

Current Issues in Life Assurance

Hotel Sea Princess, Mumbai

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Alternate Sources of Capital for Life Insurers

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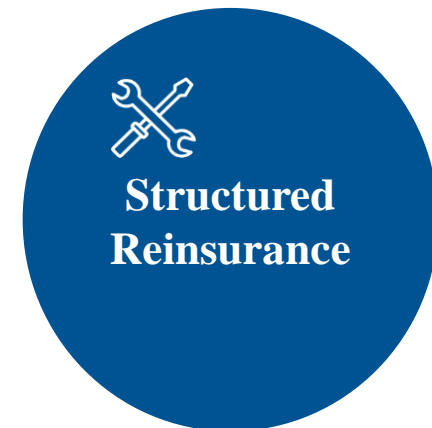
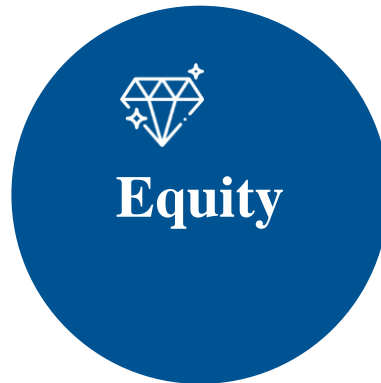


Agenda

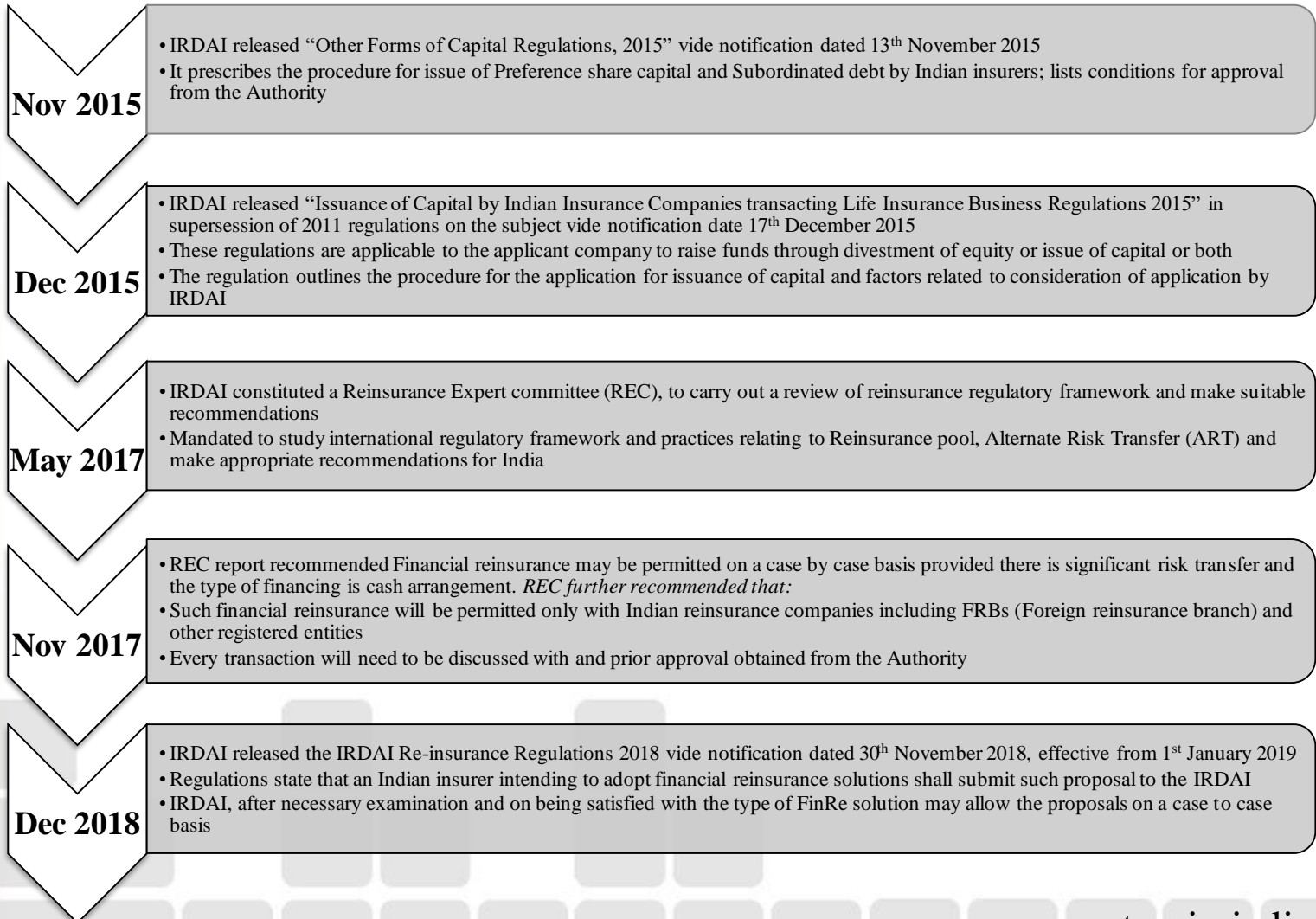


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Sources of Capital



Regulatory Milestones



Subordinated Debt and Preference Shares



Item	Description
Subordinated debt / Preference shares	<ul style="list-style-type: none"> Indian Insurers can issue preference shares and/or subordinated debt subject to approval from IRDAI
Approval requirements	<ul style="list-style-type: none"> All instruments shall be fully paid up and unsecured Compliance with term and conditions stipulated by SEBI/other regulatory authorities and FEMA regulations (where applicable) in regard to issue of such instruments IRDAI approval needed for payment of interest / dividend in case it may result in net loss or increase the net loss
Balance sheet classification	<ul style="list-style-type: none"> Preference share under the head “Share Capital” Subordinated debt under the head “Borrowings”
Limit on Subordinated debt/ Preference share	<ul style="list-style-type: none"> The total quantum of subordinated debt and preference shares, in total, shall not exceed: <ul style="list-style-type: none"> 25% of total of Paid up Equity Share Capital and Securities premium of an Insurer at any point in time 50% of the Net worth of an insurer
Call option (subordinated debt)	<ul style="list-style-type: none"> May be exercised after the instrument has run for at least a period of five completed years Subject to prior approval from IRDAI
