INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY



REPORT OF WORKING GROUP

Developing a Framework for Issuance of Insurance-Linked Securities (ILS) from GIFT-IFSC

CHAPTER I SUBMISSION OF REPORT

Working Group on developing a framework for issuance of Insurance-Linked Securities (ILS) from GIFT-IFSC

19th October, 2026

Shri K. Rajaraman, Chairperson
International Financial Services Centre Authority (IFSCA)
GIFT City, Gandhinagar

Dear Sir,

We, the members of Working Group (WG), constituted by the IFSCA in October 2025, are pleased to submit this Report in accordance with the mandate entrusted to us.

The increasing frequency and severity of catastrophic events, driven by climate change, rapid urbanisation and growing concentrations of economic assets, have significantly heightened the demand for innovative catastrophe risk financing solutions. In response, the global market for ILS, particularly Catastrophe Bonds (CAT Bonds), has witnessed substantial growth over the past two decades. The broader ILS market reached roughly $120 billion at year-end 2025, up from $107 billion in 2024, per a joint AM Best and Guy Carpenter estimate. That growth has continued into 2026: the outstanding cat bond market hit a record $65.6 billion by the end of Q2 2026, up 7% from year-end 2025, even after $9.6 billion of maturities that quarter.[1]

India presents a compelling case for the development of an ILS market. As one of the world's most disaster-prone countries, India faces recurrent exposure to cyclones, floods, earthquakes, droughts and other natural catastrophes. At the same time, the country's insurance sector is expanding rapidly, accompanied by increasing policy emphasis on climate resilience, disaster risk financing and financial innovation. These developments present a timely opportunity to explore the role of capital markets in complementing traditional insurance and reinsurance capacity.

[1] Source: AM Best, and artemis.bm and other market estimates

Against this backdrop, GIFT International Financial Services Centre (GIFT IFSC), under the regulatory stewardship of IFSCA, is uniquely positioned to facilitate the development of an internationally competitive ecosystem for ILS.

This Report examines the legal, regulatory and market considerations necessary for operationalising an ILS framework in GIFT IFSC. It draws upon international regulatory experience, the supervisory principles of the International Association of Insurance Supervisors (IAIS), and comparative analysis of leading ILS jurisdictions. The Report also considers the legislative changes that may be required under the Insurance Act, 1938, and presents recommendations for establishing a regulatory framework that is internationally aligned, proportionate and responsive to India's evolving catastrophe risk financing needs.

We are grateful to the IFSCA for entrusting us with this important responsibility and providing us with the opportunity to examine a subject of considerable significance to the future development of India's insurance and financial markets. We sincerely hope that the recommendations contained in this Report will assist the Authority in developing an enabling regulatory framework for ILS and contribute to positioning GIFT IFSC as a regional centre for catastrophe risk financing.

Respectfully submitted,

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LIST OF ABBREVIATIONS

AMRE	Aggregate Maximum Risk Exposure
ART	Alternate Risk Transfer
BATF	IFSCA (Book-keeping, Accounting, Taxation and Financial Crime Compliance Services) Regulations, 2024 (BATF Regulations)
BMA	Bermuda Monetary Authority
BMTPC	Building Materials and Technology Promotion Council
CAT	Catastrophe
CCRIF	Caribbean Catastrophe Risk Insurance Facility
DTC	Depository Trust Company
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
GIFT City	Gujarat International Finance-Tec City
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principles
IFSC	International Financial Services Centre
IFSCA	International Financial Services Centres Authority
ILS	Insurance-Linked Securities
IRDAI	Insurance Regulatory and Development Authority
ISPV	Insurance Special Purpose Vehicle
MAS	Monetary Authority of Singapore
NAIC	National Association of Insurance Commissioners
NDMA	National Disaster Management Authority
NRSC	National Remote Sensing Centre
PRA	Prudential Regulation Authority
PSPI	Parametric Special Purpose Insurer
SEZ	Special Economic Zone
SPB	Special Purpose Business
SPE	Special Purpose Entity
SPI	Special Purpose Insurer
SPR	Special Purpose Reinsurer
SPRV	Special Purpose Reinsurance Vehicle
SPV	Special Purpose Vehicle
TAS	IFSCA (Tech Fin and Ancillary Services) Regulations, 2025
UK	United Kingdom
US	United States of America
USD	US Dollar
WG	Working Gorup

ACKNOWLEDGMENTS

ILS[2] have emerged as important instruments for strengthening the resilience of insurance markets by enabling the transfer of catastrophe risks to global capital markets. Recognising the potential of these instruments and the need to establish an internationally aligned regulatory framework within GIFT IFSC, the IFSCA constituted a WG in October 2025 to examine the legal and regulatory aspects of introducing an enabling framework for ILS in IFSC.

The WG places on record its sincere gratitude to Shri K. Rajaraman, Chairperson, IFSCA, for reposing confidence in the Group and entrusting it with this important assignment. IFSCAs vision for developing GIFT IFSC as a globally competitive international financial centre, coupled with constant encouragement, invaluable guidance and unwavering support, served as a source of inspiration throughout the deliberations of the WG.

The WG also gratefully acknowledges the continuous support extended by the Authority and its officers during the course of this exercise. Their valuable inputs, constructive discussions and administrative assistance greatly facilitated the timely completion of the Group's work.

The WG benefited immensely from the collective expertise and rich experience of its members who brought together diverse perspectives from insurance regulation, reinsurance, capital markets, catastrophe risk financing and structured finance.

Finally, the WG expresses its appreciation to all those who, directly or indirectly, contributed to the preparation of this Report. It is our sincere hope that the recommendations contained herein will assist the IFSCA in establishing a robust and internationally competitive framework for ILS, thereby contributing to the continued growth of GIFT IFSC as a global centre for innovative risk financing and strengthening India's catastrophe risk financing ecosystem.

(T L Alamelu)
Chairperson

[2] For this report, ‘ILS’ includes catastrophe bonds and other forms of Alternative Risk Transfer (ART).

EXECUTIVE SUMMARY

Need for ILS

The increasing frequency and severity of natural catastrophes, driven by climate change, urbanisation and the growing concentration of economic assets, have intensified the need for innovative mechanisms to finance catastrophe risks. While conventional insurance and reinsurance continue to play a central role in absorbing catastrophe losses, the scale of potential losses has led to the emergence of ILS as an important source of alternative risk-bearing capacity. Among these instruments, CAT Bonds have become the most widely adopted mechanism for transferring catastrophe risks from insurers and reinsurers to institutional investors.

Growth of ILS

Over the past three decades, the global ILS market has evolved into a mature segment of international capital markets, providing insurers with diversified sources of catastrophe protection while offering investors access to returns that are largely uncorrelated with traditional financial market risks. Although the market has grown steadily, CAT Bond issuance remains concentrated in a few jurisdictions, particularly Bermuda, with increasing participation from Singapore, Hong Kong and the United Kingdom. The underlying catastrophe risks similarly remain concentrated in North America and Europe, notwithstanding growing disaster exposures across Asia and other emerging markets.

India as the HUB

India presents a compelling case for the development of an ILS market. As one of the world's most disaster-prone countries, India faces recurring exposure to cyclones, floods, earthquakes, droughts, landslides and other climate-related events. At the same time, insurance penetration remains relatively modest, resulting in a significant protection gap between economic losses and insured losses. Total insurance penetration in India is about 3.7% (with life insurance at 2.7% and non-life at 1%) and Insurance density (premium per capita) sits at around $97 USD while the commensurate global averages stand at 7.3% for insurance penetration and $943 USD for insurance density[3]. Thus, compared to global averages, these figures remain significantly low, especially in the light of towering goal of ‘Insurance for All by 2047’. Traditional reinsurance alone may not be sufficient to meet the country's growing catastrophe risk financing requirements. Access to global institutional capital through ILS, therefore, presents an opportunity to supplement conventional insurance capacity, diversify sources of risk capital and strengthen financial resilience against major natural disasters.

[3] IRDAI Annual Report 2024-25 and Swiss Re Sigma World Insurance Report (No. 2/2025)

Terms of Reference of Working Group

Recognising these developments, the IFSCA constituted WG to examine the legal, regulatory and operational framework necessary for enabling ILS within GIFT IFSC. The WG was tasked with studying international regulatory practices, identifying legal and prudential considerations relevant to the Indian context and recommending an appropriate framework for operationalising an ILS market in IFSC.

