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**Guidelines on Participation in Electronic Transaction Administration and  
Settlement System**

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**1. Introduction:**

The Authority had noticed that the inter-company balances in reinsurance and coinsurance business are at a very high level and have been on a constant rise. The inability of the parties to the transactions to agree appears to be the primary reason for the growing inter-company balances. It is also noticed that lack of cooperation between the companies and inadequate documentation is posing a problem towards the efforts to minimize these balances. Also, the insurers, reinsurers and insurance intermediaries do

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not have a common platform to handle the reinsurance and coinsurance transactions. The reinsurance and coinsurance transactions typically involve multiple organizations across various geographies due to which, these transactions become complex and issues are observed in accurately arriving at the accounting statements and reconciliation of inter-company balances. Delayed settlement of balances, high turnaround times and lack of transparency have become issues of concern for the Authority and the industry in the recent times. It is the intention of the Authority to bring discipline in the area of reconciliation and timely settlement of balances.

Towards this objective the Authority issues the following guidelines in exercise of the powers vested under section 14 (2) (e), 14 (2) (h) and 14 (2) (m) of the IRDA Act, 1999.

## **2. Definitions –**

In these guidelines, unless the context otherwise requires,

- (a) 'Act' means the Insurance Regulatory and Development Authority Act 1999 (41 of 1999);
- (b) 'Authority' means the Insurance Regulatory and Development Authority of India established under sub-section (1) of Section 3 of the Act;
- (c) 'Council' means General Insurance Council established under section 64 of the Act;
- (d) 'Conduct of reinsurance and coinsurance business in India' means and includes activities of pre-placement such as issuance of a slip or floating of a proposal, request for quote, issuance of terms and subjectivities of contract, thereafter final placement by way of a binding order and placement confirmation. It also includes activities connected to endorsements and claims as well as accounting and settlement of reinsurance and coinsurance contract, endorsements and claims and applies to both inward and outward reinsurance and coinsurance arrangements
- (e) 'ETASS' or Electronic Transaction Administration and Settlement System is an electronic platform that is being deployed for clearing house operations.
- (f) Words and expressions used and not defined in these Guidelines but defined in the Insurance Act, 1938 (4 of 1938) or the Life Insurance Corporation Act, 1956 or

the General Insurance Business Nationalization Act, 1972 (57 of 1972) or Insurance Regulatory and Development Authority of India Act, 1999 (41 of 1999) and rules made there under shall have the meanings respectively assigned to them in those Acts or rules as the case may be.

- (g) 'Administrator' shall mean the individual/entity appointed by the Authority and responsible for setting up, maintaining the ETASS, framing of rules, processes and having oversight of the complete affairs of the ETASS.
- (h) 'Member' means an organization which is granted a membership by the Administrator to the clearing house.
- (i) 'Un-reconciled balances' are the outstanding amounts that are 'due to' or 'due from' other entities and where the parties to the transactions do not agree on the amount of balances at an individual arrangement and/or transaction level.
- (j) 'Prior period items' are those transactions that took place before the commencement of the ETASS operations.
- (k) 'Aggregated net basis' means a settlement approach whereby the aggregate of all the receivables are offset against the aggregate of all payables at the level of a member for whom a statement of balances is computed for a stated accounting period/settlement cycle.
- (l) 'Settlement' means the transfer of money supported by an accounting statement or a bordereaux.
- (m) 'Business rules' are the operational rules framed by the Administrator for the purpose of smooth and efficient conduct of clearing house.
- (n) 'Arrangement' shall mean individual coinsurance and treaty, facultative or other forms of reinsurance.

### **3. Electronic Transaction Administration and Settlement System (ETASS)**

- (a) The ETASS shall be an electronic platform set up by an 'Administrator' appointed by the Authority for conduct of reinsurance and coinsurance transactions in the country.
- (b) The electronic platform provided by ETASS system shall be owned by the Authority and administered by an 'Administrator' in accordance with these guidelines and other circulars, clarifications, directives issued by the Authority from time to time.

