

Terms of Reference

Insurance Expertise to the Insurance Regulatory Commission of Sri Lanka

1. Background

Sri Lanka aspires to transform as the hub of the Indian Ocean, safeguarded by a knowledge-based, highly competitive, social market economy by 2025 as indicated in the Vision 2025, The Government's Economic Vision. Hence, Sri Lanka must address financial sector challenges to build a more efficient, inclusive and stable financial system along with effective insurance sector that can support this vision.

Robust financial sector development can help Sri Lanka sustain its developmental returns. The deepening of capital, pension and insurance markets can help manage some fiscal challenges such as deficit financing and contingent liabilities due to aging population, natural hazards and the economic vulnerability of the poor, including closing the protection gap. Greater financial inclusion, inclusive insurance can help increase spatial integration and access to opportunities and contain costs of informality. However, to make this happen, Sri Lankan authorities must effectively address several challenges in the financial sector. Among other actions, addressing gaps in insurance sector infrastructure, legal/regulatory/supervisory framework and supervisory capacity are needed as key starting points.

To that effect, the Government of Sri Lanka has sought the support of development partners such as the World Bank to provide technical and financial support to activities aimed at developing the financial sector. The World Bank agreed to support a Project {known as “**Sri Lanka Financial Sector Modernization Project**” (FSMP)} over a period of 5 (five) years, with the 3 (three) financial sector regulators as the implementing partners.

One of the implementing partners, **the Insurance Regulatory Commission of Sri Lanka (Client)** was established by the Regulation of Insurance Industry Act, No. 43 of 2000 for the purpose of developing, supervising and regulating the insurance industry in Sri Lanka.

The Project Development Objective (PDO) is to contribute to increasing financial market and insurance sector efficiency and use of financial/insurance services among micro, small and medium enterprises (MSMEs) and individuals.

The project will achieve the PDO through modernizing financial market infrastructure, upgrading the legal and regulatory framework for the financial system and strengthening the institutional capacity of financial sector regulators; the Central Bank of Sri Lanka (CBSL), the Securities and the Exchange Commission of Sri Lanka (SEC) and the Insurance Regulatory Commission of Sri Lanka, (IRCSL).

The component relating to the Client under the project aims to strengthen legal, regulatory and supervisory frameworks as well as enhance supervisory expertise and powers of the Client with a focus on migration to Risk Based Supervision (RBS), strengthening reinsurance arrangements, modernizing the IT infrastructure to enable RBS, developing micro-insurance, restructuring of motor third-party liability insurance, etc.

Please refer to <http://projects.worldbank.org/P159303?lang=en> for further the details about the FSMP.

2. *Objective(s) of the Assignment*

The Objectives of this assignment are:

- (i) Ensuring all insurance related work under the FSMP, are up to the required quality and in line with international best practices; / and
- (ii) Building skills and capacity of the Client's staff.

3. *Scope of Services, Tasks (Components) and Expected Deliverables*

3.1 Enhancing regulatory & supervisory framework at the Client

3.1.1 Analyze the current legal and regulatory constraints (Act and all secondary legislation, including regulations, rules, determinations, guidelines and directions);

3.1.2 Review Solvency Margin, Risk Based Capital (RBC) Rules 2015 issued by the Client in close coordination with the Actuary of the project;

3.1.3 Develop rules/ regulations/ guidelines on review of products filed by insurance companies in close coordination with the Actuary of the project;

3.1.4 Review and develop guidelines on Linked long term business and Universal Life business in close coordination with the Actuary of the project;

3.1.5 Review and develop Rules/Regulations/Guidelines/Reporting Formats in close coordination with the Actuary of the project for;

- (a) Policyholder Protection Fund;
- (b) Unclaimed maturity benefits of life insurance business.