This Report undertakes a comprehensive examination of the global ILS ecosystem. It traces the evolution of ILS from their origins following major catastrophe events, analyses the development of ART mechanisms and explains the role of Special Purpose Insurers (SPIs[4]) in facilitating the transfer of insurance risks to capital markets. The Report also examines India's catastrophe risk landscape and highlights the potential role of ILS in addressing the country's catastrophe protection gap.

Evaluation of Regulatory Frameworks in other Jurisdictions

A detailed review has been undertaken of the regulatory frameworks adopted by leading international jurisdictions, including Bermuda, Singapore, Hong Kong, the United Kingdom and the United States. While each jurisdiction has adopted a distinct institutional model, several common regulatory principles emerge. These include the establishment of dedicated SPIs or equivalent vehicles, full collateralisation of contractual obligations, bankruptcy-remote legal structures, transaction-specific authorisations, proportionate prudential regulation and strong governance, disclosure and supervisory oversight. Collectively, these jurisdictions demonstrate that ILS require a regulatory framework that is distinct from the prudential regime applicable to conventional insurers.

Legal Framework at IFSC

Against this international backdrop, the Report examines the existing legal framework under the Insurance Act, 1938 ***read with its latest amendment via the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025***. The current statutory requirement for minimum paid-up equity capital was conceived for insurers operating as going concerns with diversified and continuously evolving underwriting portfolios. By contrast, an ILS SPI is established solely for a specified transaction, assumes only defined risks, operates for a limited duration and funds its maximum contractual obligations through investor-funded collateral held in ring-fenced accounts. Consequently, the prudential objectives achieved through conventional paid-up capital are instead achieved through full collateralisation and legally protected assets.

[4] For this report, 'SPI' includes special purpose vehicles (SPVs), special purpose reinsurance vehicles (SPRVs), or special purpose insurers (SPIs) or special purpose entities (SPEs).

Recommendations

Formation of SPIs/SPVs

Unlike conventional insurers, the SPI would not undertake underwriting activities involving multiple policyholders, maintain diversified insurance portfolios or retain underwriting risk on its own balance sheet. Instead, its liabilities to the sponsoring insurer would be fully secured through collateral provided by investors, thereby substantially reducing counterparty credit risk. In recognition of this unique business model, the WG recommends that SPIs should be subject to a separate prudential regime and be exempt from the conventional paid-up capital and solvency requirements applicable to insurers and reinsurers, while remaining subject to appropriate governance, operational, disclosure and reporting obligations.

The Report, therefore, concludes that fully collateralised SPIs should not be subject to the conventional minimum paid-up capital requirements applicable to traditional insurers. Instead, it recommends the creation of a dedicated statutory carve-out under the Insurance Act, 1938, or an equivalent legislative mechanism, permitting the establishment of SPIs subject to a mandatory requirement of one hundred per cent collateralisation, restricted business activities, bankruptcy remoteness, robust governance, comprehensive disclosure and appropriate regulatory oversight. Such an approach would be consistent with internationally accepted supervisory principles and with the regulatory frameworks adopted by leading ILS jurisdictions.

Creation of a Conducive Ecosystem

The Report also recognises that the development of a competitive ecosystem will require the parallel establishment of catastrophe modelling capabilities, actuarial expertise, SPV administration services, trustee and collateral management functions, legal and accounting advisory services and active participation by insurers, reinsurers, institutional investors and other market participants.

Implementation Strategy

In light of these findings, the WG recommends a phased implementation strategy comprising legislative enablement, notification of a dedicated regulatory framework, ecosystem development. The first step would involve obtaining targeted statutory carve-out under the Insurance Act, 1938 or such other legislative mechanism as may be considered appropriate. This would be followed by the formulation of comprehensive regulations governing SPIs and ILS within GIFT IFSC.

The WG believes that GIFT IFSC is uniquely positioned to emerge as a regional hub for catastrophe risk financing. As a unified financial regulator overseeing insurance, banking, capital markets and fund management within an international financial centre, IFSCA possesses institutional advantages that enable the seamless regulation of ILS across their

entire lifecycle. By combining internationally aligned regulation with a supportive market ecosystem, GIFT IFSC can attract global catastrophe risk capital, enhance India's financial resilience against natural disasters.

The recommendations contained in this Report are intended to provide a robust, proportionate and internationally credible foundation for operationalising ILS in GIFT IFSC. Their implementation would not only integrate India into the global catastrophe risk financing market but also establish an enabling framework capable of supporting financial innovation while maintaining high standards of prudential supervision, investor confidence and policyholder protection.

1. Introduction

1.1 Emergence of ILS

The global insurance industry has historically relied upon a well-established risk transfer hierarchy; wherein primary insurers underwrite risks and transfer a portion of those risks to reinsurers to maintain financial stability and underwriting capacity. For several decades, this model adequately supported the insurance needs arising from natural catastrophes and other large-scale loss events.

However, during the late twentieth century, the frequency and severity of catastrophic events increased significantly, exposing the limitations of the traditional reinsurance market. A series of major natural disasters including Hurricane Andrew (1992), the Northridge Earthquake (1994), Hurricane Katrina (2005), the Tōhoku Earthquake and Tsunami (2011), and more recent hurricanes, floods and wildfires, resulted in unprecedented insured losses amounting to several hundreds of billions of dollars. These events not only caused extensive economic disruption but also substantially depleted the capital base of global reinsurers.

The experience of these events demonstrated that catastrophe risk possesses characteristics fundamentally different from conventional insurance risks. Catastrophic events are capable of generating highly concentrated losses affecting numerous policyholders simultaneously across wide geographical regions. Unlike ordinary insurance losses, catastrophe losses are infrequent but potentially enormous, making them difficult to diversify within the traditional insurance and reinsurance markets.

At the same time, economic development, urbanisation, increasing concentration of insured assets and the growing effects of climate change have continued to expand global catastrophe exposure. Insured losses arising from tropical cyclones, earthquakes, floods, wildfires, severe convective storms and other natural perils have shown an increasing trend over the past three decades. In parallel, the industry has also witnessed the emergence of new forms of systemic risks, including cyber events, pandemics and infrastructure failures, which further strain conventional reinsurance capacity.

These developments created sustained pressure on the global reinsurance industry. While reinsurers continue to play a central role in catastrophe risk management, their balance sheets are finite and subject to capital adequacy requirements. Following major catastrophe events, reinsurers often need to replenish capital, resulting in higher reinsurance prices, tighter underwriting conditions and reduced market capacity. The cyclical nature of the reinsurance market can, therefore, leave insurers exposed precisely when additional capacity is most needed.

The search for new and sustainable sources of catastrophe risk-bearing capacity led to the development of ART mechanisms. Rather than relying solely on the balance sheets of insurers and reinsurers, ART sought to access the significantly larger pool of capital available in global financial markets. This marked the beginning of a fundamental shift in catastrophe

risk financing—from transferring risk exclusively within the insurance sector to sharing catastrophe risk with capital market investors.

ILS emerged from this evolution as an innovative mechanism for transferring specified insurance risks directly to investors. Among the various forms of ILS, CAT Bonds have become the most widely used and internationally recognised instrument, enabling insurers and reinsurers to obtain multi-year risk protection while providing investors with access to returns that are generally uncorrelated with traditional financial market movements.

Over the past three decades, the ILS market has evolved from a niche response to a reinsurance capacity crisis into a mature segment of the global financial system. Today, ILS are issued by insurers, reinsurers, governments, multilateral development banks and other risk-bearing entities across numerous jurisdictions, playing an increasingly important role in strengthening financial resilience against natural catastrophes.

Despite this expansion, risk exposure embedded in outstanding ILS remains heavily concentrated in the United States and Europe, with only limited exceptions such as transactions covering Japanese earthquake and typhoon risk, New Zealand earthquake risk, and a small number of World Bank-backed sovereign CAT Bonds (including facilities for the Philippines and Pacific Alliance countries). Emerging-market and Asian perils, including Indian catastrophe risk, remain largely absent from the capital-markets risk-transfer universe.

ILS help catastrophe-prone geographies by shifting extreme natural disaster risks away from local budgets and traditional insurers onto global capital markets. They provide fast, rules-based payouts that fund emergency response and recovery without draining public funds.

Mexico and the Philippines serve as global models for how vulnerable countries can utilize catastrophe bonds and ILS to build fiscal resilience against natural disasters. Both countries rely on the World Bank to issue these bonds.

In 2014, the World Bank arranged a US$30 million cat bond linked to hurricane and earthquake risks across 16 Caribbean countries through the Caribbean Catastrophe Risk Insurance Facility (CCRIF). The transaction enabled catastrophe risk to be transferred into the capital markets and broadened the capacity available to the region.

