भारत का राजपत्र
The Gazette of India

VLK/KJ.K

EXTRAORDINARY

HKKX III—[K.M 4

PART III—SECTION 4

IZKF/DKJ LS IZDKF'KR

PUBLISHED BY AUTHORITY

LA- 191] UBZ FNYYH] LKSEOKJ] EBZ 9] 2016@oS'KK[K 19] 1938

NO. 191] NEW DELHI, MONDAY, MAY 9, 2016/ VAISAKHA 19 , 1938

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

NOTIFICATION

Hyderabad, the 13th April, 2016

Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin of Life Insurance Business) Regulations, 2016

F. No. IRDAI/Reg/9/121/2016.—*In exercise of the powers conferred by clauses (y), (z), (za) and (zab) of sub-section (2) of section 114A read with Sections 64V and 64VA of the Insurance Act, 1938, (4 of 1938) and 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:

(1) These regulations may be called the Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin of Life Insurance Business) Regulations, 2016.

(2) These Regulations shall come into effect from 1st April 2016 and shall apply to all Insurers carrying on Life Insurance Business.

2. Definitions:

(1) In these regulations, unless the context otherwise requires:

(a) "*Act*" means the Insurance Act, 1938 (4 of 1938);

(b) "*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);

(2) 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. Valuation of Assets: Every insurer shall prepare a statement of the value of assets in accordance with Schedule I in respect of life insurance business.

4. Determination of Amount of Liabilities: Every insurer shall prepare a statement of the amount of liabilities in accordance with Schedule II in respect of life insurance business.

5. Determination of Solvency Margin: Every insurer shall prepare a statement of solvency margin in accordance with Schedule III, in respect of life insurance business.

6. Health Insurance Business: Where the insurer transacts health insurance business providing health covers, the amount of liabilities shall be determined in accordance with the principles specified under these Regulations.

7. Business outside India: Where the insurer transacts life insurance business in a country outside India, and submits statements or returns or any such particulars to the host regulator, the insurer shall enclose the same along with the Forms specified in accordance with these Regulations and the Insurance Regulatory and Development Authority of India (Actuarial Report and Abstract for Life Insurance Business) Regulations, 2016.

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 such person shall require the insurer to set aside additional reserves over and above the reserves shown in the statements or returns or any such particulars submitted to the host regulator of a country outside India so as to comply with the liability and solvency norms existing in India.

8. Furnishing of Forms: The Forms specified in accordance with these Regulations and the Insurance Regulatory and Development Authority of India (Actuarial Report and Abstract of Life Insurance Business) Regulations, 2016, shall be furnished separately for Life Insurance Business within India and Total Business transacted by the insurer.

9. 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 from such person any further information.

10. Repeal and Savings

(1) On and from the commencement of these regulations, the Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margins of Insurers) Regulations, 2000 shall stand superseded.

(2) However, in respect of anything done or omitted to be done prior to the commencement of these regulations, they shall continue to be governed by Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margins of Insurers) Regulations, 2000.

11. Power of the Authority to issue clarifications etc.

In order to remove any doubts or the difficulties that may arise in the application or interpretation of any of the provisions of these regulations, the Chairperson of the Authority may issue appropriate clarifications or guidelines as deemed necessary.

SCHEDULE I

VALUATION OF ASSETS

(See Regulation 3)

1. The following assets shall be placed with value zero,

    (1) Agents' and Intermediaries' balances and outstanding premiums in India, to the extent they are not realised within a period of thirty days;

    (2) Agents' and Intermediaries' balances and outstanding premiums outside India, to the extent they are not realisable ;

    (3) Sundry debts, to the extent they are not realisable;

    (4) Advances and receivables of an unrealisable character;

    (5) Furniture, fixtures, dead stock and stationery;

    (6) Deferred expenses;

    (7) Debit balance of Profit and loss appropriation account balance and any fictitious assets other than pre-paid expenses;

    (8) Reinsurer's balances outstanding for more than ninety days;

    (9) Leasehold improvements

    (10) Service Tax Unutilized Credit outstanding for more than ninety days;

(11) Any other assets, which are considered inadmissible under Section 64V of the Insurance Act, 1938.

