

# MARKET BULLETIN

REF: Y5059

<b>Title</b>	India – Onshore Reinsurance Branch Approval and Order of Preference Regulations
<b>Purpose</b>	To notify the market that Lloyd's has received approval to open a reinsurance branch in India and that Order of Preference Regulations are now in force for Indian reinsurance business
<b>Type</b>	Event
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<b>Date</b>	25 January 2017
<b>Deadline</b>	Effective immediately

## Onshore Reinsurance Branch Approval

Lloyd's is pleased to announce that we have received approval from the Insurance Regulatory Development Authority of India (IRDAI) to open a reinsurance branch in India. The Lloyd's India branch will open in Mumbai and will house the CEO (Designate) and any Lloyd's service companies approved by the IRDAI to establish a presence and write onshore reinsurance business.

## Order of Preference Regulations

On 16 January 2017, the IRDAI announced that, with immediate effect, the placement of all Indian reinsurance business will be subject to "Order of Preference" Regulations ("the Regulations"). The Regulations create a tiered system whereby Indian insurers are required to cede business to reinsurers according to a prescribed order of preference.

It is currently unclear whether any further guidance will be issued by the IRDAI. As such, the explanation of the order of preference process provided below follows the precise text of the Regulations.

Lloyd's recognises there is a high degree of ambiguity in the Regulations as currently drafted and advises the market to engage with their broker(s) to understand how the local market will seek to comply. If any additional guidance is made available by the IRDAI, we will share this with the market as soon as possible.

Step 1 – Seek “best terms” from local market

For all facultative and treaty cessions, all Indian insurers must first obtain ‘best terms’ from:

- Indian reinsurer(s) with a “*minimum credit rating which is having at least good financial security characteristics from any of the internationally renowned credit rating agencies for the previous three years*” (e.g. GIC Re); **and**
- also from at least three entities which have been granted a certificate of registration under Regulation 4 (a) of the Regulations (Lloyd's India is included in this category).

Step 2 – Offer “best terms” in accordance with the “order of preference”

The Indian insurer shall then offer the best terms for participation (as received under Step 1) in the following order of preference:

1. To Indian re-insurer(s) having a minimum credit rating as given above, and thereafter to those granted certificate of registration under Regulation 4 (a).
2. To other Indian re-insurer(s) or to those granted certificate of registration as per regulation 4 (b) of the Regulations (see definition of 4 (a) and (b) below).
3. To the branch offices of foreign reinsurers set up in the Special Economic Zone, only after having offered to all entities in steps (a) and (b) above.
4. The balance, if any, may thereafter be offered to Indian Insurers and overseas reinsurers.

Regulations 4 (a) and 4 (b)

Foreign reinsurers seeking to establish a branch office in India are able to apply for a certificate of registration from the IRDAI under two possible categories:

- A certificate of registration obtained under the Regulation 4 (a) category will require the branch office of the foreign reinsurer to maintain a minimum retention of 50% of the Indian reinsurance business it writes. Please note that Lloyd's India service companies fall under Regulation 8 (a) of the IRDAI (Lloyd's India) Regulations, 2016 which is equivalent to Regulation 4 (a) and places Lloyd's in this same category.
- A certificate of registration obtained under the Regulation 4 (b) category will require the branch office of the foreign reinsurer to maintain a minimum retention of 30% of the Indian reinsurance business it writes.

## Implications

The market should be aware that the Regulations will likely impact the amount of Indian reinsurance business currently being placed offshore. The market is reminded that while primary responsibility to act in accordance with the Regulations lies with the Indian cedant(s), managing agents should engage with their brokers to determine how best to adhere to the Regulations.

At the time of this bulletin, in addition to Lloyd's, the following foreign reinsurance companies have obtained approval to establish a reinsurance branch in India, under the 50% retention category: Swiss Re, Munich Re, Hannover Re, SCOR, RGA and XL Catlin. Lloyd's is not aware of any foreign reinsurers operating in the Special Economic Zone in India and, similarly, we are not aware of any foreign reinsurer currently within the 30% retention category.

Lloyd's will continue to monitor developments and will further advise the market if the IRDAI releases guidelines regarding the operation of the order of preference.

## Contact

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