3.1.6 Review proposed changes to the Regulation of Insurance Industry Act No. 43 of 2000 (as amended in 2007,2011,2017) and subordinate legislation;

3.1.7 Provide general policy templates for every essential product line in close coordination with the Actuary of the project;

3.1.8 Review Investment Management policy and update investment guidelines to ensure security, liquidity, and diversification of investment portfolios;

3.1.9 Review underwriting, premium collection, refund of excess collection processes and practices;

3.1.10 Make recommendations to implement International Best Practices in developing, supervising and regulating the insurance industry to safeguard policyholders;

3.1.11 Develop a roadmap and implementation support to the Client regarding the transition of the insurance industry to IFRS 17 in close coordination with the Actuary of the project;

3.1.12 Review and facilitate implementing the recommendations contained in the gap analysis reports pertaining to Motor, Fire and Health Insurance products in close coordination with the Actuary of the project;

3.1.13 Provide recommendations to restructure the National Insurance Trust Fund (NITF) by separating Insurance and Reinsurance to formulate the Client's views/approval.

3.2 Support services required: -

The responsibility of achieving the objectives identified below is vested with other specific consultants hired under the Project. The Consultant for this assignment shall provide recommendations/reviews/observations monthly, on deliverables of other consultants.

3.2.1 Support the complete migration to RBS framework at the Client including regulatory reporting, RBC, Risk Based Premium, valuation, reserves, surpluses and related legislation and the introduction of/preparation of templates for ERM for the industry;

3.2.2 Support the development and implementation of IT strategy including cyber security infrastructure for the Client and online information reporting mechanism to facilitate better RBS that includes diagnostic tools and a risk scoring system;

3.2.3 Support the strengthening of Corporate Governance legal framework, develop rules on market conduct practices and the introduction of/preparation of templates for Enterprise Risk Management Framework for the industry;

3.2.4 Support the development of a micro-insurance and inclusive insurance regulatory and supervisory framework;

3.2.5 Support the restructure of existing distribution systems to reach untapped/uninsured population, commission structures and related regulations;

3.2.6 Support the review of product development strategy to cater to demands, identify market needs in terms of new product design, for example, through the analysis of sales patterns, products, and social and demographic factors;

3.2.7 Support the review of the National Reinsurance Policy, including evaluation of reinsurance arrangements filed by insurers/reinsurers (programme adequacy, retention, and so on), setting up of standards on reinsurance, fronting transactions, co-insurance transactions and other forms of risk transfer;

3.2.8 Support strengthening the legal framework of compulsory motor third party liability insurance, review of market practices to identify the improvements in data collection, development of a data framework to improve premium and reserve calculation on Motor third party liability and identify the potential for establishment of an insurance information and monitoring center;

3.2.9 Support the development of a data framework to update mortality and morbidity tables; Liaise closely with the Department of Census and Statistics, the insurance industry, regional insurance regulators, training centers, etc. to collect information for the mortality and morbidity tables, all necessary data from related local and international institutions for product development;

3.2.10 Support the Client in developing the Scope of Services, Tasks (components) and Expected Deliverables of the Consultancy Firm that will be procured to carry out the full migration to RBS framework, including the review of RBC and others;

3.2.11 Support the development of rules/regulations/guidelines/reporting formats;

3.2.12 Facilitate the Client on any other matter within the Consultant's expertise.

3.3 Capacity building at the Client

3.3.1 Support the Client on on-site inspection and off-site monitoring and developing the processers;

3.3.2 Assess capabilities of supervision/regulatory staff, identify skill gaps and assess training needs. The Consultant is required to build capacity by providing trainings and sharing knowledge;

3.3.3 Conduct gap analysis on operational procedures of core supervisory/regulatory divisions of the Client; and

3.3.4 Deliver training on reinsurance supervision and prepare assessment of the reinsurance activities in Sri Lanka and reinsurance supervisory strategy.

