



Ref: IRDAI/ RI/ GDL/Misc./02/2024

February 20, 2024

**Re: Guidelines on Collateralized reinsurance transactions for placement of reinsurance business with Cross Border Reinsurers (CBRs)**

**1. Background:**

In insurance business, capital management is an increasingly important area for insurers/ cedants, as they look to find ways to manage their risks and related capital requirements to optimise their solvency balance sheets.

Reinsurance may be observed as one of the key capital management tools available to the insurers/cedants, which also plays a vital role in risk management, allowing them to transfer a portion of their risk to other insurers/reinsurers.

In various jurisdictions around the world, many reinsurance transactions are backed by collaterals to mitigate counterparty default risk in respect of the reinsurers. The amount of collateral required to back reinsurance transactions depends on the type of reinsurance and the reinsurer's creditworthiness.

It is important to note that the practice of collaterals requirements not only protects the interest of the policyholders and insurers but also fosters confidence in the market, attracting reinsurers for promoting a healthy and robust insurance ecosystem.

2. In the backdrop of the above, the Authority is actively considering introduction of collaterals within the Indian insurance industry, specifically for reinsurance transaction with Cross Border Reinsurers (CBRs).

An exposure Draft of proposed Guidelines in this regard is attached in **Annexure – A** for the comments from the Insurers / Re-insurers / Stakeholders.

The feedback / comments / suggestions may be sent on e-mail [gautam.kumar@irdai.gov.in](mailto:gautam.kumar@irdai.gov.in) with a copy to [reinsurance@irdai.gov.in](mailto:reinsurance@irdai.gov.in) in the specified format i.e. **Annexure – B** , within a period of 15 days from the date of its publication in the IRDAI website.

**General Manager**

**Re-insurance**



भारतीय बीमा विनियामक और विकास प्राधिकरण  
INSURANCE REGULATORY AND  
DEVELOPMENT AUTHORITY OF INDIA

**Guidelines**

Ref.: IRDAI/RI/GDL/MISC/\_\_\_\_\_/01/2024

Date: February ....., 2024

To,

**All the Cedants as defined under Reg. 2 (5) of the IRDAI (Re-insurance) Regulations, 2018;**

**Re: Guidelines on collateralized re-insurance transactions for placement of re-insurance business with Cross Border Re-insurers (CBRs).**

1. Introduction -

- a) The insurance sector in India has witnessed healthy growth in recent years and is set to achieve further growth in future. The Indian economy is projected to be the fastest growing economy and the insurance sector is expected to follow an even higher growth trajectory over the next decade.
- b) The insurance landscape in India is also undergoing rapid changes with the adoption of technology and regulatory reforms.
- c) The domestic reinsurers and branches of foreign reinsurers (FRBs) have been providing the necessary capacity to the direct insurers and also helping them in their growth trajectory. In addition, the Cross Border Reinsurers (CBRs) have also been getting significant amount of premiums from India and their share in the Indian reinsurance market is increasing. It is now felt necessary to ring-fence the interests of Indian cedants to maintain their ability to meet obligations towards policyholders in India. In order to strengthen and further improve the resilience of the Indian insurance sector, and to prepare for the future growth, the Authority hereby issues the following guidelines.

2. These guidelines are issued under the provisions of Section 34 (1) of Insurance Act, 1938 and powers conferred under Reg. 12 (2) (A) of the IRDAI (Re-insurance) Regulations, 2018.

3. Words and expressions used and not defined in these guidelines but defined in the Act, or any rules, regulations or notifications made thereunder, shall have the same meanings respectively assigned to them in those Acts, rules or regulations or any statutory modification or re-enactment thereto, as the case may be.

4. The cedant placing re-insurance business with CBRs shall be responsible for collecting the collateral for such placement as indicated below –

- a) The collateral shall be either in the form of irrevocable Letter of Credit (LC) from the CBR or premium / funds withheld by the ceding insurer.
- b) In case of LC;
  - i. the LC shall be issued through any IFSC Banking Unit (IBU) in GIFT-IFSC or a scheduled commercial bank regulated by the Reserve Bank of India,
  - ii. the cedant may choose to accept such LC either in Indian Rupees or in any freely convertible foreign currency,
  - iii. the amount of LC shall be with reference to the aggregate of outstanding claims liabilities and IBNR reserves of the ceding insurer for re-insurance contract or arrangement with the concerned CBR. The amount of collateral shall be as below:

<b>Rating Position of CBR</b>	<b>Minimum Amount of collateral (aggregate of outstanding claims liabilities and IBNR reserves)</b>
A- or above from Standard or Poor's or equivalent	80%
Below A-	100%

- c) In case of Premiums/ Funds withheld;
  - i. the premiums/ funds withheld from each CBR shall be identified, accounted for, kept and invested separately from the funds of the insurer,
  - ii. the investment income, if any, on such withheld funds shall be credited to such fund(s),
  - iii. the minimum amount of premium/ fund withheld shall be 50% of the premiums ceded by the insurer to a CBR.

5. General –

- a) The cedant shall release such collaterals as mentioned herein above if all the liabilities of the concerned CBR under re-insurance contract(s) are fully extinguished.
- b) If the cedant is satisfied that part of the liabilities of a CBR under the re-insurance contract are likely to continue, it may release the collateral as given by the CBR after making adjustments for any amount that it determines should be kept available for the purpose of meeting claims in respect of re-insurance contracts entered into by the CBR.

- c) Every ceding insurer shall furnish a confirmation regarding compliance with the collateral requirements as indicated in these guidelines, based on the reinsurance program as approved by its Board of Directors or the Executive Committee.
  - d) The ceding insurer shall not be permitted to take credit of the collaterals held by it, for the purpose of determining the available solvency margin.
6. These guidelines shall be applicable for all the reinsurance placements with Cross Border Reinsurers (CBRs) by cedants from India, for reinsurance programs for FY 2025-26 onwards.

Sd/-