- (c) ETASS shall provide electronic functionality for automated negotiation, deal placement, binding of risks, documentation, accounting, reconciliation and settlement of balances, messaging, risk management, etc. The ETASS system shall strive to bring complete transparency into reinsurance and coinsurance operations while addressing the security and privacy needs of the members.
- (d) The Authority in consultation with the Administrator and other stakeholders shall however devise a phased approach for implementation of the ETASS.
- (e) The Administrator of ETASS system shall ensure confidentiality of data and shall be responsible for maintaining the integrity of the data and protecting the business interests of its members.
- (f) The ETASS system shall provide the necessary facilities for the intermediaries, insurers and reinsurers to interface with their existing systems.
- (g) The Authority may specify such provisions/conditions/rules for smooth transition to the ETASS system, its continued functioning or for any other purpose in the context of the ETASS as it may deem fit.
- (h) No insurer, reinsurer, IFSC Insurance Office transacting Non-life insurance business whether domestic or foreign and no insurance broker (reinsurance, composite) and whether domestic or foreign shall undertake reinsurance and coinsurance business whether inward or outward in India by any other means than using ETASS from the date stipulated in this regard by the 'Administrator'.

#### **4. Administrator of ETASS**

- (a) Till any further instructions provided by the Authority in this regard, the 'Council' shall be the 'Administrator' of the ETASS and shall perform functions to the meet the objectives stated and in accordance with these guidelines.
- (b) If the Authority has reasons to believe that the affairs of the ETASS are conducted in a manner prejudicial to the interest of the insurance sector, the Authority reserves the right to provide such directions as it deems fit. Such directions shall be binding on the Administrator and the industry.

## **5. Objectives and Functions of the Administrator**

### **I. The Administrator shall work towards fulfillment of the following objectives:**

- (a) Promote sound accounting principles for the conduct of ETASS in an efficient and transparent manner.
- (b) Establish a sound sustenance model for the ETASS operations.
- (c) Develop a continuous improvisation model and thrive towards achieving a robust and efficient coinsurance and reinsurance market space.
- (d) Facilitate timely reconciliation and settlement of inter-entity balances.

### **II. The 'Administrator' of ETASS shall perform the following functions:**

- (a) Set up ETASS for the members to negotiate, transact coinsurance/reinsurance placements, accounting, settlements and reconciliation of balances as envisaged in these guidelines.
- (b) Devise Project Plan for development of the ETASS, logically phase the development and implementation by identifying priorities and with due approval from the Authority.
- (c) Establish infrastructure and support services as may be required for the smooth functioning of the ETASS.
- (d) Administer services like payment gateways, payment administration mechanism, accounting and reconciliation systems/processes.
- (e) Membership management.
- (f) Maintain and upkeep the ETASS system. This includes building up necessary features needed to handle the needs of the market that emerge/change from time to time.
- (g) Maintain integrity of the ETASS at all times. This includes taking precautions necessary to ensure its continuity.
- (h) Put in place adequate internal mechanism for reviewing, monitoring and evaluating controls, systems, procedures for ETASS operations. This shall also include monitoring of the status of membership and adherence to various limits, rules and stipulations for the purpose of ensuring smooth conduct of the ETASS operations.

- (i) Provide reports as may be required by the Authority.

#### **6. Appointment of Compliance Officer**

- (a) The Administrator shall appoint a Compliance Officer who shall be responsible for monitoring the regulatory compliance with respect to the functioning of ETASS and matters related thereto.
- (b) The Compliance Officer shall immediately and independently report to their Head of the institution of any non-compliance observed by him.

#### **7. Standards, Processes, Business Rules and Turnaround times.**

- (a) Within 30 days from the issuance of these guidelines, the Administrator in consultation with the Authority shall frame business rules for the orderly conduct of the transactions, settlement, accounting of reinsurance and coinsurance business through the ETASS system. These business rules shall be binding on the members of the ETASS.
- (b) The Authority will have powers to order change, modify or re-write Business Rules or issue direction as it deems fit.
- (c) The Business rules shall cover inter-alia the definitions, business segments, matters relating to members, membership fees, records maintenance, IT systems, ETASS, dispute resolution procedures, arbitration, handling defaulting members, disciplinary procedures, handling appeals, miscellaneous provisions, etc.
- (d) The business rules shall cover framework related to the minimum of the following:
  - i. Mode of conduct of transactions and checks to ensure quality in the content of transactions,
  - ii. LOB wise - effective dates for transition into ETASS system
  - iii. Reconciliation of inter-company balances,
  - iv. Methodology for resolution of differences in inter-company balances.
  - v. Business Model and cost/revenue structure,
  - vi. Payment gateway
  - vii. Accounting of transactions,
  - viii. Settlement through multiple options, settlement cycles etc.,