2. All other assets of an insurer have to be valued in accordance with the Regulations and other instructions issued by the Authority regarding Preparation of Financial Statements and Auditor's Report of insurance companies, Other Forms of Capital and Investments, as applicable from time to time.

3. **Statement of Assets:** Every insurer shall prepare a statement of assets in Form Assets AA of Insurance Regulatory and Development Authority of India (Actuarial Report and Abstracts for Life Insurance Business) Regulations, 2016.

SCHEDULE II

VALUATION OF LIABILITIES - LIFE INSURANCE

(See Regulation 4)

1. Interpretation: In this Schedule,

(1) "Valuation date", in relation to an actuarial investigation, means the date to which the investigation relates.

(2) "Policy Accounts" means funds earmarked for Variable Linked Business and Variable Non-Linked Business.

2. Method of Determination of Mathematical Reserves :

(1) Mathematical Reserves shall be determined for each contract by a prospective method of valuation in accordance with sub-paras (2) to (4)

(2) The valuation method shall take into account all prospective contingencies under which any premiums (by the policyholder) or benefits (to the policyholder/beneficiary) may be payable under the policy, as determined by the policy conditions. The level of benefits shall take into account the reasonable expectations of policyholders (with regard to bonuses, including terminal bonuses, if any) and any established practices of an insurer for payment of benefits.

(3) The valuation method shall take into account the cost of any options and guarantees that may be available to the policyholder under the terms of the contract.

(4) The determination of the amount of liability under each policy shall be based on prudent assumptions of all relevant parameters. The value of each such parameter shall be based on the insurer's expected experience and shall include an appropriate margin for adverse deviations (hereinafter referred to as MAD) that may result in an increase in the amount of mathematical reserves.

(5) (a) The amount of mathematical reserve in respect of a policy, determined in accordance with sub-para (4), may be negative (called "negative reserves") or less than the surrender value available (called "surrender value deficiency reserves") at the valuation date.

Explanation: The surrender value for this purpose shall be higher of special surrender value and guaranteed surrender value.

(b) The Appointed Actuary shall, for the purpose of section 35 of the Act, use the amount of such mathematical reserves without any modification;

(c) The Appointed Actuary shall, for the purpose of sections 13, 49, 64V and 64VA of the Act, set the amount of such mathematical reserve to zero, in case of such negative reserve, or to the surrender value, in case of such surrender value deficiency reserves, as the case may be

(6) The valuation method shall be "Gross Premium Valuation" except for the following cases:

(a) One year renewable group term assurances including riders attached to group business wherein Reserves shall allow for Unearned Premium, Premium deficiency and Incurred But Not Reported claims.

(b) Riders attached to individual products wherein the reserve shall be higher of Gross Premium Valuation Reserve and Unearned Premium Reserve.

(7) For individual business, the Appointed Actuary may hold additional reserve in respect of Incurred But Not Reported claims.

(8) If in the opinion of the Appointed Actuary, a method of valuation other than the Gross Premium Method of valuation is to be adopted, then, other approximation methods (e.g. retrospective method) may be used.

Provided that the amount of calculated reserve is expected to be at least equal to the amount that shall be produced by application of Gross Premium Method.

(9) The method of calculation of the amount of liabilities and the assumptions for the valuation parameters shall not be subject to arbitrary discontinuities from one year to the next.

3. Policy Cash Flows: The gross premium method of valuation shall discount the following future policy cash flows at an appropriate rate of interest,

(1) premiums payable, if any, benefits payable, if any, on death; benefits payable, if any, on survival; benefits payable, if any, on voluntary termination of contract, and the following, if any, :-

(a) basic benefits,

(b) rider benefits,

(c) bonuses that have already been vested as at the valuation date,

(d) bonuses as a result of the valuation at the valuation date, and

(e) future bonuses (one year after valuation date) including terminal bonuses (consistent with the valuation rate of interest);

(2) commission and remuneration payable, if any, in respect of a policy (this shall be based on current practice of the insurer). No allowance shall be made for non-payment of commission in respect of orphaned policies.

