Reinsurance Advisory Board comments on draft Insurance Regulatory and Development Authority of India Reinsurance First Amendment Regulations, 2022

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Name and contact number:		Reinsurance Advisory Board (RAB) internationational@insuranceeurope.eu +32 2 894 30 59		
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Sr.	Wordings of the Regulation as per Exposure Draft	Page No. and Para No.	Comments	Rationale for Comments
5(2)A	A. Every cedant shall offer best terms obtained, for participation in the following order of preference: a) Category 1: Indian Reinsurers, FRBs, Lloyd's India, IIOs b) Category 2: CBRs who: i. Agree to retain minimum 50% premium by way of premium deposit with the cedant. It will be the responsibility of the Insurers to maintain this premium in a separate designated/escrow account as well as to invest such amount into Government of India Securities; or	Page No. 2	The proposed amendments correspond to positive developments towards a more open and balanced reinsurance market, and the RAB welcomes the proposals made by IRDAI. The RAB welcomes the proposal to bring foreign reinsurance branches (FRBs), Lloyd's India and International Financial Services Centre Insurance Offices (IIOs) on a par with the state reinsurance company. However, the RAB believes that such changes should be made in conjunction with other amendments to the existing laws and regulations to create a proper level playing field for	This move affords insurers increased discretion to consider the policyholders' best interests and is a positive step towards the liberalisation of the market. Giving FRBs Category 1 status allows them to play a greater role in strengthening the Indian reinsurance market and may act as an incentive for further Lloyd's syndicates and reinsurers to establish themselves onshore. Nonetheless, the RAB considers that the decision to purchase reinsurance should not be based on the geographical location of a reinsurer but on a prudent assessment of the reinsurer based on financial strength, credit ratings, business expertise and experience. The RAB would therefore suggest that, while the proposal is a step in the right direction, ultimately Indian

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	ii. Agree to provide collaterals/ letter of credit/ bank guarantee for 50% premium to the cedant; or iii. Agree to maintain a dollar denominated account in IFSC Banking Unit (IBU) in IFSC/ and maintain 50% of premiums in the account. Category 3: to other Indian Insurers (Facultative) and Other CBRs		FRBs. In particular, FRBs should be considered as resident under the Income Tax Act. In addition, requirements for the maintenance of assigned capital or repatriation of capital/ surplus applicable to FRBs should be removed or eased. Restrictions on the outsourcing of functions severely affect the ability of FRBs to benefit from systems and process support from other entities in their group or from best-in-class global service providers. Furthermore, the RAB opposes the proposed requirement for cross-border reinsurers (CBRs) to retain 50% of premium with their cedants by way of collateral. Similarly, the RAB recommends removing the 50% retention of reinsurance premium by locally domiciled branches of foreign reinsurers.	cedants and policyholders are best served by an open reinsurance market with no mandated order of preference. The RAB believes that there should be no significant restrictions or disincentives to cross-border business, such as retentions based merely on the geographical location of a reinsurer. Full access to cross-border reinsurance has tangible benefits for any domestic insurance industry, consumers and the wider economy. Indian insurers are best placed to ensure that the reinsurance arrangements they enter into are subject to appropriate controls and risk management. The high FRB tax rate has to be reflected in the reinsurance premiums charged, making FRBs less competitive than local players, which enjoy an effective tax rate of only 22% plus surcharge/education cess. This large difference in the effective tax rate cannot be absorbed by FRBs and heavily constrains the viability of their business. This puts them at a significant disadvantage. If excess capital that goes beyond what is needed to meet local capital requirements cannot be repatriated, a parent undertaking's ability to make efficient use of its capital and react flexibly to changing market conditions is severely limited. Consequently, parent undertakings will be hesitant to bring in additional capital to increase the business written through Indian FRBs. This also undermines the prospect of future additional investment in India from the headquarters of Indian FRBs. Intragroup servicing arrangements keep the cost of operations under control, which further contributes to the offering to ceding companies and the profitability of the branch.

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<tr><td></td><td></td><td></td><td></td><td>In order to ensure an equitable treatment of cross-border reinsurers and local branches, the RAB would also recommend removing the existing requirement that locally domiciled branches of foreign reinsurers retain 50% of reinsurance premiums.</td></tr>
<tr><td>6(1)</td><td>8. Cession limits:
1. Re-insurance placements with CBRs by the cedants transacting other than life insurance business shall be subject to the following overall cession limits during a financial year.
<table>
<tr><td>Rating of the CBR as per Standard & Poor or equivalent</td><td>Maximum overall cession limits* allowed per CBR</td></tr>
<tr><td>Greater than A+</td><td>25%</td></tr>
<tr><td>Greater than BBB+ and up to and including A+</td><td>17.5%</td></tr>
<tr><td>BBB & BBB+</td><td>10%</td></tr>
</table></td><td>Page No. 2</td><td>While the RAB supports the increase in the maximum cession limit for CBRs, the RAB urges the IRDAI to reconsider its current regime of restrictive practices and to pursue a regime under which all cession limits are lifted.</td><td>While the RAB supports the increase for CBRs, the RAB considers that the existence of maximum cession limits discriminates against foreign reinsurers to the detriment of the Indian market.

Open reinsurance markets are vital to enable reinsurance markets to operate efficiently, to diversify risk globally and to promote the continued growth and recovery of global and national economies. Barriers to cross-border reinsurance undermine the efficiency of reinsurance markets and lead to higher reinsurance costs and less capacity in the long term, to the detriment of policyholders.</td></tr>
<tr><td>12(4)</td><td>11.Sub-regulation 12(4) shall be inserted, namely:
“The Chairperson of the Authority may issue guidelines on issuance of File Reference Number (FRN) to CBR, conditions of renewal of FRN, ART and Regulatory framework of domestic Insurance Pools”.</td><td>Page No. 3</td><td>The RAB welcomes the possibility for the Chairperson to issue guidelines on the issuance and renewal of the File Reference Number (FRN) as this could increase the transparency of the process.</td><td>The RAB believes that the CBR application process and FRN renewal has not always been clear and transparent. This lack of legal certainty and transparency poses a challenge not just to international companies wishing to do cross-border business in India but also to cedants who rely on the continued availability of international risk capacity at competitive terms. Consequently, the RAB believes that the publication of guidelines would help to increase the transparency of the process. In order to allow for open and efficient reinsurance markets, it is important that the guidelines guarantee open market access and a level playing field for CBRs.</td></tr>
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Insurance Europe's Reinsurance Advisory Board (RAB) is a specialist representative body for the European reinsurance industry. It is represented at chairman or CEO level by the seven largest European reinsurance firms: Gen Re, Hannover Re, Lloyd's, Munich Re, PartnerRe, SCOR and Swiss Re. Through its member bodies, the RAB represents around 60% of total worldwide reinsurance premium income.