



MINUTES OF THE 59th MEETING OF THE AUTHORITY

held on July 8, 2009 at 11.30 a.m.

in the Office of the IRDA at 3rd Floor, Parishram Bhavan, Basheer Bagh, Hyderabad.

Present:	Chairman	Shri J Hari Narayan
	Member	Shri C. R. Muralidharan
	Member	Shri K K Srinivasan
	Member	Shri G Prabhakara
	Member	Dr. R Kannan
	Part-time Member	Smt. Ela R Bhatt
	Part-time Member	Shri Vijay Mahajan
	Part-time Member	Shri Uttam Prakash Agarwal
	Invitee	Dr. D V S Sastry
Also present:	Executive Director	Shri Prabodh Chander
	Executive Director	Shri K Subrahmanyam
	Executive Director	Shri Kunnel Prem
	Executive Director	Shri A Giridhar

Chairman extended a warm welcome to all those who were present. Leave of absence was granted Shri Rahul Khullar, Secretary (Disinvestment), Ministry of Finance.

Item # 1: Confirmation of Minutes of the 58th Meeting of the Authority held on April 29, 2009

Authority approved the minutes of its 58th meeting held on April 29, 2009 subject to certain changes that wherever ACA/FCA is mentioned any other suitable qualifications as decided by the Chairman may be added.

Resolution No: 59:1

Authority resolves to confirm the Minutes of the 58th meeting of the Authority held on 29th April, 2009 subject to changes indicated above.

Item # 2: Action Taken Report on the Minutes of the 58th Meeting of the Authority held on April 29, 2009.

As regards action taken point No. 4B, Chairman informed that this is a very important task and Non-Life department may complete it quickly, necessarily before the next Board Meeting.

Item # 3: Scheme of deputing officers of the Authority for higher studies abroad

The Authority approved the Scheme of deputing Officers of the Authority for higher studies abroad except for the following changes:

- a) Point no. (iv) of Para (VI) - “.....an agreement undertaking to serve the Authority for a minimum of **five** years after the completion of their study abroad or pay liquidated damages for their failure to do so. Officer pursuing a course, the duration of which exceeds one year, will be required to execute an agreement, undertaking to serve the Authority for a minimum period of **seven** years after the completion of their study abroad or pay liquidate damages”
- b) Point no. (ii) of Para II - The award shall be granted to a maximum number of **two** officers every year.
- c) Addition of point no. f) in para II - The award will be given to the Officer only **once** during his/her career at IRDA.
- d) Addition of point no. vi) in para VI regarding Non-completion of course opted by the Officer
- e) Funding from IRDA will be fully available where the duration of course is not exceeding 12 / 15 months.
- f) Expenses would be borne by IRDA as per actuals.
- g) The Authority would bear to and fro air fare (Economy Class)
- h) The selected officer has to take examination for each paper, selected by him/her and not merely take courses on audit.

Resolution No: 59:3

With the above changes the Board resolved to adapt the Scheme of deputing Officers of the Authority for higher studies abroad subject to changes indicated above.

Item # 6: Report on “Economic Capital and Market Consistent Embedded Value” for Life Insurance Industry in India

Member (Actuary) made a brief presentation on the report on Economic Capital and MCEV. The report was commissioned by Institute of Actuaries of India (IAI) with Dr. R Kannan as Chairman of the Committee. The report besides explaining the concept of Economic Capital and MCEV also provides various issues involved in its implementation in the Indian context. Report also recommends next steps to be taken by the industry for making the concept practically useful. The report also provides certain practical examples for calculation of non-market risks and the effect of diversification of portfolio.

Resolution No: 59:6

IRDA resolves to invite suggestions from the industry as well as from the experts on the contents of the report by placing it on IRDA website after obtaining necessary permission from IAI.

Item # 7: Report on “IFRS Compliance” in Indian Insurance Industry

Member (Actuary) presented the report of the Committee on IFRS Compliance which was constituted by IRDA. The committee has examined various provisions of IFRS which are significantly different from current Indian GAAP. Report also presents the analysis of international experience in converting to IFRS.

Committee felt that adoption of IFRS for investment measurements is likely to bring about volatility in the revenue account due to the principle based classification under IAS 39. The report also discussed the practical implications in implementation of IFRS during the initial stages, its applications to liability in life insurance and the disclosure requirements under IFRS.