- ix. Time lines with respect to entry of transactions, submission of details, accounting, settlement, reconciliation between members of ETASS, uploading of prior period balances etc.,
- x. Migration of the existing balances into the ETASS system
- xi. Default, Risk management and penal provisions.
- xii. Code of conduct for ETASS members, rules for grant or revocation of membership, disciplinary/penal provisions.
- xiii. Annual accounts and audit,
- xiv. Turn-around times
- xv. Framework related to sharing of documents etc.,
- xvi. Operational framework
- xvii. Miscellaneous, etc.

#### **8. Participation and enrolment in ETASS:**

- (a) All Non-life insurers, Reinsurers, Branches of foreign reinsurers, IFSC Insurance Offices, Brokers, Reinsurance Brokers registered/licensed by the Authority shall mandatorily participate in the ETASS system for conduct of reinsurance and coinsurance business both inward and outward. Further, all insurers/reinsurers/brokers/reinsurance brokers registered outside India and dealing with entities registered/licensed with the Authority for conduct of inward/outward reinsurance shall also be required to mandatorily participate in the ETASS system as its members.
  
- (b) All Non-life insurers, Reinsurers, Branches of foreign reinsurers, IFSC Insurance Offices, Brokers, Reinsurance Brokers registered/licensed with the Authority shall be deemed as 'members' by default. Further, these entities shall be required to transact reinsurance/coinsurance business both inward and outward only with the members of ETASS.

- (c) Entities not falling in clause (b) above shall be required to enroll themselves as 'members' of ETASS.
- (d) All the members shall adhere to the rules, guidelines, operational framework of ETASS as prescribed by the Administrator from time to time.
- (e) The conduct of a member of the ETASS shall be in accordance with the business rules of the Administrator.
- (f) The Administrator shall report cases of violation and provide their recommendations for suspension, revoking membership, imposing penalties or for other disciplinary action by the Authority for the member's violation of the business rules.
- (g) The decision of the Authority shall be based on the recommendations of the Administrator or based on its own findings and shall be binding on the members and shall be adhered to in letter and spirit.
- (h) Any entity not complying with these guidelines shall be dealt with in accordance with Section 102 of the Insurance Act, 1938.
- (i) A member can also make an application for withdrawal of the membership to the Administrator. If the request is accepted by the Administrator, no entity registered/licensed in India shall transact any business with such entity in future.

## **9. Revenue and sustenance model**

- (a) The Administrator shall establish necessary procedures to collect membership fee, transaction fee, fines for transaction level non-compliance and other charges as may be reasonable and relevant. Such fee structure shall be published to its members and intimated to the Authority for its information.
- (b) The amounts thus received shall be maintained in a separate account and shall be utilized primarily for discharging the functions of the Administrator and enhancement of the ETASS system.



- (c) The Administrator shall take steps towards building an independent revenue and sustenance model for the ETASS.

#### **10. Inter-entity balances**

- (a) Within a date stipulated by the Administrator, from the grant of membership and operationalization of the ETASS system, every entity conducting reinsurance and coinsurance business in India shall establish systems to transact over the ETASS system. The Administrator in consultation with the Authority shall stipulate this date and the same shall be binding on the entities required to participate in the ETASS system.
- (b) Every member shall migrate the existing, prior period reconciled balances acknowledged by the counter party into the ETASS system on the date stipulated by the Administrator in this regard.
- (c) Every member shall migrate all the existing, prior-period un-reconciled balances into the ETASS system. The ETASS system shall provide an online platform for the members to reconcile these previously un-reconciled balances. Any un-reconciled balances shall be clearly identified and the insurer/reinsurer/ Broker, Reinsurance Broker shall be responsible to eliminate these un-reconciled balances within such time as the may be stipulated in this regard.
- (d) Every member shall be required to reconcile the balances in the ETASS system with their own records on a frequent basis but not less than once in a month and within 15 days from the expiry of the calendar month. The Administrator shall be responsible to monitor the reconciliation status in order to ensure the effectiveness of ETASS.
- (e) Members shall be required to record the transactions on ETASS within the timeframe stipulated by the Administrator. The ETASS shall provide facility for the counter parties to 'agree' or 'dispute' a given transaction.