4. *Team Composition & Qualification Requirements for the Key Experts*

The insurance expert shall meet the following qualification requirements:

Masters Level Degree or Professional Qualification in Insurance or related field;

Minimum 10 years' post qualifying experience in the field of insurance (life and non-life);

Experience in conducting assignments of similar size, complexity and character;

Knowledge of international best practices, including knowledge/experience in Asia and in emerging/developing countries;

Strong critical thinking and analytical problem-solving skills;

Excellent English communication and writing skills; and

Ability to cultivate collaborative relationships with a multidisciplinary group of individuals.

Specific knowledge in micro-insurance / inclusive insurance would be an added qualification.

5. Reporting Requirements and Time Schedule for Deliverables

5.1 The Consultant shall report to the Project Implementation Unit (PIU) of the Client.

5.2 The Consultant shall submit the reports as described in the Table below in electronic form to the designated email of the PIU: “worldbankfinsec@ircsl.gov.lk”. The reports should be in word/excel and in PDF format.

5.3 Component Leaders of the Client assigned for each scope of service and forming part of the PIU will review the deliverables of the Consultant. The Component Leaders may obtain clarifications or require further improvements on deliverables from the Consultant and report the acceptance/non-acceptance of the deliverables to the Project Director within a period of 3 weeks of receiving the inception/draft/final reports.

5.4 Payments to Consultant will be made by the Client every 3 months in equal installments (12.5%) of the Total Contract price upon the acceptance of Final Reports on deliverables by the Project Director. An initial advance payment of 10 % of the total Contract price will be made against a bank guarantee and the said payment will be set off from the 1st instalment.

Scope of Service	Deliverables	Expected due date from commencement of the assignment		
		Inception report (outline of the work to be carried out) to PIU	Draft report to PIU	Final recommendation to Project Director
Analyze the current legal and regulatory constraints (Act and all secondary legislation, including regulations, rules, determinations, guidelines and directions)	Recommendations	within 1 week	within 8 weeks	within 3 months
Review Solvency Margin, Risk Based Capital (RBC) Rules 2015 issued by the Client	Feedback for improvements	within 6 weeks	within 30 weeks	within 9 months
Develop rules/ regulations/ guidelines on review of products filed by insurance companies	Develop rules/ regulations/ guidelines	within 8 weeks	within 38 weeks	within 12 months
Review and develop guidelines on Linked long term business and Universal Life business	New guidelines	within 4 weeks	within 20 weeks	within 6 months

Review and develop Rules/Regulations/Guidelines/Reporting Formats for; (a) Policyholder Protection Fund (b) Unclaimed maturity benefits of life insurance business	New Rules/Regulations/Guidelines/Reporting Formats	within 4 weeks	within 20 weeks	within 6 months
Review proposed changes to the Regulation of Insurance Industry Act No. 43 of 2000 (as amended in 2007,2011,2017) and subordinate legislation	Comments on draft Act and subordinate legislation	within 4 weeks	within 8 weeks	within 3 months
Provide general policy templates for every essential product line	General policy templates	within 12 weeks	within 50 weeks	within 15 months
Review Investment Management policy and update investment guidelines to ensure security, liquidity, and diversification of investment portfolios	Improved Investment Management policy and new investment guidelines	within 10 weeks	within 40 weeks	within 12 months
Review underwriting, premium collection, refund of excess collection processes and practices	Recommendations	within 8 weeks	within 38 weeks	within 12 months
Make recommendations to implement International Best Practices in developing, supervising and regulating the insurance industry to safeguard the policy holders	Recommendations	within 16 weeks	within 64 weeks	within 18 months
Develop a roadmap and implementation support to the Client regarding the transition of the insurance industry to IFRS 17	Roadmap Implementation support during the assignment	within 8 weeks	within 31 weeks	within 9 months
Review and facilitate implementing the recommendations contained in the gap analysis reports pertaining to Motor, Fire and Health Insurance product	Recommendations and implementation support	within 2 weeks	within 8 weeks	within 3 months
Provide recommendations on restructure the NITF by separating Insurance and Reinsurance	Recommendations to-formulate views/approval	within 1 week	within 8 weeks	within 3 months
		from the proposal being submitted by NITF		
Support the complete migration to RBS framework at the Client including regulatory reporting, RBC, Risk Based Premium, valuation, reserves, surpluses and related legislation and the introduction of/preparation of				