In 2019, Aon’s Bermuda-domiciled White Rock Insurance (SAC) Ltd. issued approximately US$70 million of privately placed Asagao principal-at-risk notes covering Japanese earthquake risk. The transaction was structured using a parametric trigger and placed with qualified institutional investors, understood to include ILS funds.

1.2 India's Catastrophe Risk Landscape and Insurance Protection Gap

India is among the world's most disaster-prone countries owing to its diverse geography, climatic conditions and high concentration of population and economic assets. The country is exposed to a wide spectrum of natural hazards, including earthquakes, tropical cyclones,

floods, droughts, landslides, cloudbursts, avalanches, heatwaves and, increasingly, climate-induced extreme weather events. Rapid urbanisation, expanding infrastructure, industrial development and rising asset values have significantly increased the economic consequences of these hazards.

India's geographical profile illustrates the magnitude of this exposure. Approximately 58% of the landmass lies in moderate to severe earthquake zones, around 12% is susceptible to flooding, nearly 5,700 kilometres of coastline is exposed to cyclones and storm surges, while large parts of the Himalayan region remain vulnerable to landslides and glacial lake outburst floods. Climate change is further amplifying the frequency and severity of extreme weather events, increasing both the probability and the financial impact of catastrophic losses.

Over the past two decades, India has experienced several large-scale catastrophe events, including the 2001 Gujarat Earthquake, 2004 Indian Ocean Tsunami, 2008 Kosi Floods, 2013 Uttarakhand Floods, 2018 Kerala Floods, Cyclones Fani, Amphan, Tauktae and Biparjoy, and recurring episodes of urban flooding in cities such as Mumbai, Chennai, Bengaluru and Hyderabad. These events have caused substantial human suffering, widespread destruction of property and infrastructure, and significant disruption to economic activity.

Despite this high level of catastrophe exposure, insurance penetration against natural catastrophe risks in India remains relatively low. A substantial proportion of residential property, agricultural assets, small businesses and public infrastructure remains uninsured or underinsured. Consequently, the overwhelming majority of catastrophe losses are borne directly by individuals, businesses and governments rather than being transferred to the insurance sector.

This disparity between total economic losses and insured losses is commonly referred to as the insurance protection gap. In many catastrophe events affecting India, insured losses represent only a small fraction of total economic losses, ***leaving governments to finance post-disaster reconstruction through budgetary allocations, relief funds, external borrowing or other fiscal measures***. Such dependence on public finances can delay recovery efforts and increase fiscal pressures following major disasters.

The protection gap also limits the ability of insurers to provide comprehensive catastrophe coverage. Given the potential accumulation of losses arising from a single catastrophic event, insurers rely heavily on reinsurance to manage their catastrophe exposures. However, the availability and cost of catastrophe reinsurance are influenced by global loss experience and market cycles. Following major international catastrophe events, reinsurance capacity often contracts and prices increase, affecting insurers worldwide irrespective of whether the losses originated in their domestic markets.

As India's economy continues to expand and insured values increase, demand for catastrophe insurance is expected to grow significantly. This, in turn, will require greater access to stable and diversified sources of catastrophe risk capacity beyond conventional

reinsurance markets. While traditional reinsurance will continue to remain indispensable, complementary mechanisms capable of mobilising long-term capital from global investors can enhance the resilience of India's catastrophe risk financing framework.

ILS offer one such mechanism. By transferring defined catastrophe risks directly to capital market investors, ILS can supplement conventional reinsurance capacity, diversify sources of risk capital and improve the financial resilience of insurers against extreme loss events. For India, the establishment of an enabling framework for ILS through the IFSC presents an opportunity not only to strengthen domestic catastrophe risk financing but also to position IFSC as a regional hub for insurance-linked capital market solutions.

India's increasing catastrophe exposure, coupled with a significant insurance protection gap and dependence on conventional reinsurance, underscores the need for innovative catastrophe risk financing mechanisms. While global jurisdictions have successfully leveraged ILS to access diversified capital, India currently lacks an enabling framework for issuing ILS. The IFSC, with its internationally oriented regulatory architecture and integrated financial ecosystem, provides an ideal platform for developing such a market.

Further, India's insurance market is expanding rapidly, with increasing regulatory focus on climate resilience and financial innovation. In such a ripe environment, IFSCA can play a crucial role in making India a hub for ILS, especially as climate risk intensifies and the global ILS market seeks geographic diversification. Realising this potential, however, requires strategic regulatory reforms, investment in catastrophe risk modelling capability, and strong collaboration between government, the private sector, and international ILS market participants.

1.3 Benefits of ILS to Capital Markets

ILS have created an important bridge between the insurance industry and the global capital markets. By allowing investors to assume clearly defined insurance risks in exchange for attractive returns, ILS have introduced a source of risk and return that is fundamentally different from traditional financial assets. Their significance therefore extends beyond providing additional capacity to insurers and reinsurers as they have contributed to the development of a distinct and increasingly institutionalised asset class within the capital markets.

1.3.1 A Rare, Near-Uncorrelated Asset Class

One of the most distinctive characteristics of catastrophe bonds is their low correlation with traditional financial markets. The return on a cat bond is principally driven by whether a specified catastrophe event such as a hurricane, earthquake or other natural peril, occurs and meets the predefined trigger conditions. It is therefore influenced by physical catastrophe risk

rather than by factors such as interest rates, equity valuations, corporate earnings or credit cycles.

This makes ILS structurally different from most conventional asset classes. An investor holding equities, corporate bonds and government securities may find that these investments are simultaneously affected by changes in economic growth, monetary policy, inflation or financial-market sentiment. Cat bonds, by contrast, are linked primarily to the occurrence and severity of specified insurance events.

The resulting low correlation makes ILS particularly valuable from a portfolio-construction perspective. For large institutional investors, even a relatively small allocation to an asset class with genuinely different risk drivers can improve the overall diversification of the portfolio.

1.3.2 Potential for Better Risk-Adjusted Portfolio Outcomes

The diversification benefits of ILS can translate into improved risk-adjusted portfolio outcomes. Cat bonds have historically been regarded as offering attractive returns relative to their volatility, while maintaining low correlation with traditional financial assets.

This combination is particularly relevant for institutional investors such as pension funds, sovereign wealth funds, endowments and asset managers, which manage large and diversified portfolios and are constantly seeking sources of return that do not simply replicate the risks already present in their portfolios.

The appeal of ILS is therefore not merely that they may generate attractive absolute returns. Their greater significance lies in the possibility of adding return without proportionately adding exposure to conventional market risks. In portfolio terms, ILS can occupy a role similar to that of other alternative investments, while providing exposure to an underlying risk i.e. natural catastrophe risk, that is largely independent of the economic and financial cycle.

1.3.3 A Widening and Deepening Investor Base

ILS have also expanded the range of investors able to participate in insurance risk. Traditionally, the capacity to assume catastrophe risk was concentrated largely within the balance sheets of insurers and reinsurers. Capital markets have opened this risk to a much broader pool of institutional capital.

Specialist ILS funds, asset managers and other institutional investors can invest in catastrophe bonds and related structures, thereby bringing capital into the insurance ecosystem from sources that previously had limited or no direct access to insurance risk.

This widening investor base is important for two reasons. First, it increases the amount of capital available to absorb catastrophe losses. Second, it creates greater competition among

different sources of risk-bearing capital. Insurance risk is consequently no longer dependent exclusively on the capacity and risk appetite of traditional reinsurance markets.

Over time, this has helped ILS evolve from a niche financial innovation into an increasingly established component of the institutional investment landscape.

1.3.4 Expanding and Completing the Market

Perhaps the most important structural contribution of ILS is that they connect two markets that historically operated largely separately: the insurance market and the capital markets.

Under the traditional reinsurance model, catastrophe risk is principally transferred among insurers and reinsurers and ultimately remains concentrated on the balance sheets of specialised risk-bearing institutions. ILS provide an alternative channel through which specific insurance risks can be transferred directly to capital-market investors.

A catastrophe bond, for example, may transfer the risk of a defined hurricane or earthquake event from a sponsor such as an insurer or reinsurer to investors. In return for assuming that risk, investors receive a premium or coupon, subject to the terms of the transaction. If the specified catastrophe does not occur, investors receive the contracted return; if the predefined trigger is breached, some or all of the invested principal may be used to meet the sponsor's catastrophe-related losses.

This mechanism effectively transforms insurance risk into an investable financial instrument. Because catastrophe bonds can be held, traded and managed by capital-market participants, they also create an ongoing channel for the transfer of risk between the insurance sector and the wider financial system.

