

## Item No. 31

### Identification of Domestic Systemically Important Insurers for FY 2021-22

1. Domestic Systemically Important Insurers (D-SIIs) refer to insurers of such size, market importance and domestic and global inter connectedness whose distress or failure would cause a significant dislocation in the domestic financial system. Therefore, the continued functioning of D-SIIs is critical for the uninterrupted availability of insurance services to the national economy. D-SIIs are perceived as insurers that are *'too big or too important to fail'* (TBTF). This perception and the perceived expectation of government support may amplify risk taking, reduce market discipline, create competitive distortions, and increase the possibility of distress in future. These considerations require that D-SIIs should be subjected to additional regulatory measures to deal with the systemic risks and moral hazard issues.
2. The Authority, at its 107<sup>th</sup> meeting held on 20<sup>th</sup> December, 2019, was informed that as per the decision of the FSDC, vide Order no. IRDA/F&A/ORD/MISC/017/01/2019 dated 23<sup>rd</sup> January, 2019, a Committee for identification and supervision of Domestic Systemically Important Insurers in India was constituted under the chairmanship of Member-F&I. The committee, as part of the terms of reference, was also advised to study the practice followed by Reserve Bank of India (RBI) for identification of D-SIBs and IAIS Methodology for identification of G-SIIs. The committee submitted its report to the Chairman, IRDAI and the salient features of the recommendations are as under:
  - a. **Process for identification of D-SIIs:** Indicators and weights for identifying D-SIIs, as used by IAIS, are broadly recommended by the Committee (i.e. Size, Interconnectedness, Asset Liquidation, Substitutability).
  - b. **Identified D-SIIs:** The committee recommended to classify, on the basis of a cut off score of the insurers based on the indicators, 3 insurers as D-SIIs. These insurers are:
    - i. LIC of India;
    - ii. New India Assurance Co. Ltd.; and
    - iii. General Insurance Corporation of India Ltd.

- c. **Frequency:** The Committee further opined that the computation of systemic importance scores should be carried out at yearly intervals and the names of the insurers classified as D-SIIs should be disclosed in the month of January every year starting from 2020.
  - d. **Supervision:** Given the fact that risk based capital regime is yet to be implemented in insurance sector in India and also at present the control level of solvency is specified at 1.50 times of Required Solvency Margin, the committee was of the view that no additional capital requirements may be mandated for identified D-SIIs.
3. In line with the recommendations of the Committee, the proposed methodology for identification and supervision of D-SIIs was also placed before the Authority. The Authority directed that:
- a. significant global business is conducted by GIC Re and New India. It was felt that 'Global Activity' as a parameter may be incorporated as a criterion for identification of D-SIIs; and
  - b. focus may be provided on quality and extent of reinsurance, soundness of investment and counterparty risk because of interconnectedness, as part of the supervisory process.

The Chairman was authorized to finalize the methodology for identification of the D-SIIs. The methodology, as finalized, was placed for the information of the Authority at its subsequent meeting.

4. The revised Methodology (enclosed as Annexure B), based on the IAIS methodology for identification of G-SIIs, incorporating 'Global Activity', with the following broad indicators (enclosed as Annexure A), was placed before the Authority, in its 108<sup>th</sup> meeting held on 12<sup>th</sup> June, 2020:
- a. Size;
  - b. Global Activity;
  - c. Interconnectedness;
  - d. Asset Liquidation; and
  - e. Substitutability.

5. It was further informed that:
  - a. Based on a sample of insurers chosen for computation of their systemic importance, a relative composite systemic importance score of the insurers was computed.
  - b. The computation of the systemic importance scores shall be carried out annually and the names of the insurers classified as D-SIIs would be disclosed starting from 2020.
  - c. As risk based capital requirement has not been implemented in the insurance sector in India, the Authority decided not to impose enhanced solvency requirements for the identified D-SIIs. The identified D-SIIs will be subject to the following enhanced regulatory supervision:
    - i. For the monitoring process, additional regulatory requirements mainly focusing on the risk management shall be mandated separately
    - ii. The insurers designated as D-SIIs will be subjected to more intensive supervision in the form of higher frequency and higher intensity of on-site and off-site monitoring;
    - iii. It is also important that these insurers should adopt sound corporate governance of risk and risk management culture. Accordingly, these shall be the focus areas for supervision of the D-SIIs.
    - iv. Accordingly, threshold score of 15 has been fixed for the year 2020-21. Three insurers, namely, LIC, GIC and New India Assurance have been identified as D-SII.
6. Thereafter, the Authority approved to designate the following insurance companies as D-SIIs for FY 2020-21:
  - a. Life Insurance Corporation of India;
  - b. General Insurance Corporation of India; and
  - c. The New India Assurance Co. Ltd.

7. The identified insurers were informed of their status as D-SIIs in July 2020 and were informed that henceforth these insurers would be subject to the following enhanced regulatory supervision:

- a. Putting in place a sound corporate governance framework for identification of risks and for promoting a sound risk management culture.
- b. Establishing a monitoring mechanism for the assessment, analysis, review, mitigation and management of at least of the following risks:
  - i. Interest Rate Risk;
  - ii. Stock Market Risk;
  - iii. Risk of Non-Performing Assets;
  - iv. Foreign Exchange Risks for Reinsurer; and
  - v. Legal Risk, for e.g. Motor TP.

The D-SII shall put in place a robust system of Enterprise Risk Management which shall be monitored at regular intervals by the Risk Management Committee (RMC). The functioning of the RMC shall be under supervision of the Board of the insurer.

- c. In addition to the above, the identified D-SII will be subjected to intensive supervision in the form of higher frequency and higher intensity of both on-site and off-site monitoring.

8. A meeting was held with the D-SIIs on 26<sup>th</sup> August, 2020 wherein they were advised to identify risks and issues with respect to exposure to systemic risk and submit comments on the monitoring mechanism. A meeting, with each identified D-SII, was held subsequently to assess the risks identified and the adequacy of monitoring and supervision mechanisms in place. Thereafter, the D-SIIs were advised to take steps to identify risks; standardize the classification of risks; assign weights to identified risks based on intensity; develop a mitigating strategy; identify triggers and tolerance limits; apply risk management practices; define frequency of monitoring risks; create an internal group to proactively assess the risk management practices etc.

9. The Authority issued a Press Release on 24<sup>th</sup> September, 2020 to disclose the names of the identified D-SIIs, which was placed on the IRDAI website.
10. Individual meetings were held with GIC Re on 9<sup>th</sup> March, 2021, New India on 24<sup>th</sup> March, 2021 and LIC on 23<sup>rd</sup> March, 2021 to assess the parameters and provide further guidance to them.
11. A similar process has been undertaken for identifying D-SIIs for FY 2021-22. Accordingly, based on the data compiled, an analysis has been carried out and the following is proposed to declare D-SIIs:
  - a. A threshold score of 15% (the same as in FY 2020-21) may be approved for the purpose;
  - b. The following may be designated as D-SIIs for FY 2021-22:
    - i. Life Insurance Corporation of India – [61.38%];
    - ii. General Insurance Corporation of India – [59.50%]; and
    - iii. The New India Assurance Co. Ltd. – [19.26%].
  - c. A Press Release may be issued for public information;
  - d. The identified insurers may be informed of their status for FY 2021-22.
12. As a way forward, further to the exercise carried out in the year 2020-21, continuous efforts shall be made to strengthen the risk management framework of the identified D-SIIs.

Placed for consideration of the Authority.