IRDA/ACT/CIR/SLM/066/03/2017

Dated: 28 March 2017

To,

Chief Executive Officers / Chairman cum Managing Directors of all Non-Life Insurers (including Health Insurers) and Reinsurers

Subject: Solvency Margin

1. This circular is issued under powers granted to the Authority under sub-section (2)(e) of Section 14 of Insurance Act, 1938.

2. The Authority is in receipt of representations from various Non-Life Insurance companies writing State/Central Government sponsored schemes to recognise the premium receivable relating to this schemes as an eligible asset for the computation of Solvency Margin and reduce theRequired Solvency Margin (RSM) factors applicable to crop insurance.

3. Clause 1(1)(b) under Schedule 1 of Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin of General Insurance business) Regulations, 2016 (hereinafter referred as “the Regulations”) states that premiums receivables relating to State/Central Government sponsored schemes, to the extent they are not realized within a period of 180 days, should be placed with value zero.

4. The Table 1 under Schedule III of the Regulations mentions factors for calculation of RSM for various lines of business. In the above Table “Crop Insurance” is considered under “Miscellaneous” Line of Business for the purpose of determination of RSM. The current factors for this segment is...
0.7 both for Factor A and Factor B, as provided in the Table mentioned above.

5. Given the macro-economic environment and risk parameters there is a need to utilize the capital optimally with affordable cost so that insurance penetration increases.

6. The Authority has examined the representations made by the insurers and has reviewed the position in the above background. The Authority proposes the following concession in the determination of solvency margin:

6.1. Clause 1(1)(b) under Schedule 1 of IRDAI (Assets, Liabilities, and Solvency Margin of General Insurance business) Regulations, 2016 shall be applicable as under:

6.1.1. Premiums receivables relating to State/Central Government sponsored schemes, to the extent they are not realized within a period of one year should be placed with value zero.

6.2. "Crop Insurance" shall not be incorporated in Item No. 09 under “Miscellaneous” Line of Business in Table 1 under Schedule III of the Regulations.

6.3. There shall be an additional Item No. 10 with Line of Business “Crop Insurance” in Table 1 under Schedule III of the Regulations.

6.3.1. The RSM factor applicable for Factor A and Factor B for Item No. 10 with Line of Business “Crop Insurance” in the table referred in 5.2 above shall be as per the table given below:

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Line of Business</th>
<th>Factor A</th>
<th>Factor B</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(10)</td>
<td>(11)</td>
</tr>
<tr>
<td>10</td>
<td>Crop Insurance</td>
<td>0.5</td>
<td>0.5</td>
</tr>
</tbody>
</table>
7. **Provided that**, the concession provided in the para 6 above shall be effective from the date of issuance of this circular.

8. **Provided further that**, the concession granted in the para 6 above shall be effective for a period upto 31st March 2018. The Authority reserves the right to review the liquidity, solvency, outstanding claims and any other relevant positions of the insurers at the end of the period.

9. **Provided further that**, the insurers shall monitor very closely the outstanding premium receivable with due consideration of overall liquidity requirement, as such the payment of claim shall not be jeopardised.

Member (Actuary)