ILS therefore represent more than an alternative method of financing insurance risk. They have changed the architecture of risk transfer by allowing insurance and reinsurance risks to interact directly with global capital markets.

For capital markets, their value lies in the combination of diversification, additional risk-bearing capacity and the creation of a new investable asset class. For the insurance industry, they provide access to a significantly larger pool of capital than could be mobilised through traditional reinsurance alone.

In this sense, ILS can be viewed as a mechanism for recycling global capital into catastrophe-risk-bearing capacity—bringing insurance risk into the portfolios of investors while bringing capital-market capacity into the insurance ecosystem.

This report examines these dimensions to set out how IFSCA can enable an ILS ecosystem from GIFT-IFSC.

1.4 IFSCA's Initiative on ILS – Formation of Working Group

Recognising the growing importance of alternative sources of catastrophe risk capital and the strategic opportunity for the IFSC to emerge as a global insurance hub, the IFSCA initiated a detailed examination of the feasibility of introducing an ILS framework in IFSC.

With this objective, IFSCA constituted a WG on ART in February 2024 under the chairmanship of Shri G. Srinivasan, former Chairman-cum-Managing Director of New India Assurance Company Limited. It was entrusted with undertaking a comprehensive study of the global ART landscape, including the evolution of ILS. Its mandate included an examination of regulatory frameworks adopted in leading international financial centres such as Bermuda, Singapore, Hong Kong, the United Kingdom and the European Union, and a preliminary assessment of the idea of operationalising similar arrangements from GIFT IFSC. The WG submitted its report to the Chairperson of IFSCA in June 2025.

The WG observed that **ILS represent a distinct category of financial products** that cannot be adequately accommodated within the traditional regulatory frameworks governing either insurance or securities markets. Unlike conventional insurance or reinsurance arrangements, where insurance risks remain within the insurance sector, ILS transactions transfer defined insurance risks directly to capital market investors through specialised financial instruments. Consequently, an ILS transaction combines characteristics of both insurance contracts and capital market issuances, requiring a regulatory approach that appropriately addresses both dimensions.

The report highlighted that from an insurance perspective, the originating transaction involves the ***assumption of insurance or reinsurance risk from a sponsoring insurer or reinsurer.*** However, from a capital markets perspective, the principal purpose of the structure is to transform that ***insurance risk into an investment product that can be subscribed by institutional investors.*** This dual character distinguishes ILS from conventional insurance products, reinsurance arrangements and ordinary debt securities, necessitating a bespoke regulatory framework rather than attempting to fit ILS within existing regulatory categories.

The WG further recognised that the establishment of an ILS framework would complement IFSCA’s broader objective of ***developing a comprehensive international insurance ecosystem within IFSC.*** By enabling insurers and reinsurers to access global institutional capital, an ILS framework would diversify sources of catastrophe risk capacity, enhance market resilience, deepen the interaction between insurance and capital markets, and strengthen IFSC's competitiveness as an international financial centre.

Accordingly, the ***WG recommended the formulation of a dedicated regulatory framework for ILS*** that would facilitate efficient issuance of CAT Bonds and other ART instruments while maintaining appropriate standards of investor protection, prudential oversight and market integrity. The report envisaged a regulatory framework characterised by streamlined authorisation procedures, proportionate regulatory requirements, clear disclosure standards and robust governance arrangements, while ensuring that participation on the investor side

remained restricted to sophisticated and Qualified Investors capable of understanding the specialised risks associated with ILS instruments.

A significant recommendation of the WG was the introduction of a new class of insurance entity, namely the SPI, within the regulatory framework administered by IFSCA. The proposed SPI would function exclusively as a bankruptcy-remote risk transformation vehicle, assuming specified insurance or reinsurance risks from a sponsoring insurer or reinsurer under a legally enforceable risk transfer agreement and fully collateralising those risks through the issuance of ILS to investors.

1.5 WG for Developing Framework on issuance of ILS

The recommendations of the first WG established the policy rationale for introducing an ILS framework in GIFT IFSC and identified the broad contours of the regulatory architecture required to support ILS. However, the implementation of such a framework necessitated a far more detailed examination of the legal, regulatory and operational mechanisms governing the issuance, supervision and lifecycle of ILS transactions.

Unlike conventional insurance or reinsurance business, ILS involve specialised structures that combine insurance risk transfer with capital market financing. In addition, a successful ILS ecosystem depends not only upon an enabling regulatory framework but also upon the availability of specialised market infrastructure, including catastrophe risk modelling firms, collateral managers, trustees, legal advisers, calculation agents and other professional service providers.

Recognising that these matters required focused technical analysis and stakeholder consultation, IFSCA constituted another WG in October 2025 to develop a comprehensive framework for the issuance of ILS from GIFT IFSC.

Unlike the first WG, whose primary focus was on examining the feasibility of introducing ART mechanisms, the mandate of latter WG was implementation-oriented. The WG was tasked with developing a practical regulatory framework capable of supporting the issuance, operation and supervision of ILS within the existing institutional architecture of IFSC.

Specifically, the terms of reference of WG included:

a) identifying the legal and regulatory requirements necessary to facilitate ART arrangements from GIFT IFSC;

b) developing an enabling framework for the establishment, authorisation and supervision of SPIs for the issuance of ILS;

c) proposing measures for developing the supporting ILS ecosystem within IFSC, including catastrophe modelling agencies, SPV managers, trustees, collateral managers, legal specialists, calculation agents and other specialised market participants;

d) formulating guiding principles governing the structuring, underwriting, issuance and ongoing supervision of ILS;

e) examining the feasibility of undertaking a pilot reinsurance sidecar transaction through GIFT IFSC as an initial proof of concept for ART arrangements; and

f) considering any other legal, regulatory or operational matter incidental or consequential to the development of an internationally competitive ILS framework.

In carrying out its mandate, the WG adopted a comparative and principles-based approach. ***The WG reviewed regulatory frameworks in established ILS jurisdictions,*** examined prevailing international market practices and assessed the compatibility of these practices with the legal and regulatory architecture governing IFSC. Particular emphasis was placed on ***identifying regulatory gaps*** that could impede the efficient issuance and operation of ILS while ensuring that any proposed framework remained proportionate, internationally competitive and consistent with IFSCA's statutory objectives.

Over the course of multiple meetings, the WG deliberated on a broad range of legal, prudential, operational and market-development issues relating to the establishment of an ILS regime. These deliberations culminated in a set of recommendations addressing the regulatory design of SPIs, governance requirements, collateral arrangements, investor eligibility, disclosure standards, risk transfer mechanisms and the institutional infrastructure necessary to support a sustainable ILS market in IFSC.

This report sets out the findings and recommendations of the WG. It begins with a comparative analysis of leading international ILS jurisdictions, examining how different regulatory models have evolved to facilitate ILS while safeguarding financial stability and investor confidence. Drawing upon these international experiences, the report subsequently develops a proposed regulatory framework for the operationalisation of ILS from GIFT IFSC.

The subsequent chapters examine the international evolution of ILS, analyse the regulatory approaches adopted by leading ILS jurisdictions, identify the essential building blocks of a successful ILS ecosystem and develop a comprehensive regulatory framework for the issuance of ILS from GIFT IFSC. The recommendations are intended to facilitate the development of a robust, internationally competitive and prudentially sound ILS market capable of serving both domestic and international risk transfer needs.

2. Study of Legal and Regulatory Framework in International Markets

2.1 Evolution of ILS in International Markets

The first CAT Bonds issued during the mid-1990s were largely structured through bespoke legal arrangements because no jurisdiction had enacted legislation specifically addressing ILS. As market confidence grew and transaction volumes increased, several international financial centres recognised the strategic opportunity to position themselves as preferred domiciles for ILS issuances. Rather than requiring these transactions to operate within regulatory frameworks designed for conventional insurers, these jurisdictions introduced dedicated legal and regulatory regimes tailored to the unique characteristics of fully collateralised risk-transfer vehicles.

The evolution of ILS regulation has generally followed a common pattern across jurisdictions. Initially, catastrophe bond transactions were facilitated using existing corporate and trust law structures with case-by-case regulatory approvals. As the market matured, regulators introduced specialised legal entities—commonly referred to as SPIs SPI, Special Purpose Reinsurers (SPRs) or Insurance Special Purpose Vehicles (ISPVs)—supported by dedicated licensing, governance and supervisory requirements. These frameworks recognised that ILS issuers do not engage in conventional underwriting or assume diversified insurance portfolios; instead, they operate as fully funded, bankruptcy-remote vehicles established solely to transform insurance risks into investment securities.

