

IBSL

**TERMS AND CONDITIONS TO BE COMPLIED WITH BY INSURERS UNDER SECTION 31(1) OF THE REGULATION OF INSURANCE INDUSTRY ACT, NO. 43 OF 2000**

**Insurers are required to adhere to the following terms and conditions, in relation to all transactions involving reinsurance placements. Such terms and conditions shall apply to all reinsurance placements effected for year 2017 onwards:**

(1) The following terms and conditions will not apply to reinsurance placements with NITF.

**Regulator of overseas reinsurance companies**

(2) Insurers must place reinsurance only with an entity authorized by a regulatory authority to carry on reinsurance business;

**(3) Long term ratings**

(i) Insurers shall place reinsurance only with a reinsurance company which has one of the following long term ratings, awarded no more than 18 months before the reinsurance comes into effect or is renewed:

Rating agency	Minimum Credit Rating	Minimum Financial Strength Rating
(1) Moody's Investor Services	Baa3	Baa
(2) Standard and Poor's Corp.	BBB	BBB
(3) Fitch Ratings	BBB	BBB
(4) A.M. Best Company	bbb	B+

Ratings may have (+) or (-) sign to show relative standing within the major categories.

(ii) Insurers shall not place reinsurance with a reinsurance company, whose rating had been below the minimum required, and which had subsequently been upgraded to an acceptable rating within the eighteen months time period specified above; unless the latter rating has been validated/ affirmed by the respective rating agency after a period of one year.

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(4) During the period of cover, if the rating of the reinsurance company falls below the lowest rating specified in (3) or the rating is withdrawn, the insurer must immediately inform the Insurance Board of Sri Lanka ("IBSL") with a full explanation including:

- i. the new rating assigned, rating classification, date of assignment, and rating organization, or
- ii. the date of withdrawal, with, in either case,
- iii. the reasons for the action (provided by the rating agency), and
- iv. a full explanation of what the insurer intends to do about it.

**Reinsurance pools**

(5) An insurer who wishes to place its reinsurance with a reinsurance pool is required to obtain prior approval of IBSL for the use of such security, on a case by case basis, separately for each such pool every year. In order for the IBSL to consider such arrangement, the suggested reinsurance pool should be backed by reinsurers each carrying a minimum rating specified in clause (3) above and the said request should be submitted to IBSL at least four weeks prior to placement with such reinsurance pool.

**Reinsurance with related Reinsurers**

(6) Insurers may place reinsurance with a related reinsurer which has one of the following long term ratings:

Rating Agency	Minimum Credit Rating	Minimum Financial Strength Rating
(1) Moody's Investor Services	A3	A
(2) Standard and Poor's Corp.	A	A
(3) Fitch Ratings	A	A
(4) A.M. Best Company	a	A

Ratings may have (+) or (-) sign to show relative standing within the major categories

(7) Reinsurance with related reinsurers must be on terms at least as favourable to the cedant as market terms.

**Unlimited liability covers**

(8) For all classes and sub-classes, other than third party bodily injury cover under motor policies and liability cover under WCI policies, insurers may provide unlimited cover only if they have unlimited reinsurance protection.

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(9) If an insurer does not obtain unlimited reinsurance protection for an unlimited liability under motor policies or WCI policies, but obtains limited reinsurance protection, the insurer must adequately mitigate the excess risk.

(10) When the insurer obtains limited reinsurance protection, the limit must be at least Rs.200 million on any one loss or series of losses arising out of any one event.

**Reinsurance/ risk transfer programs**

(11) Insurers must provide to IBSL annually:

(i) before 31<sup>st</sup> January of each year, a report on their reinsurance/ risk transfer program outlining the following for the up-coming year:

a) their reinsurance arrangements generally;

b) the past success (or otherwise) of the reinsurance program including the record of the cedant in collecting reinsurance receivables as they fall due and any disputes related to the interpretation of reinsurance contracts or claims that have arisen or remained unresolved during the year in which the report is required to be submitted;

c) their future strategic approach to reinsurance and how it fits within their wider strategic plan for the business as a whole and their capital management strategy, Enterprise Risk Management (ERM) and Risk Management processes;

d) the structure of the reinsurance program including any alternative risk transfer mechanisms;

e) the measures taken by the insurer to determine the adequacy of the regulatory regime in the domicile of reinsurance companies not registered by IBSL, taking into account the quality of the regulatory and supervisory regime, compliance with international standards, and the domestic legal regime;

f) the appropriateness of the reinsurance/ risk transfer program class wise given the underlying insurance portfolios and the insurer's financial condition;

g) the proportion of business ceded so that the net risks retained are commensurate with the cedant's risk appetite and financial resources, and the overall level of risk transfer;

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- h) the resilience of the reinsurance program in stressed claims situations including in the aftermath of a catastrophe, when reinsurance claims should be promptly handled by all parties;
- i) any credit/ reinsurance/ currency or other risk mitigation in place;
- j) details of exposure to a single reinsurer or different reinsurers in the same group and justification for any excessive exposure;
- k) how the reinsurance/risk transfer program will be executed (including administrative and IT capabilities, the tracking of claims, and the use of intermediaries) and systems, procedures, and controls for ensuring that the strategy and program are implemented and complied with;
- l) the financial condition, operating standards, and claims payment record of each reinsurance company (in normal and stressed conditions);
- m) the extent to which relevant reinsurance functions or activities are outsourced, either externally or within the same group:
- n) details of reinsurance arrangements with related parties and justification for such arrangements (including details of alternative arrangements considered, quotations obtained etc); and
- o) any other information in relation to reinsurance/risk transfer programs.

(ii) before 15<sup>th</sup> March of each year, certified copies of all Cover Notes in respect of Reinsurance Treaties.

(12) Insurers must provide the treaties and facultative reinsurance arrangements to IBSL quarterly within forty five days from the end of each quarter as per the Formats prescribed by IBSL.

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### **Information to IBSL**

- (13) Cedants must explain the reinsurance/risk transfer strategy, program, and associated risks in a way that enables IBSL relatively easily to understand the intended economic effect and to assess the strategy and program.
- (14) Cedants must make available to IBSL all information about the reinsurance program that IBSL supervisors would reasonably need to form a judgment about their risk management and the prudential ramifications of the reinsurance/ risk transfer strategy and program.

### **Threat to financial condition**

- (15) An insurer must immediately inform IBSL when it becomes aware of its breach of these terms and conditions or of any reinsurance issue that does or could materially negatively affect its financial condition.

### **Timely completion of contracts**

- (16) Insurers must promptly document the principal reinsurance terms agreed and finalise formal reinsurance contracts in a timely fashion. Contracts that are not fully effective or not sufficiently legally certain must not be taken as a credit on the balance sheet.

### **Definitions**

- (17) In these terms and conditions, unless the context otherwise requires:

“insurer” includes “reinsurer”;

“related party” means a related party of the insurer and has the same meaning as in the Sri Lanka Accounting Standards;

“Sri Lanka Accounting Standards” means the accounting standards adopted under the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995; and

“NITF” means the National Insurance Trust Fund Board established by the National Insurance Trust Fund Act, No. 28 of 2006.