(3) policy maintenance expenses, if any, in respect of a policy, as provided under sub-para (4) of para 5;

(4) allocation of profit to shareholders, if any, where there is a specified relationship between profits attributable to shareholders and the bonus rates declared for policyholders

Provided that allowance must be made for tax, if any.

4. Policy Options and Guarantees: Where a policy provides built-in options that may be exercised by the policyholder, such as conversion or addition of coverage at future date(s) without any evidence of good health, or guarantees, such as annuity rate guarantees at maturity of contract, investment guarantees etc., the costs of such options or guarantees shall be estimated and treated as special cash flows in calculating the mathematical reserves.

5. Valuation Parameters:

(1) The valuation parameters shall constitute the bases on which the future policy cash flows shall be computed and discounted. Each parameter shall have to be appropriate to the block of business to be valued. An Appointed Actuary shall take into consideration the following,

(a) The value(s) of the parameter shall be based on the insurer's experience study, where available. If reliable experience study is not available, the value(s) can be based on the industry study, if available and appropriate. If neither is available, the values may be based on the bases used for pricing the product. In establishing the expected level of any parameter, any likely deterioration in the experience shall be taken into account;

(b) The expected level, as determined in clause (a) of this sub-para, shall be adjusted by an appropriate Margin for Adverse Deviations (MAD), the level of MAD being dependent on the degree of confidence in the expected level, and such MAD in each parameter shall be based on the Actuarial Practice Standards / Guidance Notes issued by the Institute of Actuaries of India, with the concurrence of the Authority

(c) The values used for the various valuation parameters should be consistent among themselves.

(2) **Mortality rates** to be used shall be by reference to a published table, unless the insurer has constructed a separate table based on its own experience:

Provided that such published table shall be made available to the insurance industry by the Institute of Actuaries of India, with the concurrence of the Authority.

Provided further that such rates determined by reference to a published table shall not be less than one hundred percent of that published table.

Provided further that such rates determined by reference to the published table may be less than one hundred percent of that published table if the Appointed Actuary can justify a lower percent.

(3) **Morbidity rates** to be used shall be by reference to a published table, unless the insurer has constructed a separate table based on its own experience:

Provided that such published table shall be made available to the insurance industry by the Institute of Actuaries of India, with the concurrence of the Authority:

Provided further that such rates determined by reference to a published table shall not be less than one hundred percent of that published table.

Provided further that such rates determined by reference to the published table may be less than one hundred percent of that published table if the Appointed Actuary can justify a lower percent.

(4) **Policy maintenance expenses** shall have regard to the actual expense experience of the insurer. All expenses shall be increased in future years for inflation; the rate of inflation assumed should be consistent with the valuation rate of interest.

Provided that appropriate additional provisions shall be made if the actual experience has not been considered for the valuation.

Provided further that the above provision shall not be applicable to the life insurance companies for the first five years from the date of commencement of the business.

(5) **Valuation rate of interest**, to be used by Appointed Actuary -

(a) for the calculation of the present value of policy cash flows referred to in para 3, shall not be higher than the rates of interest, determined from prudent assessment of the yields from existing assets attributable to blocks of life insurance business, and the yields which the insurer is expected to obtain from the sums to be invested in the future, and such assessment shall take into account-

(i) the composition of assets supporting the liabilities, expected cash flows from the investments on hand, the cash flows from the block of policies to be valued, the likely future investment conditions and the reinvestment and disinvestment strategy to be employed in dealing with the future net cash flows;

(ii) the risks associated with investment in regard to receipt of income on such investment or repayment of principal;

(iii) the expenses associated with the investment functions of the insurer;

b) shall not be higher than, for the calculation of present value of policy cash flows in respect of a particular category of contracts, the yields on assets maintained for the purpose of such category of contacts;

c) in respect of non-participating business, shall recognize the risk of decline in the future interest rates;

d) in respect of participating business, shall be based on the assumption (with regard to future investment conditions), that the scale of future bonuses used in the valuation is consistent with the valuation rate of interest.

