulations 2016 by IRDAI which also prescribes ASM calculations. Also the current solvency framework only captures the insurance risk (premium and reserve risk) through a very simplified solvency factor based approach.
				While the ASM calculations will eventually be replaced by available economic capital which will be based on valuation of assets and liabilities on economic/market value basis, the RSM will be replaced by a risk category wise capital charge calculations reflecting the overall risk of the company.
				The capital charges under the RBC/EC are always net of reinsurance recoveries with a separate capital charge against the reinsurance credit risk category arising out of reinsurance recoveries reflecting the chances of irrecoverability.

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				Till the time the new RBC/Economic Capital regime gets implemented the current solvency factor of 0.5 which reflect and assume a standard reinsurance recoveries/cession assumed for each LOB may not reflect the actual reinsurance position of the insurance company in each LOB. Suggest if we can get rid of the solvency RSM factors of 0.5 and instead reflect the true reinsurance cover purchased against each LOB. The only change needed for effecting this is calibrating the values of factors for RSM1 and RSM2 at zero and rest of all the other calculations remaining the same. This will lead to either higher or lower overall RSM for an insurance company from the current level given the level of actual reinsurance purchased for each LOB and therefore more optimal capital requirement will be achieved against an optimal reinsurance arrangement. This will also get rid of unnecessary penalization of an insurance company in terms of higher capital requirements due to a large loss in the past through prescription of the three years average of gross incurred claims (RMS2) in spite of an adequate prospective reinsurance coverage to take care of such large claims in future.

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				This will also help the insurance companies slowly transition to the RBC/EC regime which looks at more realistic risk profile i.e. the actual reinsurance coverage across LOBs etc. The other point of debate/counter argument is where the capital charge against the reinsurance credit risk being built in this new suggestion but the fact is even the current solvency factors don't consider this separately.
Page 30		Schedule II, Form ALSM-GI-L	Line item "Equalization Reserve" should be added.	The proposition is of a placeholder/ provision to include an additional line item in all the relevant liability forms as many general companies going forward would like to explore this line item given the climate change impact with rising claim events (higher frequency and higher severity) and rising CAT protection costs which may be prohibitive at times. Equalization reserve could be for anything – large losses, catastrophe losses, etc. For example -Cat costs are going to rise considering the climate change. Additionally, a company will be far better placed in terms of lower volatility in financials when allocating or apportioning capital out of surplus in profitable years to accumulate to pay off against large one off events in future.

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				Some of the companies maintain their/would want to maintain their own equalisation reserves. Concept is prevalent in UK since 1996. There should be a placeholder for those who want to maintain these reserves in all the relevant liability forms which currently only have line items like PDR, O/S, UPR, IBNR+IBNER. Technically there is a need for a separate placeholder or a separate reserve line item because the estimation and releases from this reserve item is very different than the other line items. Looking at the application and practice of established Jurisdictions like UK, the tax authorities should get convinced on the genuine application/ utility of this line item in non-life space and even if there is a disagreement there is always a mid-path which can be explored by the tax authority, for example, separate tax treatment for such line items.
Page 29		Schedule II, 3, 3	The estimation process should include the discounting of estimated future development of paid claims to the current date. This should be looked at considering the requirements under IFRS17.	The discounting of liabilities are effected under the new RBC/EC/ IFRS regime, the guidelines/prescriptions may be needed in regard to the risk adjustments/discount rate against the IBNR/IBNER estimates.
Page 27		Schedule I, 1	Change in valuation of assets as per Ind AS 117 guidelines (currently in exposure draft stage)	The valuation of assets on economic basis rather than book value basis are effected under the new RBC/EC/ IFRS regime, the guidelines/prescriptions may be needed in regard to the valuation of assets on economic basis.

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-	5	(1)	For any unincorporated IIO (i.e. registered as Branch of a Parent Organisation), the solvency of the parent organization, should be sufficient to be compliant with the above regulations. There should not be any separate reporting requirements for such unincorporated IIO. Actuarial certificate from the appointed Actuary of the parent organistaion can be called, for the same	

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-	-	-	It is noted that an Unincorporated IIO with home country sovereign rating within the prescribed scale, has freedom to select either Home Country method or Indian Method of Accounting, Solvency and maintaining of records and books. However, keeping in mind the Indian Income Tax Act, Companies Act and Rules and any other regulatory filings, which may be introduced in the future when the size grows, it seems that Unincorporated IIOs will be required to maintain Books of accounts under Indian accounting standards	1. Global Method of valuation of assets and liabilities are different from local valuations currently. This is expected to change once IFRS 17 is implemented 2. Many jurisdictions globally prescribe solvency calculations based on Risk Based Capital (e.g., Solvency II) which is very different from the methodology suggested under the proposed IFSCA regulations where unincorporated IIO will have to follow factor-based solvency calculations. This not only leads to a challenge to obtain a parent Appointed Actuary certificate, but also entails that unincorporated IIO will have to maintain separate set of ledgers locally 3. Swiss Re Parent follows January to December financial year, whilst local financial year is April to March for tax filings, hence unincorporated IIOs, to avoid dual efforts to maintain two sets of ledgers for two different annual reporting periods will eventually have to follow April to March for all its IIO business 4. The only practical way for an Unincorporated IIO can comply with the reporting requirement formats as outlined in the Draft Regulations is to maintain Indian books under the Indian Accounting standards. This defeats the purpose to maintain solvency at Parent entity level

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-	-	-	Authority under Part I and Part II of the proposed Draft Regulations, is prescribing separate reporting for the IIOs for the Life and Non-Life (GI) business. It is recommended that the IFSC Authority propose a similar way of filing one form at the Unincorporated IIO level rather than filing Life business in Life format and GI business in GI Format as it is not feasible to segregate assets / Liabilities / costs at line of business level locally for the IIO	Currently most FRBs, licensed in DTA by IRDAI report at Branch Level as composite FRB.FRBs with composite license follow IRDAI formats of GI for Solvency and other Financials stating Life as a separate line of business supported by valuation of RSM / UPR and IBNR from the Life signing Actuary and GI business on GI methodology prescribed by IRDAI signed by GI signing Actuary.

The above comments were considered suitably and the revised draft of the IFSCA (Assets, Liabilities, and Solvency Margin of General, Health and Re-insurance business) Regulations, 2023 was placed before the Authority in its meeting held on March 24, 2023.