

Terms of Reference

Actuarial 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 actuarial related work under the FSMP are up to the required quality and in line with international best practices; and
- (ii) Building actuarial 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) from an actuarial perspective and in close coordination with the Insurance Expert of the project;

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

3.1.3 Review of Statutory Returns, mainly actuarial reports filed by all insurance companies from year 2016 onwards and coordinate with the insurance market;

3.1.4 Review the Regulatory Reporting/Return Formats prescribed in Determination 12,14 and 15 issued by the Client;

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

3.1.6 Review and develop guidelines on Linked long term business and Universal Life business in close coordination with the Insurance Expert of the project;

3.1.7 Review/ Develop strategy/ templates for supervisory purpose (life and non-life) on the following topics:

- Actuarial valuation for liabilities and assets of insurer;
- Premium rates and reserve calculation (ensuring the premium rates and reserves are correct)

3.1.8 Review and develop Rules/Regulations/Guidelines/Reporting Formats from actuarial perspective in close coordination with the Insurance Expert of the project for;

(a) Policyholder Protection Fund;

(b) Unclaimed maturity benefits of life insurance business.

3.1.9 Provide general policy templates for every essential product line in close coordination with the Insurance Expert of the project;

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

3.1.11 Develop centralized data framework to collect information on insurance products and policies and organize data for the following areas/tasks: a) mortality and morbidity tables b) motor third party liability, c) all necessary data from related local and international institutions for product development;

3.1.12 Introduce and develop templates/models for Own Risk and Solvency Assessment (ORSA) and Enterprise Risk Management (ERM) for Sri Lanka insurance sector;

3.1.13 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 Insurance Expert of the project;

3.1.14 Provide recommendations to restructure the National Insurance Trust Fund (NITF) by separating Insurance and Reinsurance from an actuarial perspective 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 from an actuarial point of view.

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 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;

3.2.4 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;

3.2.5 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;

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

3.2.7 Facilitate the Client on any other actuarial matter.

3.3 Capacity building at the Client

3.3.1 Assist to set up the Actuarial Unit at the Client;

3.3.2 Develop diagnostic study by identifying skill gaps, build actuarial capacity by providing trainings and sharing knowledge to staff of Actuarial unit and other relevant staff from the supervision perspective.

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

The actuarial expert shall meet the following qualification requirements:

Masters Level Degree or Professional Qualification in Actuarial Science;

Minimum 10 years' post qualifying actuarial 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.

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@irsl.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) from an actuarial perspective	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
<p>Review of Statutory Returns, mainly actuarial reports filed by all insurance companies from year 2016 onwards and coordinate with the insurance market.</p> <p>The review should ensure the appropriateness of the methodologies and underlying models and assess the sufficiency and quality of the data used as well as the assumptions made in the calculation of technical provisions and liability valuations</p> <ul style="list-style-type: none"> • 2016, 2017 & 2018 • 2019 submissions 	Observations on returns/reports filed, review of company responses and feedback	within 3 weeks	<p>within 20 weeks</p> <p>within 9 weeks of submission</p>	<p>within 6 months</p> <p>within 3 months of submission</p>
Review the Regulatory Reporting/Return Formats prescribed in Determination 12,14 and 15 issued by the Client	Feedback on prescribed formats and development of new formats	within 6 weeks	within 32 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/ Develop strategy/ templates for supervisory purpose (life and non-life) on the following topics: <ul style="list-style-type: none"> Actuarial valuation for liabilities and assets of insurer Premium rates and reserve calculation (ensuring the premium rates and reserves are correct) 	Develop strategy/ templates	within 20 weeks	within 80 weeks	within 21 months
Review and develop Rules/Regulations/Guidelines/ Reporting Formats from actuarial perspective 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
Provide general policy templates for every essential product line	General policy templates	within 12 weeks	within 50 weeks	within 15 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
Develop centralized data framework to collect information on insurance products and policies and organize data for the following areas/tasks: a) mortality and morbidity tables b) motor third party liability, c) all necessary data from related local and international institutions for product development	Development of centralized data framework	within 10 weeks	within 38 weeks	within 12 months
Introduce and develop templates/models for ORSA and ERM	Develop templates/ models	within 16 weeks	within 65 weeks	within 18 months
Review and facilitate implementing the recommendations contained in the gap analysis reports pertaining to Motor, Fire and Health Insurance products	Recommendations and implementation support	within 2 weeks	within 8 weeks	within 3 months
Provide actuarial support 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 from an actuarial point of view 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 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/reinsurers (programme adequacy, retention, and so on), setting up of standards on reinsurance, fronting transactions, co-insurance transactions and other forms of risk transfer	
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 actuarial matter	

Assist to set up the Actuarial Unit at the Client	Set up the Actuarial Unit	within 4 weeks	within 20 weeks	within 6 months
Develop diagnostic study by identifying skill gaps, build actuarial capacity by providing trainings and sharing knowledge to staff of Actuarial unit and other relevant staff from the supervision perspective	Training Schedule and capacity building	within 4 weeks		monthly update at the end of the first week of the subsequent calendar month

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 transport 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 and actuarial science and regulatory experience will be released to work with the Consultant during the period of the assignment.