**Terms of Reference**

**Procurement of Consultancy Firm to modernize the Regulatory and Supervisory Framework of the Insurance Regulatory Commission of Sri Lanka**

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| ***1.*** | ***Background***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, market conduct practice, legal/supervisory framework, tools and efficient 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 five (5) years, with the three (3) 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, regulatory and supervisory frameworks for the financial system and strengthening the institutional capacity of financial sector regulators; the Central Bank of Sri Lanka (CBSL), the Securities and 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, tools as well as enhance supervisory expertise and powers of the Client with a focus on to moving from the rules based supervision to the risk based supervision, strengthening risk transfer, reinsurance, transformation of supervisory technologies (Sup-Tech) in support of supervisory functions, consumer protection, business environment and enforcement, strengthening the ICT infrastructure to enable RBS, developing a regulatory and supervisory framework on micro-insurance, market conduct, assets liability management, restructuring of motor third-party liability insurance, mandatory insurance…etc. The Client also needs a modernization of its processes as well as an upgrade its information technology system including the automation of relevant regulatory data collection exercises.Please refer to <http://projects.worldbank.org/P159303?lang=en> for further details about the FSMP. |
| ***2.*** | ***Objective(s) of the Assignment***The Objectives of this assignment are:1. To strengthen legal, regulatory and supervisory frameworks, tools, capacity of the Client and related IT infrastructure at the Client in line with international standards;
2. To strengthen the insurance, reinsurance and distribution channels, business processes, procedures and practices of the insurance industry in line with international best practices;
3. To ensure sound and prudent management and oversight of insurers, reinsurers, intermediaries’ (agents, brokers, loss adjusters etc.) business for the protection of interest of policy holders; and
4. To build skills and capacity of the staff of Client.
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| ***3.*** | ***Scope of Services, Tasks (Components) and Expected Deliverables***The Consultancy Firm/Consultant is expected to work with the Client towards fulfillment of the objectives of this assignment. The Consultant is required to ensure that services to the Client are in line with International Association of Insurance Supervisors (IAIS) core principles as well, to the extent possible. Assignment is expected to commence in ...2021 and end in December 2022. The Consultant is expected to work closely with the staff of the Client when performing the services and tasks set out hereinafter. The Consultant is also expected to work closely with other consultants hired by the Client under this project, have discussions, obtain their views/comments, if the tasks listed below are within their scope of services and deliverables, compile all comments and make recommendations. The Consultant is required to take the lead when performing the services and tasks listed below: |
|  | * 1. **(a) Gap Analysis** - Analyze the current RBC formula and methodology, supervisory practice and tools, off-site monitoring, on-site inspection, data collection, rules, guidelines, and directions.