(6) **Lapse rate,** if considered for valuation, should be a prudent assumption based on past experience of the product or similar products; and shall have regard to the expected future experience based on the nature of the products, target market, distribution channel etc.

(7) **Other parameters** may be taken into account, depending on the type of policy. In establishing the values of such parameters, the considerations set out in this Schedule shall be taken into account.

(8) Reinsurance arrangement with an element of borrowing in the form of deposit or credit of any kind from insurer's reinsurers without the prior approval of the Authority shall not be treated as credit for reinsurance for the purpose of determination of required solvency margin.

(9) In case the mathematical reserve is calculated allowing for outgo in respect of reinsurance premium and credit taken for claim recoveries from reinsurer, the valuation basis and methods shall be as per this schedule.

6. Applicability to Reinsurance:

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

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

7. Additional Requirements for Unit Linked Business :

(1) Reserves in respect of Unit linked business shall consist of two components, namely, unit reserves and general (non-unit) fund reserves.

(2) Unit reserves shall be calculated in respect of the units allocated to the policies in force at the valuation date using unit values if applicable, at the valuation date.

(3) General (non-unit) fund reserves shall be determined using discounted cash flow method, which shall take into account of the following, namely:-

(a) premiums, if any, payable in future;

(b) death benefits, if any, provided by the general (non-unit) fund reserve (over and above the value of units);

(c) management charges paid to the general(non-unit) fund;

(d) guarantees, if any, relating to surrender values or minimum death and maturity benefits;

(e) Fund growth rates and management charges. (The values of these parameters, along with others, shall be determined in accordance with para 5);

(f) Non-negative residual additions, if any,

(g) Any future negative cash flow shall be appropriately provided for by setting up reserves; and negative reserves, if any, shall be set to zero.

Explanation: General (non-unit) fund reserve under unit linked policies shall be considered as reserve for non-linked non-participating business for the purpose of investment norms, distribution of surplus etc.

8. Additional Requirements for Variable Linked Business:

(1) Reserve in respect of variable linked business shall consist of two components, namely, policy account reserves and general fund reserves.

(2) Policy account reserves shall be the balance in Policy Account on the date of valuation.

(3) General fund reserves shall be determined using discounted cash flow method, which shall take into account of the following, namely:-

(a) Premiums, if any, payable in future;

(b) Death benefits, if any, provided by the general fund (over and above the value of policy account);

(c) Management charges paid to the general fund;

(d) Guarantees, if any, relating to surrender values or minimum death and maturity benefits;

(e) Policy account growth rates and management charges. (The values of these parameters, along with others, shall be determined in accordance with para 5);

(f) Non-negative residual additions, if any;

(g) Any future negative cash flow shall be appropriately provided for by setting up reserves; and negative reserve if any, shall be set to zero.

Explanation: General Fund Reserve under Variable Linked Business shall be considered as reserve for non-linked non-participating business for the purpose of investment norms, distribution of surplus etc.

9. Additional Requirements for Variable Non-Linked Business (Par and Non-Par):

(1) Reserve in respect of variable non-linked business shall consist of two components, namely, policy account reserves and general fund reserves.

(2) Policy account reserves shall be the balance in Policy Account on the date of valuation.

