

Circular No:065/IRDA/ACTL/RSM/2007-08

March 24, 2008

To

All CEOs of Life Insurance Companies

Sub: Determination of Required Solvency Margin under Life Insurance Business

One of the important objectives of opening up of the insurance sector is to increase the insurance penetration in India so that customers can avail products which would meet their requirements at affordable premiums. In the last three to four years, we have witnessed significant improvement in insurance coverage. However in order to improve the insurance penetration and to strengthen the same so that durable progress could be witnessed in the contribution of life insurance sector, the Authority has considered various factors which have significant influence in attaining this objective. In this context one of the factors that could have significant impact on the life insurers is capital requirement under solvency margin regulation. Hence the Authority has considered the need for reviewing the solvency margin required for pure term products. The pure term products provide simple life cover and companies could design products which could reach various segments of the population so as to meet their insurance requirements. It is equally recognized that some progress is being made by life insurers in this direction.

In working out the required solvency margin, there are two factors, viz., the first factor which is applicable to the mathematical reserve under each policy and the second factor, which is applicable to the sum at risk, which is the difference between sum assured and mathematical reserve under that policy.

The Authority proposes the following First Factor and Second Factor, with respect to non-linked business, in working out the required solvency margin. These new factors shall come into effect for the business as on March 31, 2008 and onwards. It may be noted that there is no change in the factors that pertain to linked and health business. Even under non-linked business, the factors remain the same for General Annuity and Pension business.



Table

<i>Item</i>	<i>First factor</i>	<i>Second Factor</i>
Non-Linked Business		
Individual Business		
01: Life Business		
Pure Term	3%	0.1%
Others *	4%	0.3%
02:General Annuity *	4%	0%
03:Pension*	4%	0%
Group Business		
Life: Premiums guaranteed for:		
04:not more than one year	1%	0.1%
05:more than one year	1%	0.1%
06:General Annuity*	4%	0%
07:Pension*	4%	0%

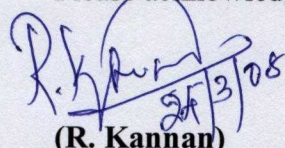
* These factors remain the same as earlier.

Under this proposal, life insurance business under individual products (non-linked) is bifurcated into pure term and others. For pure term business, the first factor is fixed at 3 per cent while the second factor is fixed at 0.1 per cent. Earlier this portion of business was clubbed under life business where the first factor was 4 per cent and second factor was 0.3 per cent. The pure term business would henceforth, attract lower required solvency margin as compared with the earlier position.

Under non-linked group business for life, there are two categories, viz., premiums guaranteed for not more than one year and premiums guaranteed for more than one year. Under this proposal, both the categories are clubbed and attract a lower first factor of 1 per cent and another lower second factor of 0.1 per cent. With reference to the category under "Others" (which comprises all business other than pure term) the factors remain the same as that of 'life business' earlier.

Hence the proposed required solvency margin at lower level for pure term products would provide significant relief to life insurers both under individual products and under group products. This measure, it is hoped, would pave the way for enhancing the interest among insurers to launch pure term products for a sufficiently long period and at affordable rates, which would ultimately result in increased insurance coverage.

Please acknowledge the receipt of this circular.



(R. Kannan)

Member (Actuary)