Resolution No: 59:7

IRDA resolves to invite suggestion from the industry as well as from the experts by placing the report on the IRDA website.

Item # 8: Insurance Companies promoted by Banks

The issue of cross regulatory issues and ability of Banking companies to raise solvency capital as required by IRDA was taken up with the permission of Chair:

During the discussions on R1 applications of Baroda L&G Life Insurance Co. Ltd., and SBI General Insurance Co. Ltd., one Member, noted that after the liberalization of the insurance sector the number of insurance companies set up by public and private sector banks has become significant. The main motivator for the banks to enter the sector appeared to be their belief in leveraging their network of branches through the bancassurance model for distributing products. This would have enabled them to earn a good premium from the JV partners and also enhance their non fund based fee incomes. The linkage between banks and insurance had no doubt grown deeper with the bancassurance distribution model and has been a factor in enhancing a better reach to customers in areas earlier not accessed. But this also has other wide ranging implications for both banks and insurance sector, since there could be the possibility of risks of one sector spilling over to the other and thereby affecting the performance of both the sectors. This has also given rise to certain regulatory concerns of services rendered to policyholders in the background of short term distribution agreements.

Another regulatory issue is the sustained ability of the banks to raise capital for their insurance ventures in the light of the Basel II requirements to be met by the banks themselves. The IRDA had no doubt been looking at the ability of the banks to bring capital for insurance ventures by the bank partners concurrent with their own capital augmentation, at the time of approving every proposal. Nevertheless, the macro level picture on the ability of all banks planning to raise such capital warranted a deeper study.

Pertinently the international practice of a holding company structure that accommodates separate subsidiaries for banks, insurance and asset management companies was a model that probably has to be looked at in perspective along-with other regulatory implications. There were also implications of the competition between PSU Banks promoted insurance subsidiaries and PSU insurance companies both of which are owned by the Government.

The Member therefore suggested that it would be in order for the Authority to undertake an in-depth study of all issues associated with the bank promoted insurance companies in consultation with RBI and place before the Authority a detailed note in due course. The Chairman instructed that a Committee be constituted with RBI representation to look into various aspects of bank promoted insurance companies.

Resolution No: 59:8

IRDA resolves to constitute a Committee with RBI representation to look into various aspects of bank promoted insurance companies.

Item # 9: Prompt Corrective Action frame work for Indian Life Insurance Industry

Member (Actuary) made a brief presentation on the framework for prompt correction action frame work for Indian Life Insurance industry. In order to understand the performance life insurers and possible failure which may have the stabilizing effect on the entire industry, the Authority is contemplating to set up a reporting system which will gather information on the warning signals on various aspects of the business of each life insurer. Member explained the various ratios used for the analyzing the performance of the life insurers and their utility in grading the performance of the insurers into three zones namely – safe, transition and deteriorated. He also presented a tentative formula for calculation of EWP as a weighted average of various ratios and explained their possible numerical values in the Indian context. The Authority agreed on the necessity of such a framework to be set up immediately, in view of the volatility in both the stock market as well as the insurance industry.

Resolution No: 59:9

IRDA resolves to issue the prompt corrective action frame work as a circular and get the early warning parameters on a regular basis from the industry.

Item # 10: Any other Item with the permission of Chair

Mr. Mahajan suggested that an overview of the Industry may be provided on a six monthly basis in a templated fashion. He also requested that a report on inclusiveness of the insurance industry may be circulated for further discussion at the board level.

Chairman suggested that consumer related issues may be discussed once in every two board meetings. He also suggested that annual reports along with valuations of assets and liabilities of the insurers can be discussed soon after the annual reports are submitted by the insurers.

Chairman also suggested that future agenda of the Board may include a note on intermediaries, micro insurance and state sponsored insurance schemes.

Mr. Mahajan wanted to know the regulatory framework for safe guarding the policyholders' interest in the context of ULIP Funds and their investments by insurers. The Chairman requested Member (F&I) to make a detailed presentation on investment related regulations in the next Board meeting.

There was no other item for discussion and the meeting concluded with vote of thanks to the Chairman.

Sd/-
(J Hari Narayan)
Chairman