- (f) Placement transactions, endorsements (both financial and non-financial) and claims transactions shall all be posted on the ETASS. The Administrator shall notify complete details related to the transactions that will need to be posted on the ETASS.
- (g) Every transaction shall be associated with required documentation for the consumption of the counter parties. The 'leader' on the risk shall be responsible for posting the same on ETASS. The role and responsibilities of the stakeholders shall be as prescribed by the Administrator.
- (h) In order to identify transactions and to ensure that all transactions are posted on the ETASS system, controls/checks as deemed fit shall be prescribed by the Administrator. This may include identification of coinsurance/reinsurance transactions by way of a Unique Reference Number, control totals, day-end reports etc.
- (i) The Administrator shall establish mechanism for the resolution of the disputed transactions. In order to bring objectivity into the same, the Administrator shall devise procedures to deal with such transactions.
- (j) Any transaction that is agreed by the counter party or not disputed within a time frame specified by the Administrator shall be automatically deemed as 'undisputed' by ETASS and shall follow the required process for accounting/settlement.
- (k) The disputed transactions shall be identified as 'Un-reconciled' by ETASS and any amount due to the member in such transactions shall be excluded for the purposes of arriving at the Assets available for 'Solvency margin' to the member as per the time lines prescribed under the 'Assets, Liabilities and Solvency Margin of Insurers' Regulations as amended from time to time.
- (l) Post the complete transition to the ETASS system, in case of a difference/dispute over the balances as at a given date, the balances of the ETASS system shall be taken as final.

- (m) The insurers and intermediaries licensed by the Authority shall clearly report on the state of progress achieved on the reconciliation front and the action plan to further bring down the un-reconciled balances in their Annual Reports.
- (n) In order to facilitate ease of operations, the Administrator shall devise standardized templates, formats, wordings, data exchange formats etc as it deems fit.

## **11. Settlements**

- (a) The Administrator shall have the powers to establish or engage with RBI authorized agencies to facilitate settlement of balances.
- (b) The settlement cycle shall be done on a periodic basis, but not exceeding a month's time. The duration of settlement cycle may be revised downwards to suit the changing market conditions.
- (c) All reconciled balances shall be settled automatically on periodic basis. The Administrator shall establish a framework containing periodicity, method of settlement etc.
- (d) Settlement shall be on an account period basis where the transactions pertaining to a period are settled.
- (e) Settlements shall primarily be on a gross basis and cannot be set off at an arrangement level (Treaty/Facultative arrangement) or transaction level (Premium/Endorsement/Claims etc). However, for the purpose of achieving cost efficiency, the settlements can be on an aggregated net basis for a given entity level for a stated settlement cycle. With prior permission from the Authority, other options may also be devised by Administrator based on the needs of the market. But, in no case shall premiums and claims or receivables and payables be offset against each other at an arrangement level counter party level.
- (f) It shall be mandatory that each settlement/adjustment is associated with and supported by an error-free accounting statement/bordereaux giving all necessary and relevant details.

- (g) Any default in the settlement encountered shall be reported by the members mandatorily to the Administrator. The Administrator upon noticing any errant behavior shall report the same to the Authority for necessary action.

### **12. Reports to the Authority**

- (a) The Administrator shall submit to the Authority, information, statistics and other MIS reports in the forms as the Authority may specify from time to time.
- (b) In addition, the Administrator shall ensure that the ETASS system generates MIS/Reports as may be relevant to the members.

### **13. Miscellaneous Provisions**

- (a) If any person/insurer/reinsurer/ broker, reinsurance broker/member of ETASS fails to furnish any document, statement, return, etc., to the Authority, the same shall be construed as a non-compliance of the guidelines.
- (b) The Authority may, in order to remove any difficulties in respect of application or interpretation of any of the provisions of these guidelines, issue appropriate clarifications or guidelines as and when required. The clarifications/guidelines provided by the Authority shall be final and binding on all the parties concerned.

  
(Sr. Joint Director)  
Non-life