Over time, regulatory frameworks evolved beyond merely authorising special purpose vehicles. Leading jurisdictions introduced measures to streamline approval processes, reduce unnecessary regulatory burdens, clarify collateral requirements, establish governance standards, define investor eligibility and facilitate efficient issuance of ILS. Several jurisdictions also introduced fiscal incentives, expedited authorisation procedures and specialised service-provider ecosystems to enhance their competitiveness as international ILS centres.

As a result, the global ILS market has become concentrated in a relatively small number of jurisdictions possessing mature legal systems, internationally recognised financial centres and regulatory frameworks specifically designed for insurance risk securitisation.

Among these, Bermuda has emerged as the world's leading domicile for ILS, owing to its long-standing expertise in reinsurance and risk transformation. Singapore and Hong Kong have developed dedicated ILS frameworks to establish themselves as regional centres for catastrophe risk financing in Asia, supported by government grant schemes and streamlined regulatory approval processes.

The United Kingdom introduced a comprehensive framework for Insurance SPVs to reinforce London's position as a global insurance and capital markets centre. In the United States, although ILS are generally issued through offshore domiciles such as Bermuda or the

Cayman Islands, the regulatory guidance developed by the National Association of Insurance Commissioners (NAIC) has played a significant role in establishing principles governing insurer participation in SPRVs and other structured risk transfer arrangements.

Despite differences in legal systems and regulatory architecture, these jurisdictions exhibit several common features. Each has recognised the need for a dedicated regulatory framework separate from conventional insurance regulation; each permits the establishment of specialised risk transformation vehicles operating on a fully collateralised basis; each limits participation to sophisticated market participants; and each seeks to balance innovation with robust prudential safeguards, transparency and investor protection.

The experiences of these jurisdictions provide valuable guidance for developing an enabling framework for ILS in the IFSC. While no single model can be transplanted in its entirety, the common regulatory principles that have emerged across these markets offer useful insights into the design of a proportionate, internationally competitive and prudentially sound ILS framework for IFSC.

Further, it is found that in all major jurisdictions, ILS are issued through SPIs or vehicles that are not subject to the traditional minimum capital requirements applicable to conventional commercial insurers — a distinction that reflects the nature of the risk assumed, the limited recourse available to counterparties, and the bankruptcy-remote structuring of the vehicle. However, the SPI/SPV in every case must follow a fully funded or fully collateralised model, under which capital is pre-funded in the form of collateral rather than held as an ongoing regulatory buffer.

The comparison of minimum capital / funding requirements followed by five leading jurisdictions for SPIs, SPRVs and ISPVs are set out below –

S. No.	Jurisdiction / Regulator / Framework	Capital Requirement	Special / Distinguishing Requirements
1	Bermuda Monetary Authority (BMA) Guidance Note – Special Purpose Insurers (July 2020)	No traditional minimum paid-up capital	Fully funded model; assets must exceed liabilities by at least US$1 (full collateralisation of each transaction). BMA introduced a dedicated "Parametric Special Purpose Insurer (PSPI)" class (Feb 2026) to facilitate parametric ILS business calibrated to index/parametric triggers rather than actual loss adjustment.

2	Hong Kong Insurance Authority Insurance (Special Purpose Business) Rules, 2021	No minimum capital or solvency requirement	100% collateralisation (fully funded) requirement. A dedicated Special Purpose Business (SPB) authorisation track under Section 8A of the Insurance Ordinance, separate from conventional long-term insurer licensing.
3	Singapore Monetary Authority of Singapore (MAS) Special Purpose Reinsurance Vehicle (SPRV) framework, Insurance Act	No fixed minimum capital requirement	Fully funded / fully collateralised structure; SPRV licensing (not a full insurer licence). Distinguished further by the MAS ILS Grant Scheme, which has been repeatedly extended (including through 2025/2026) to defray upfront ILS issuance costs in Singapore.
4	United Kingdom PRA / FCA Risk Transformation Regulations, 2017; PRA Rulebook; s.284A, FSMA 2000	No fixed minimum capital	Fully funded requirement; SPV assets must at all times equal or exceed the Aggregate Maximum Risk Exposure (AMRE). Investor repayment rights are contractually subordinated to the cedant's covered obligations, and the cedant has first right to collateral on a trigger event.
5	United States NAIC Model Laws Special Purpose Reinsurance Vehicle (SPRV) Model Act	Nominal minimum initial capital of US$5,000	Limited-purpose vehicle created solely to transact insurance securitisation with investors; no other provisions of state insurance law apply to a duly organised SPRV. Intended to broaden U.S. insurers' access to capital-market risk-bearing capacity on reasonable terms.

Sources: BMA Guidance Note – Special Purpose Insurers (July 2020) and Parametric SPI class (Feb 2026); Hong Kong Insurance (Special Purpose Business) Rules, 2021 and Insurance (Amendment) Ordinance, 2020; MAS Insurance Act (SPRV framework) and ILS

Grant Scheme; UK Risk Transformation Regulations, 2017, PRA Rulebook and FSMA 2000 (s.284A, Art.13A RAO 2001); NAIC Special Purpose Reinsurance Vehicle Model Act.

Thus, no jurisdiction among the major ILS markets reviewed — the UK, Bermuda, Hong Kong, Singapore or the United States — prescribes a fixed, meaningful minimum capital requirement for SPIs or reinsurance vehicles. Instead, each substitutes hundred-percent collateralisation, or a fully funded requirement, for the traditional capital regime.

The regulatory philosophy in each case has shifted from "capital buffers" (appropriate for a traditional, going-concern insurer) to "matched funding" (appropriate for a bankruptcy-remote SPI transacting a single, defined risk).

Beyond capital treatment, several jurisdictions layer additional market-development measures onto their SPI frameworks. Singapore's MAS, for instance, differentiates its regime not only through the absence of a fixed capital requirement, but through the ILS Grant Scheme. Bermuda's addition of a dedicated "Parametric SPI " class in February 2026 similarly illustrates how mature ILS hubs continue to refine their vehicle taxonomy to keep pace with product innovation, such as the growing use of parametric triggers for climate and catastrophe risks.

3. International Supervisory Standards – IAIS Insurance Core Principles and Supervisory Expectations for ILS

While individual jurisdictions have adopted different legislative and institutional approaches for regulating ILS, their supervisory frameworks are underpinned by internationally accepted principles developed by the International Association of Insurance Supervisors (IAIS).

The IAIS serves as the global standard-setting body for insurance supervision and develops internationally recognised standards intended to promote effective and globally consistent regulation of insurance markets. Although the IAIS has not issued a standalone Insurance Core Principle dedicated exclusively to ILS, the regulatory treatment of SPIs and ILS is addressed through several Insurance Core Principles (ICPs), most notably ICP 13 (Reinsurance and Other Forms of Risk Transfer), read together with the broader prudential, governance and solvency principles contained elsewhere in the IAIS framework.

The IAIS recognises that the transfer of insurance risks through capital market instruments constitutes a legitimate form of risk transfer alongside conventional reinsurance. Consequently, supervisory expectations applicable to reinsurance arrangements extend equally to ILS where insurance risks are transferred to investors through SPVs, SPRVs, SPIs (collectively referred to as special purpose entities (SPEs) in the ICP).

The IAIS framework does not prescribe a single legal model for regulating SPEs. Rather, it adopts a principles-based and outcomes-focused approach, recognising that jurisdictions may implement different legal structures provided they achieve the fundamental supervisory

objectives of effective risk transfer, policyholder protection, financial stability and market integrity.

ICP 13 expressly recognises that insurers may transfer risks not only through traditional reinsurance contracts but also through other forms of risk transfer, including arrangements that transfer insurance risks to the capital markets. Accordingly, the supervisory principles applicable to reinsurance are intended to extend to ILS.

Under ICP 13, supervisors are expected to ensure that insurers maintain appropriate policies governing their use of reinsurance and other forms of risk transfer and that such arrangements effectively support prudent risk management rather than merely improving regulatory capital positions.

Importantly, ICP 13 recognises that SPEs conduct insurance business, since they assume insurance or reinsurance risks under legally enforceable contracts. Consequently, supervisors should consider licensing and supervising SPEs as insurance entities. At the same time, the IAIS acknowledges that SPEs differ fundamentally from conventional insurers because they operate as transaction-specific, fully collateralised entities that do not engage in ongoing underwriting activities.

