

Chapter III

Collateral requirements for placement of reinsurance business with Cross Border Reinsurers (CBRs)

1. Background:

The Indian reinsurers and branches of foreign reinsurers (FRBs) have been providing the necessary capacity and technical support 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. With the unleashing of several reforms in the regulatory framework, the insurance sector in India is now poised for high growth in the coming years. It is therefore, felt necessary to ring-fence the interests of Indian cedants to maintain their ability to meet obligations towards policyholders in India, while continuing their growth trajectory. In order to strengthen and further improve the resilience of the Indian insurance sector, and to prepare for future growth, the Authority, under the powers conferred under Reg. 12(2)(A) of the IRDAI (Re-insurance) Regulations 2018, issues the following stipulations.

2. The Cross Border Reinsurers (CBRs) accepting business from Indian cedants shall be required to provide collaterals in terms of the provisions in this circular. The cedant placing re-insurance business with CBRs shall be responsible for collecting the collateral for such placement(s) 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:

Rating Position of CBR	Minimum Amount of collateral (aggregate of outstanding claims liabilities and IBNR reserves)
A- or above from Standard or Poor's or equivalent	75%
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.
3. General –
- a) If the cedant is satisfied that the liabilities of the concerned CBR under re-insurance contract(s) are extinguished, the cedant shall release such collaterals to that extent.
 - b) Every ceding insurer shall ensure compliance with the collateral requirements as indicated in these stipulations, based on the approved reinsurance program.
 - c) 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.
 - d) The following reinsurance transactions shall not be subject to collateral requirements:
 - i. premium retroceded by the branches of foreign reinsurers and Indian reinsurers to CBRs;
 - ii. premiums ceded to CBRs in respect of schemes of the government, such as PMFBY, PMJAY, PMJJBY, PMSBY; and
 - iii. if total premium ceded by an insurer to CBRs is up to rupees 75 crore during a financial year, provided that the CBRs are rated 'A-' or above from S&P or equivalent.
4. These provisions 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.