(b) Analyze the existing regulatory, investigatory, market development and legal functions; identify gaps and make recommendations**(C)**Assess capabilities of all relevant Supervisory staff and, identify skill gaps and assess training needs. **3.2**Make recommendations on 3.1 (a) i.e to improve and/or develop the capital adequacy regime for insurers, reinsurers (formula, risk classification, solvency control levels etc.), regulatory/supervisory frameworks , the minimum stated capital requirements, weights, composition of assets of insurance funds taking account appropriate assets liability management practice for insurers, reinsurers, and facilitate the implementation of recommendations, including the development of subordinate legislation;**3.3**Carryout the complete migration to Risk Based Supervision (RBS) framework for insurers, reinsurers, insurance groups and insurance conglomerates at the Client and develop related regulatory and supervisory frameworks including the upgrading of the off-site monitoring practice to be able to set up effective processes, set up of Early Warning Systems ( Quantitative and qualitative Analysis, Stress testing, capital adequacy etc.) and its indicators and prepare tailored template for Enterprise Risk Management and Own Risk Supervision Assessment ( ORSA) for the industry development of diagnostic tools;* 1. Upgrade financial & regulatory reporting templates and develop a road map and implementation support to the Client regarding the transition of the insurance industry to IFRS 9 and IFRS 17.This task should focus on disclosure and data as well. Data is needed with lower granularity and with more history which challenges internal data quality and IT performance:
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|  | **3.5** Facilitate/support the development and implementation of IT strategy including the development of cyber security infrastructure, setting up of online information reporting systems and to fully automate the regulatory, supervisory and administrative frameworks at the Client. The Consultant is required to work closely with the IT Experts of the Client to facilitate/support the Client to transform its IT infrastructure to meet the related objectives;  |
|  | **3.6** Develop guidelines for the industry on product development strategies, considering demand for products, through the analysis of sales patterns and social and demographic factors. The Consultant is required to identify market needs and the products available in the market for the said analysis with a view to close and improve protection; |
|  | **3.7**Design/develop the strategy on National Reinsurance Policy, including evaluation of reinsurance arrangements filed by insurers/reinsures (program adequacy, retention, and so on), and make recommendations thereon, setting up of standards, guidelines on reinsurance, inward reinsurance, fronting transactions, co-insurance transactions and other forms of risk transfer;**3.8**Provide recommendations to restructure the National Insurance Trust Fund (NITF), including the separation of Insurance and Reinsurance to formulate the Client’s views/approval;**3.9**Strengthen the Corporate Governance legal framework, disclosure requirements and enforcement strategies on non-compliance, including the development/introduction of /preparation of templates for Enterprise Risk Management (ERM), ORSA for the industry;**3.10**Analyze and develop regulatory and supervisory frameworks on market conduct practices, including processes and procedures on market conduct on-site and off-site supervision; |
|  | **3.11**Analyze and develop regulatory and supervisory frameworks for micro-insurance and inclusive insurance, including the development of rules/regulations/guidelines/reporting formats, etc.;  |
|  | **3.12**Analyze and review and restructure the existing distribution systems to reach untapped/ uninsured/vulnerable population, commission structures and related regulations;**3.13**Strengthen the legal framework on compulsory motor third party liability insurance, review 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;**3.14**Develop data frameworks to update the morbidity and mortality tables;**3.15** Provide training to the staff of the Client on areas; 3.1 – 3.14& training on evaluation of new licenses/registrations of Insurers, Reinsurers, Brokers & Loss Adjusters; **3.16**Support the development of rules/regulations/directions/guidelines/reporting formats etc. wherever required and facilitate the Client on any other matter within the Consultant’s expertise.**Expected Deliverables**

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| **Scope of Service** | **Deliverables** | **Payment %****(Based on****Contract price)** |
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| **3.1** | Gap analysis and assessing capabilities of relevant staff  | 10% |
| **3.2** | Improved capital adequacy regulatory & supervisory frameworks etc. for Insurers and Reinsurers  | 10% |
| **3.3** | New RBS guidelines and successful migration to RBS regime, diagnostic tools, early warning systems &risk scoring systems | 10% |
| **3.4** | Roadmap along with action plan to transition to IFRS 9 & 17 &Implementation support on IFRS 9&17 | 7% |
| **3.5** | Support the development of IT System/ StrategySupport the IT infrastructure and development for supervisory activities, policyholders’ protection and enforcement | 10% |
| **3.6** | Product Development Strategy to close and improve protection | 2% |
| **3.7** | Assessment of the reinsurance activities in Sri Lanka, including pandemic stress test scenarios, Reinsurance supervisory strategy, National Reinsurance Policy, Reinsurance Standards Rules/regulation/guidelines  | 5% |
| **3.8** | Recommendations to formulate views/ approvals on NITF | 2% |
| **3.9** | Corporate Governance &tailored ERM, ORSA | 6% |
| **3.10** | New regulations on Market Conduct & On site & off site supervision Strategy, tools | 10% |
| **3.11** | Micro-insurance & inclusive insurance rules/regulations/ guidelines/reporting formats | 5% |
| **3.12** | Improved regulations on distribution channels, commissions, etc. | 2% |
| **3.13** | Improved regulations on 3rd party motor insurance, new data frame work on premium & reserve calculation, Recommendations for establishment of insurance information and monitoring center | 3% |
| **3.14** | Updated Mortality and Morbidity tables | 4% |
| **3.15** | Training and capacity building | 10% |
| **3.16** | Rules/regulations/guidelines/reporting formats | 4% |
| **Total Payment**  | **100%** |