The IAIS therefore supports a proportionate supervisory approach, under which regulatory requirements applicable to SPEs are calibrated according to the limited nature, scale and complexity of their activities rather than automatically applying the full prudential regime designed for traditional insurers.

CAT Bonds are typically issued only to institutional or qualified investors capable of understanding the specialised risks associated with structured catastrophe risk transfer.

4. Notification of Special Purpose Insurer (SPI) under the Insurance Act, 1938

4.1 Introduction

The successful introduction of an ILS framework in India requires not only an appropriate regulatory architecture but also a legal framework that accommodates the unique characteristics of SPIs. While the regulatory models adopted by Bermuda, Singapore, Hong Kong and the United Kingdom differ in institutional design, they all recognise a common principle: fully collateralised SPIs are fundamentally different from conventional insurance companies and therefore warrant a distinct prudential regime.

The Insurance Act, 1938, however, was enacted to regulate insurers operating as going concerns that continuously underwrite insurance risks over an indefinite period. The prudential framework embodied in the Act—including minimum paid-up capital, solvency margins and ongoing capital maintenance—is designed for insurers maintaining diversified portfolios of insurance business and assuming long-term underwriting and operational risks.

An ILS SPI operates on an entirely different business model. It is established solely for the purpose of assuming one or more clearly identified insurance or reinsurance risks under a specified transaction. Its obligations are fully funded in advance through investor contributions, secured by ring-fenced collateral and extinguished upon completion of the transaction. It neither solicits insurance business from the public nor maintains an ongoing underwriting portfolio.

These structural differences raise an important legal question: Should a fully collateralised SPI be subject to the same statutory capital requirements applicable to conventional insurers?

This Report examines this question and presents the rationale for introducing a targeted statutory carve-out under the Insurance Act, 1938 in the IFSC Jurisdiction The amendment to the Insurance Act - the SBSR Act also assists in moving towards the enablement of establishing a new line of “Insurance Business”. This is discussed in greater detail in the report.

4.2 Existing Capital Framework

The Insurance Act, 1938 requires every insurer carrying on insurance business in India to maintain minimum paid-up equity capital. At present, the Act prescribes:

a) ₹100 crore for life insurers;
b) ₹100 crore for general insurers;
c) ₹100 crore for health insurers; and
d) ₹200 crore for reinsurers.

The legislative purpose of these requirements is to ensure that insurers possess a permanent capital base capable of absorbing unexpected losses arising from underwriting activities, operational failures, investment volatility and other business risks throughout the life of the institution.

Paid-up equity capital serves several prudential objectives:

a) providing an initial financial cushion before policyholder liabilities arise;
b) absorbing unexpected losses not anticipated in pricing;
c) supporting business growth;
d) demonstrating long-term financial commitment by shareholders;
e) protecting policyholders against insurer insolvency; and
f) promoting confidence in the insurance sector.

The capital requirement therefore reflects the assumption that insurers will continue writing new business, renewing policies and managing evolving risk portfolios over an indefinite period.

4.3 Limitation of the Conventional Capital Model

The prudential assumptions underpinning the Insurance Act differ fundamentally from the operating model of an ILS SPI. Unlike conventional insurers, an SPI:

a) undertakes only a predefined risk transfer transaction;
b) does not continuously write insurance business;
c) generally, has a limited operational lifespan;
d) assumes only specified risks under a single or limited number of contracts;
e) does not accumulate underwriting exposures over time;
f) does not depend upon future premium income to meet liabilities; and
g) funds all contractual obligations before assuming risk.

Most importantly, the SPI's liabilities are fully collateralised from inception. Investor proceeds are deposited into protected collateral accounts before the reinsurance agreement becomes effective. Those assets remain legally ring-fenced and may only be used to satisfy obligations arising under the specific risk-transfer transaction. Consequently, the financial resources available to meet claims are not dependent upon shareholder capital, future earnings or continued business operations. The insurer receives security through pre-funded collateral, not through reliance upon the continuing solvency of the SPI.

4.4 Full Collateralisation as an Alternative Prudential Model

The defining characteristic of an ILS transaction is full collateralisation. Rather than maintaining shareholder equity capable of absorbing uncertain future losses, the SPI maintains collateral equal to its maximum contractual exposure. The prudential philosophy therefore differs fundamentally.

Traditional insurance regulation asks: Does the insurer possess sufficient capital to meet uncertain future obligations arising from an evolving insurance portfolio?

The ILS framework instead asks: Have all contractual obligations already been fully funded through protected collateral before risk is assumed?

Under the traditional insurance model:

a) liabilities emerge gradually;
b) future claims remain uncertain;
c) premiums are received over time;

d) shareholder capital absorbs adverse deviations.

Under an SPI:

a) liabilities are contractually limited;
b) maximum exposure is known at inception;
c) collateral is fully funded before risk attachment;
d) investors bear the catastrophe risk.

Accordingly, collateral functions as the primary prudential safeguard rather than shareholder equity. In many respects, a fully collateralised SPI offers greater certainty of claims payment than an insurer relying upon future solvency.

4.5 International Regulatory Practice

International regulatory practice consistently recognises this distinction. The jurisdictions examined in the preceding chapter have each concluded that conventional minimum capital requirements are not appropriate for fully collateralised SPIs.

Although their legislative mechanisms differ, they share common principles:

a) recognition of SPIs as distinct regulated entities;
b) substitution of full collateralisation for traditional solvency capital;
c) bankruptcy-remote legal structures;
d) ring-fenced collateral;
e) transaction-specific authorisation;
f) limited business scope; and
g) proportionate prudential supervision.

For example:

a) Bermuda authorises SPIs under a dedicated regulatory class and relies upon full collateralisation rather than conventional insurer capital.

b) Singapore regulates Insurance Special Purpose Vehicles through a separate framework that recognises fully funded obligations as the primary prudential safeguard.

c) Hong Kong similarly authorises SPIs subject to complete collateralisation and restricted business activities.

d) The United Kingdom, through the Risk Transformation Regulations, expressly distinguishes Insurance Special Purpose Vehicles from conventional insurers and subjects them to a dedicated prudential regime.

The consistency of these approaches demonstrates an emerging international supervisory consensus that fully collateralised SPIs require a regulatory framework distinct from that applicable to traditional insurers.

4.6 Need for a Statutory Carve-Out

Although IFSCA possesses broad regulatory powers within the IFSCs, those powers operate within the statutory framework established by the Insurance Act, 1938. The requirement for minimum paid-up equity capital is prescribed directly by statute. Consequently, regulatory rules alone cannot substitute full collateralisation for statutory paid-up capital unless the enabling legislation expressly permits such substitution.

From a legal perspective, therefore, introducing an ILS framework requires statutory recognition that fully collateralised SPIs constitute a distinct category of regulated insurance entity. Such recognition would provide:

a) legal certainty for sponsors and investors;

b) consistency with international practice;

c) reduced regulatory ambiguity;

d) greater investor confidence; and

e) enhanced enforceability of supervisory requirements.

Absent such statutory recognition, the validity of an SPI authorised without the prescribed paid-up capital could be open to legal challenge.

4.7 Policy Rationale for a Carve-Out

A statutory carve-out is supported by several important policy considerations.

1. The insurer's exposure is fully pre-funded through collateral before risk attachment. Unlike conventional insurers, there is no reliance upon future shareholder support or retained earnings.

2. The business scope of an SPI is extremely limited. It does not undertake retail insurance, solicit new policyholders or accumulate diversified underwriting exposures.

3. Investor-funded collateral is legally segregated from the sponsor and remains available exclusively for payment of claims.

4. Investors—not policyholders—ultimately bear the catastrophe risk associated with the transaction. Investors knowingly assume that risk in return for a contractual investment return.

5. SPIs generally exist only for the duration of the underlying transaction, after which they are wound up. The long-term prudential concerns applicable to going-concern insurers therefore arise to a much lesser extent.

Collectively, these characteristics justify replacing traditional minimum capital requirements with a prudential framework centred upon:

a) 100% collateralisation;
b) bankruptcy remoteness;
c) ring-fencing of assets;
d) restricted business activities;
e) robust governance;
f) regulatory oversight; and
g) comprehensive disclosure.

This substitution does not weaken prudential supervision. Rather, it reflects a different—and in many respects stronger—mechanism for securing policyholder protection.

4.8 Proposed Regulatory Framework for SPIs in IFSC

The review of international regulatory frameworks demonstrates a broad convergence in the manner in which leading jurisdictions regulate ILS. While the legislative mechanisms adopted by Bermuda, Singapore, Hong Kong and the United Kingdom differ in their institutional design, they are underpinned by a common regulatory philosophy: SPIs are fundamentally different from conventional insurance companies and therefore require a dedicated, proportionate and transaction-specific regulatory framework.

