



Circular

Ref No: IRDA/F&A/CIR/MISC/ 076/03/2020

28th March, 2020

To,
CMDs/CEOs
All General Insurers, Health Insurers and Specialized Insurers

Sub: Capital Gearing Treaties

Ref:

- (i) **IRDAI (Assets, Liabilities, and Solvency Margin of General Insurance Business) Regulations, 2016; and**
- (ii) **IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002.**

It has been observed that some of the insurers have entered into Capital Gearing treaties in various forms including Quota Share Reinsurance Treaty. The terms of these treaties have been examined, and the Authority is of the considered view that such Capital Gearing treaties are of the nature of financial arrangements and not primarily a risk transfer mechanism. It appears that insurers have adopted these arrangements in order to improve the solvency margin ratio.

2. In view of the above, the Authority hereby directs the insurers as under:

- a. no insurer shall enter into any fresh Capital Gearing treaties effective from the date of issuance of this Circular; and
- b. Insurers who are having such treaties on their books as on the date of issuance of this Circular shall take the following steps:
 - i. Submit Board approved Action Plan to the Authority on or before 30th June, 2020 for phasing out the treaties along with timelines such that it complies with the Solvency Stipulations.

The plan of action shall also include assessment of requirement of capital infusion and sources of funds for the capital infusion so required due to prospective closure of these Capital Gearing treaties.



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- ii. the direct insurers (cedants) shall create appropriate reserves towards Unearned Premium Reserves, Premium Deficiency Reserves, Outstanding Claims Reserves (including IBNR/IBNER) in accordance with IRDAI (Assets, Liabilities and Solvency Margin of General Insurance Business) Regulations, 2016. Further, such treaties have to be accounted for, based on the principle of “Substance over Form”, as prescribed by para 2.13 of Master Circular on Preparation of Financial Statements issued by the Authority in October 2012.

All insurers are advised to take note of the above for compliance.

-Sd-

(Pravin Kutumbe)

Member-F&I