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| ***4.*** | ***Team Composition & Qualification Requirements of the Consultant***1. The Consultant is required to propose a team comprising of at least **3 Professionals (hereinafter known as “Key Experts”)** in the field of Insurance, Reinsurance, Actuarial, IT, Law, Accountancy and Finance with minimum 15 years post qualifying experience; **The Key Experts** should have obtained their professional/academic qualifications from a recognized institution.

 Following will be added qualifications:1. Additional Key Experts proposed up to 2 .
2. Post qualifying experience (for more than 2 years) in an insurance regulatory authority in a field connected to this assignment

 1. **The Key Experts** should have specific knowledge and experience in areas covered in section 3 above, i.e. developing tailored Risk Based Capital requirements, Risk Based Supervisory frameworks, micro insurance regulation and supervision, Reinsurance regulatory and supervisory frameworks, IT Strategy and frameworks, work in relation to transforming to IFRS 17 and 9, mortality and morbidity tables, developing Corporate Governance and ERM frameworks, developing market conduct regulation and supervision, developing product development strategies to an insurance regulatory authority. The assignment duration should be for at least 3 months’ period and conducted within the last 10 years’ period, i.e. after year 2010. Assignments carried out for more than 3 months’ period will be an added advantage.
2. **The Key Experts** should have conducted capacity building in an insurance regulatory authority on areas connected to this assignment during the last 10 years, i.e. after year 2010 for a duration of more than four weeks per assignment
3. The Consultant is also required to propose a **support team** (at least 2 members) comprising of Professionals with at least 7 years post qualifying experience. **The support team** should have obtained their professional/academic qualifications from a recognized institution.
4. **Key Experts** and the **support team** should possess excellent English communication skills.

The Consultant should identify the **Key Expert/s** for each task of the assignment and demonstrate that such expert/s possess the above requirements, according to the format provided by the Client.  |
| ***5.*** | ***Reporting Requirements and Time Schedule for Deliverables*****5.1** The Consultant shall report to the Project Implementation Unit (PIU) of the Client, headed by the Project Director. All reports are required to be submitted 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. The Consultant should nominate a representative/team leader for this purpose. **5.2.** The Component Leaders of the Client assigned for each scope of service and forming part of the PIU will **review the deliverables/reports of the Consultant,** and where necessary obtain clarifications or require further improvements on deliverables/reports from the Consultant and report the acceptance/non-acceptance of the deliverables/reports to the Project Director within a period of 4 weeks of receiving such deliverables/reports. **5.3** The Consultant is required to provide an acceptable work plan to the Client for the scope of services/tasks identified above, with detailed timelines for the inception reports, draft reports and final reports. The tasks identified in 3.1, 3.2, 3.3, 3.4, 3.5 and 3.10 should be prioritized. The work plan is required to be submitted when submitting the EOI. The Client reserves the right to negotiate with the selected Consultant to revise the work plan submitted. **5.4**Full and final payment to Consultant will be made by the Client based on the percentage limit mentioned in the Table above for the specific tasks upon completion of scope of service/task and acceptance of Final Reports on deliverables by the Project Director. Proportionate payments, subject to the said limit will be made by the Client based on interim reports (inception reports & draft reports) submitted by the Consultant and upon acceptance of same by the Project Director. **5.5** Tax liabilities of the Consultant needs to be borne by the Consultant. Information on the Consultant’s tax obligations in the Client’s country can be found at [www.ird.gov.lk](http://www.ird.gov.lk) |

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| ***6.*** | ***Client’s Input and Counterpart Personnel***1. Services, facilities and property to be made available to the Consultant by the Client:

Office space will be provided to the Consultant by the Client. 1. Professional and support counterpart personnel to be assigned by the Client to the Consultant:

Staff members of the Client will be assigned to work with the Consultant during the period of the assignment. |