Accordingly, the regulatory framework to be developed by IFSCA should be guided by internationally accepted supervisory principles while remaining sufficiently flexible to accommodate future developments in the ILS market.

At the outset, the framework should recognise ILS as a distinct form of insurance risk transfer and establish a separate regulatory regime for entities undertaking such activities. Rather than treating SPIs as conventional insurers, the framework should acknowledge their unique characteristics, including their limited business scope, transaction-specific nature, full collateralisation and bankruptcy-remote structure. The regulatory framework should, therefore, be based on the economic substance of these entities rather than their legal form.

The regulatory framework should adopt the principle of proportionate regulation, under which supervisory requirements are calibrated according to the nature, scale and complexity of the risks undertaken by the SPI.

The framework should clearly define the permissible scope of activities of an SPI and their purpose should remain limited to assuming defined insurance or reinsurance risks, issuing ILS or entering into other approved funding arrangements, holding collateral, and administering the approved transaction throughout its lifecycle.

A central pillar of the regulatory framework should be the requirement that all obligations assumed by an SPI remain fully funded throughout the duration of the transaction. The framework should prescribe appropriate standards governing the eligibility, valuation, investment, custody and ongoing maintenance of collateral, ensuring that collateral assets remain sufficient to meet the maximum contractual obligations of the SPI. Such assets should remain legally segregated from the sponsor, investors and other counterparties and should be protected against insolvency through appropriate trust or equivalent legal arrangements.

The regulatory framework should further ensure that every ILS transaction achieves genuine transfer of insurance risk. Supervisory assessment should therefore extend beyond legal documentation to the underlying economic substance of the transaction. Appropriate contractual safeguards including limited recourse provisions, bankruptcy-remoteness, enforceable collateral arrangements and clearly defined trigger mechanisms should form essential components of the regulatory architecture.

Governance requirements should reflect the limited nature of SPI operations while ensuring adequate oversight and accountability. Every SPI should maintain fit and proper management, appropriate internal controls, sound operational arrangements and effective risk management systems proportionate to its activities. The framework may also recognise the role of specialised service providers, including administrators, trustees, collateral managers, calculation agents and other transaction participants.

Recognising that ILS are sophisticated financial instruments intended primarily for institutional market participants, the framework should establish appropriate safeguards governing

investor eligibility and disclosure. Participation should ordinarily be restricted to qualified or professional investors possessing the necessary financial capacity and expertise to evaluate catastrophe risk. Comprehensive disclosure regarding transaction structure, trigger methodology, collateral arrangements, investment risks and payment priorities should accompany every issuance to ensure transparency and informed investment decisions.

4.8.1 ILS Ecosystem Players

The framework should also recognise that ILS operate within a broader financial ecosystem. Accordingly, the development of specialist capabilities in catastrophe risk modelling, actuarial analysis, SPV administration, trustee services, collateral management, legal advisory services, accounting, and independent verification should complement the regulatory framework.

Ecosystem Player	Role & Contribution
Sponsor / Cedant	Transfers defined insurance/catastrophe risks to the ILS market. Gains additional risk-bearing capacity beyond traditional reinsurance.
ILS Fund / Institutional Investor	Provides capital by investing in ILS instruments and assumes defined insurance risks. Earns returns linked primarily to the underlying insurance risk.
Special Purpose Vehicle (SPV)	Legally isolates and holds the transaction assets and collateral. Issues securities/notes to investors and provides protection to the sponsor.
Structuring Bank / Investment Bank	Designs and structures the ILS transaction and coordinates its execution. Helps translate insurance risk into an investable capital-markets instrument.
ILS Manager / Investment Manager	Identifies, evaluates and manages ILS investments on behalf of investors. Diversifies exposures and manages portfolio-level catastrophe risk.
Reinsurance / ILS Broker	Connects sponsors with reinsurers and ILS investors and facilitates transaction negotiations. Provides market intelligence, pricing and structuring support.
Insurance Manager	An insurance manager is an independent licensed professional firm that handles day-to-day administration, underwriting, accounting, and regulatory compliance for the SPI vehicle. They also typically act as the local principal representative or general representative to the regulatory authority for SPI/SPV
Legal Counsel	Develops the legal documentation and ensures the transaction complies with relevant laws and regulations. Establishes the contractual rights and obligations of all parties.
Catastrophe Modelling Agency	Models the probability and financial impact of catastrophe events. Provides loss estimates that underpin pricing, attachment points and risk assessment.

Independent Calculation Agent	Determines whether the contractual trigger has been met and calculates amounts payable. Provides an independent mechanism for determining investor or sponsor payouts.
Risk Modelling / Analytics Provider	Performs additional risk analysis, scenario testing and portfolio analytics. Helps investors and sponsors understand and manage catastrophe exposures.
Trustee / Security Trustee	Holds security and protects the interests of investors or beneficiaries. Ensures that transaction assets are administered according to the contractual framework.
Collateral Manager	Invests and manages the collateral backing the ILS transaction. Ensures that the collateral remains secure, liquid and appropriately invested.
Account Bank / Custodian	Safekeeps transaction assets and manages designated accounts. Provides operational infrastructure for movement and custody of collateral and proceeds.
Paying Agent	Facilitates payment of interest, principal and other amounts to investors or beneficiaries. Ensures payments occur accurately and in accordance with transaction terms.
Rating Agency *(where applicable)*	Assesses the creditworthiness and risk characteristics of the ILS instrument. Provides an independent risk assessment for investors.
Auditor	Independently reviews the financial statements and relevant transaction accounts. Enhances financial transparency and investor confidence.
Actuary	Provides actuarial analysis of insurance liabilities, expected losses and pricing assumptions. Supports the technical assessment and structuring of the transaction.
Insurance / Reinsurance Regulator	Authorises and supervises relevant insurance, reinsurance and risk-transfer activities. Provides the regulatory framework within which ILS transactions operate.
Listing Exchange *(where applicable)*	Provides a regulated venue for listing and disclosure of ILS securities. Enhances visibility, transparency and potentially secondary-market accessibility.
Data / Index Provider *(where applicable)*	Provides catastrophe, market or benchmark data used for analysis and performance measurement. Supports transparency, valuation and development of the wider ILS market.

Facilitating such ecosystem development will be essential to establishing GIFT IFSC as a competitive international centre for catastrophe risk financing.

Finally, the regulatory framework should remain principles-based and enabling, allowing sufficient flexibility to accommodate evolving market practices and new forms of ILS.

A practical approach would be to introduce a statutory carve-out permitting SPIs established exclusively for ILS transactions to operate without the conventional minimum paid-up equity

capital prescribed under the Insurance Act, 1938, provided specified prudential safeguards are satisfied.

For GIFT IFSC, one possible legislative route would be for the Central Government to exercise its powers under Section 2CA of the Insurance Act, 1938, to provide a targeted carve-out for SPIs operating within the IFSC framework, subject to compliance with conditions prescribed by IFSCA.

If, at a later stage, the policy objective is to facilitate ILS throughout India, a corresponding amendment to the Insurance Act, 1938, or regulations framed by IRDAI under an amended statutory framework, could extend a similar carve-out to SPIs operating in the Domestic Tariff Area.

4.8.2 Financial Support Services Ecosystem

A comprehensive Financial Support Services ecosystem has already been enabled to support the development and growth of the financial services market in GIFT-IFSC under three specific regulations, namely, (i) IFSCA (TechFin and Ancillary Services) Regulations, 2025 (TAS Regulations) (ii) IFSCA (Book-keeping, Accounting, Taxation and Financial Crime Compliance Services) Regulations, 2024 (BATF Regulations) and (iii) IFSCA (Global In-house Centre) Regulations, 2025.

(i) The IFSCA (TechFin and Ancillary Services) Regulations, 2025 provides an important enabling layer for the development of an Insurance-Linked Securities (ILS) ecosystem in GIFT IFSC. These regulations establish a regulated ecosystem of ancillary and technology service providers capable of supporting the implementation and operation of ILS activities. The Regulations also recognise a broad range of services, including actuarial, advisory, risk management, legal, audit, valuation, fund administration, compliance management, trusteeship and research and capability-building services.

The recently enabled ‘Trust and Company Services Provider (TCSP) services to support leasing activities through an SPV in IFSC will also play a significant role in ILS activities.