Amortization	<ul style="list-style-type: none"> Subject to progressive hair cut for the purpose of computation of ASM on straight line basis in the final five years prior to maturity
Issue till date (subordinated debt)	<ul style="list-style-type: none"> Only three life insurance companies have issued subordinated debt to raise capital with total issue size of INR 230 Cr and maximum issue size of INR 100 cr

Financial Reinsurance



Financial Reinsurance is **specifically designed** to help an insurer **manage its capital and statutory solvency**

Example: in the simplest form of cash financing against an in-force portfolio:

- Financial Reinsurance allows to **upfront a part of embedded value** contained in the selected insurance portfolio
- To achieve this, reinsurer pays an **upfront commission** to the company in exchange of a share of **future profits**
- The reinsurer assumes the **risk** that, having paid the upfront commission, **the expected future profits do not emerge** due to adverse claim, lapse, investment and/or expense experiences

Comparison of Sources of Capital



Category	Equity	Subordinated Debt	Reinsurance
Size	Medium - Large	Medium	Small – Large
Capital treatment	Tier 1	Tier 1-2	Tier 1 (cash)
Required capital	Neutral	Neutral	May reduce required capital
Cash provided	Yes	Yes	Optional
Duration	Permanent	Minimum ten years	Short - Long
Cost	High	Medium	Low - Medium
Issuance charges	Yes / No	Yes	No
Collateral	Last call on value of company	Unsecured	Block of business
Time to execute	Medium	Medium	Short - Medium
Commit to future capital at fixed terms	No	No	Yes (for limited time horizons)
Trigger	-	-	Can be at insurer's option
Rating	-	Rating generally required	Not necessary

Thank you for your
attention.