templates for ERM for the industry	<p>The responsibility of achieving the objectives identified here is vested with other specific consultants hired under the Project.</p> <p>Monthly updates on recommendations/reviews/observations on deliverables of other consultants at the end of the first week of the subsequent calendar month to be given by the Consultant to the PIU</p>
Support the development and implementation of IT strategy including cyber security infrastructure for the Client and online information reporting mechanism to facilitate better RBS that includes diagnostic tools and a risk scoring system	
Support the strengthening of Corporate Governance legal framework, develop rules on market conduct practices and the introduction of/preparation of templates for Enterprise Risk Management Framework for the industry	
Support the development of a micro-insurance and inclusive insurance regulatory and supervisory framework	
Support the restructure of existing distribution systems to reach untapped/uninsured population, commission structures and related regulations	
Support the review of product development strategy to cater to demands, identify market needs in terms of new product design, for example, through the analysis of sales patterns, products, and social and demographic factors	
Support the review of the National Reinsurance Policy, including evaluation of reinsurance arrangements filed by insurers/reinsures (programme adequacy, retention, and so on), setting up of standards on reinsurance, fronting transactions, co-insurance transactions and other forms of risk transfer	
Support strengthening the legal framework of compulsory motor third party liability insurance, review of market practices to identify the improvements in data collection, development of a data framework to improve premium and reserve calculation on Motor third party liability and identify the potential for establishment of an insurance information and monitoring center	

Support the development of a data framework to update mortality and morbidity tables; Liaise closely with the Department of Census and Statistics, the insurance industry, regional insurance regulators, training centers, etc. to collect information for the mortality and morbidity tables, all necessary data from related local and international institutions for product development				
Support the Client in developing the Scope of Services, Tasks (components) and Expected Deliverables of the Consultancy Firm that will be procured to carry out the full migration to RBS framework (to enhance supervisory and regulatory framework), including the review of RBC and others				
Support the development of rules/regulations/guidelines/reporting formats				
Facilitate the Client on any other matter, within the Consultant's expertise				
Support the Client on on-site inspection and off-site monitoring and developing the processes	Developing the processes	within 4 weeks	within 8 weeks	within 3 months
	On-site inspection and off-site monitoring			monthly update at the end of the first week of the subsequent calendar month
Assess capabilities of supervision/regulatory staff, identify skill gaps and assess training needs	Training Schedule	within 6 weeks	within 18 weeks	within 6 months
The Consultant is required to build capacity by providing trainings and sharing knowledge	Capacity building			monthly update at the end of the first week of the subsequent calendar month
Conduct gap analysis on operational procedures of core supervisory/regulatory divisions of the Client	Gap analysis report	within 12 weeks	within 48 weeks	within 15 months
Prepare assessment of the reinsurance activities in Sri Lanka and reinsurance supervisory strategy	Reinsurance supervisory strategy	within 12 weeks	within 28 weeks	within 12 months

Deliver training on reinsurance supervision	Training Schedule and capacity building			monthly update at the end of the first week of the subsequent calendar month
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6. Client's Input and Counterpart Personnel

(a) Services, facilities and property to be made available to the Consultant by the Client:

Workstation, stationery, access to internet, printer, intercome line, laptop, transport within Colombo Municipal area and trasport to and from airport, equipment required for capacity building i.e projector, flipchart, stationery.

(b) Professional and support counterpart personnel to be assigned by the Client to the Consultant's team:

Two staff members of the Client, having academic qualifications in insurance/finance/law and regulatory experience will be released to work with the Consultant during the period of the assignment.