(3) General fund reserves shall be determined using discounted cash flow method, which shall take into account of the following, namely:-

(a) Premiums, if any, payable in future;

(b) Death benefits, if any, provided by the general fund (over and above the value of Policy account);

(c) Management charges paid to the general fund;

(d) Guarantees, if any, relating to surrender values or minimum death and maturity benefits;

(e) Policy account growth rates and management charges. (The values of these parameters, along with others, shall be determined in accordance with para 5);

(f) Non-negative residual additions, if any,

(g) Any future negative cash flow shall be appropriately provided for by setting up reserves; and negative reserves if any, shall be set to zero.

(h) Future bonuses (one year after valuation date) including terminal bonuses (consistent with the valuation rate of interest)

(i) Allowance must be made for tax, if any

(j) Allocation of profit to shareholders, if any, where there is a specified relationship between profits attributable to shareholders and the bonus rates declared for policyholders.

Explanation: General Fund Reserves under Variable Non-linked Non-Participating Business shall be considered as reserve for non-linked non-participating business for the purpose of investment norms, distribution of surplus etc.

Further, General Fund Reserves under Variable Non-linked Participating Business shall be considered as reserve for non-linked participating business for the purpose of investment norms, distribution of surplus etc.

10. Additional Requirements for Provisions : The Appointed Actuary shall make aggregate provisions in respect of the following, where it is not possible to calculate mathematical reserves for each policy, in the determination of mathematical reserves:-

(1) Policies in respect of which extra premiums have been charged on account of underwriting of substandard lives that are subject to extra risks such as occupation hazard, over-weight, under-weight, smoking history, health, climatic or geographical conditions;

(2) Lapsed policies not included in the valuation but under which a liability exists or may arise;

(3) Options available under individual and group insurance policies;

(4) Guarantees available to individual and group insurance policies;

(5) The rates of exchange at which benefits in respect of policies issued in foreign currencies have been converted into Indian Rupees and what provision has been made for possible increase of mathematical reserves arising from future variations in rates of exchange;

(6) Other, if any.

11. Statement of Liabilities: An insurer shall furnish a statement of liabilities in accordance with the Insurance Regulatory and Development Authority of India (Actuarial Report and Abstracts for Life Insurance Business) Regulations, 2016.

SCHEDULE III

DETERMINATION OF SOLVENCY MARGINS—LIFE INSURANCE BUSINESS

(See Regulation 5)

1. Interpretation: In this Schedule,

(1) "Available Solvency Margin" means the excess of value of assets (as furnished in form-AA specified under Insurance Regulatory Development Authority of India (Actuarial Report and Abstracts for Life Insurance Business) Regulations, 2016) over the value of life insurance liabilities (as furnished in form-H of Insurance Regulatory Development Authority of India (Actuarial Reports and Abstracts for Life Insurance Business) Regulations, 2016) and other liabilities of policyholders' fund and shareholders' funds;

(2) "Solvency Ratio" means the ratio of the amount of Available Solvency Margin to the amount of Required Solvency Margin as specified in form-KT-3 of Insurance Regulatory Development Authority of India (Actuarial Report and Abstracts for Life Insurance Business) Regulations, 2016.

2. Every insurer at all time shall maintain its Available Solvency Margin at a level which is not less than higher of 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 failing which the Authority shall act in accordance with sub-section (2) of Section 64VA of the Act.

3. "Control level of Solvency" shall mean the level of solvency margin specified by the Authority in accordance with sub-section (3) of Section 64VA of the Act on the breach of which the Authority shall act in accordance with sub-section (4) of section 64VA of the Act without prejudice to taking any other remedial measures as deemed fit. The control level of solvency is hereby specified as a solvency ratio of 150 %.

4. Determination of Required Solvency Margin : Every insurer shall determine the Required Solvency Margin, the Available Solvency Margin and the Solvency Ratio as per Insurance Regulatory Development Authority of India (Actuarial Report and Abstracts for Life Insurance Business) Regulations, 2016.

T.S. VIJAYAN, Chairman

[ADVT. III /4/Exty/71(161)]

Uploaded by Dte. of Printing at Government of India Press, Ring Road, Mayapuri, New Delhi-110064 and Published by the Controller of Publications, Delhi-110054.