These services are particularly relevant to the ILS value chain. Actuarial, advisory and risk-management capabilities can support catastrophe-risk modelling, risk assessment, pricing and structuring of ILS transactions, while legal, valuation, audit, fund administration and compliance services can provide the supporting infrastructure necessary for issuance, administration, reporting and investor protection. The framework also permits technology-enabled services, including big-data and analytics, climate and sustainable technology, cyber-risk management, regulatory technology, supervisory technology, AI/ML, IoT, DLT and tokenisation support, which can facilitate the development of sophisticated catastrophe-risk analytics and technology infrastructure for the ILS market.

The Regulations further provide for centres of excellence and financial capability centres to undertake research and development, skill development, training and certification. This can contribute to building specialised capabilities in catastrophe modelling, insurance risk

analytics, ILS structuring, legal and regulatory expertise and capital-markets operations within GIFT IFSC.

Accordingly, the existing TAS regulatory framework can be leveraged to develop a comprehensive support-services ecosystem around the proposed ILS regime.

In this manner, the professional and technology services ecosystem can complement the proposed ILS regulatory framework by improving market infrastructure, strengthening risk assessment and disclosure capabilities, facilitating regulatory compliance and encouraging innovation.

(ii) The IFSCA (Book-keeping, Accounting, Taxation and Financial Crime Compliance Services) Regulations, 2024 can support ILS/SPV structures with maintenance of books and financial records, preparation and analysis of financial statements and accounting support, and tax advice and filings.

For ILS transactions such as CAT Bonds, these services can help ensure transparent financial reporting, proper accounting of premiums, collateral and investor payments, and compliance with applicable tax requirements. Having regulated BATF service providers within GIFT IFSC can therefore reduce operational complexity, improve investor and regulator confidence, and support the development of a reliable ecosystem for ILS and catastrophe-risk financing.

(iii) The IFSCA (Global In-House Centre) Regulations, 2025 can support ILS activities in GIFT IFSC by enabling insurers, reinsurers and other global financial institutions to establish dedicated GIC unit for ILS structuring, risk analysis, catastrophe modelling, accounting, data management, legal and compliance support. This can help institutions manage the technical and operational requirements of CAT Bonds and other ILS transactions from within GIFT IFSC, reducing dependence on external service providers.

For the ILS ecosystem, GIC Units can therefore act as a specialised support infrastructure, bringing global insurance and reinsurance expertise into GIFT IFSC. This can strengthen local capabilities in catastrophe risk assessment, transaction management and regulatory compliance, facilitate knowledge and technology transfer, and help attract global insurance groups to GIFT IFSC. Over time, this would support the development of a deeper ILS ecosystem and contribute to positioning GIFT IFSC as a regional hub for catastrophe risk financing.

4.8.3 IFSCA's capital market ecosystem

The IFSCA (Listing) Regulations, 2024 ("Listing Regulations") provide the regulatory framework for listing of securities and other permitted financial products on the recognised stock exchanges in the IFSC. The new Listing Regulations were notified in 2024 pursuant to benchmarking the standards with best practices in other international jurisdictions. The Listing

Regulations permit issue and listing of debt securities by issuers in India, IFSC and Foreign Jurisdictions.

There are two stock exchanges in the IFSC namely NSE International Exchange and India International Exchange with world class infrastructure and systems for listing and trading of securities. GIFT IFSC has emerged as a preferred destination for listing of debt securities by Indian issuers with total listing of more than USD 75 billion till date.

The practices in other global jurisdictions w.r.t listing of Cat bonds, are as follows:

(a) ***Bermuda***

In Bermuda, the "Debt Listing Regulations" specified by Bermuda Stock Exchange are applicable for listing of insurance-linked securities (i.e. Cat bonds) on the exchange. The debt listing regulations provide for following additional requirements/modifications in relation to ILS:

(i) The issuer must normally be a special purpose vehicle incorporated or established for the purpose of issuing insurance-linked securities.

(ii) If the issuer of insurance-linked securities is a licenced entity and is not required to produce audited financial statements by its regulatory authority, the issuer should provide information on its capitalisation including share capital and debt securities in issue and proposed to be issued rather than audited financial statements for last two years. Furthermore, if audited financial statements will not be produced on an ongoing basis this should be clearly stated in the listing document.

(b) ***Singapore***

Cat bonds are listed on the Singapore Exchange (SGX) under the regulatory framework for Debt Securities.

Listing of Cat bonds on the stock exchanges in the IFSC

Since Cat bonds fall under the definition of “debt securities”, Cat bonds are already permitted to be listed on the recognised stock exchanges in the IFSC in accordance with the regulatory requirements specified in the Listing Regulations.

Further, the definition of “issuer” in the Listing Regulations does not provide any restriction in terms of any category or type of entity. Accordingly, an SPV formed for issuance of ILS can be an issuer and list its Cat bonds on the recognised stock exchanges in the IFSC.

4.9 Conclusion

The introduction of a carve-out for SPIs is recognition that prudential regulation should be calibrated to the nature of the risks undertaken as an ILS SPI is a transaction-specific, bankruptcy-remote vehicle whose obligations are fully secured by investor-funded collateral from inception.

Replacing the statutory equity capital requirement with a mandatory regime of 100% collateralisation, ring-fenced assets, restricted business scope and robust supervisory oversight would, therefore, would align India's legal framework with internationally accepted regulatory practice.

5. Recommendation for Legal Framework

It is, therefore, recommended that a carve-out or exemption, may be considered, from the Insurance Act, 1938, on the following provisions.

S. No.	Section, Insurance Act, 1938	Subject	Rationale for Carve-Out / Exemption
1 (a)	Section 2	Insertion of new definitions	Definitions may be considered for ‘special purpose business’ and ‘special purpose insurer’
1 (b)	Section 2 (6D)	Notification from Government on “any other form of insurance contract ”	The amended SBSR Act provides for notification of any other form of insurance contract by the Central Government in consultation with the Authority .
2	Section 6	Minimum paid-up equity capital	Full exemption from minimum paid-up capital, substituted by a 100% collateralisation requirement prescribed by the Authority; not relevant, as the SPI carries no balance-sheet (going-concern) risk.

3	Section 64VA	Solvency margin requirements	Not applicable — solvency is inherently satisfied through pre-funded collateral rather than an ongoing regulatory capital buffer.
4	Sections 10, 11 and 13	Accounts, actuarial valuation and audit requirements	SPIs typically follow a "pass-through" accounting model that does not fit conventional insurer accounting/actuarial schedules designed for going-concern risk-bearing.
The WG has given two alternatives to introduce this new line of Business as specified in 1(a) or (b). The provisions of the proposed notification would have overriding effect over inconsistent provisions of the Insurance Act, 1938, for SPIs operating within the IFSC.			

6. Suggested Draft Amendment under Section 2 of the Insurance Act, 1938, for IFSCA

The working group has been examining the feasibility of introducing a regulatory framework for Insurance Linked Securities (ILS) within India, with a view to developing a competitive global hub for innovative risk transfer solutions and alternative capital for the insurance sector.

ILS have emerged globally as an important mechanism for transferring insurance and catastrophe risks from insurers and reinsurers to capital market investors. In certain global jurisdictions, these structures have contributed towards enhancing insurance capacity, diversifying sources of risk capital, strengthening resilience against catastrophic events and deepening integration between insurance and capital markets.

Considering India’s increasing exposure to climate-related risks, natural catastrophes and large-scale infrastructure and economic assets requiring risk protection, development of an ILS ecosystem can provide significant long-term benefits. Such a framework would facilitate access to diversified global capital, support domestic insurers and reinsurers in managing peak risks, and contribute towards strengthening financial resilience and disaster risk financing capabilities.

The working group recommends that “Special Purpose Insurer (SPI)” is required to be notified by the Central Government under the Insurance Act, 1938 to provide the necessary legal recognition and regulatory foundation for operationalization of the proposed framework for ILS.

In view of the above, the WG has prepared draft statutory language for consideration, to be inserted into the principal Act as follows:

1. After sub-section (16C) of Section 2 of the principal Act, the following shall be inserted, namely:

"(16CA) 'special purpose insurance business' means effecting insurance contracts that may be funded through insurance securitisation or any other financing mechanism, in accordance with regulations as may be specified by the Authority."

OR

"'special purpose insurance business' means the business of assuming insurance risk under a contract of insurance, where such assumed risk is funded, collateralised or otherwise backed through the issuance of Insurance Linked Security or such other mechanism, in accordance with regulations as may be specified by the Authority."

After sub-section (16CA) of Section 2 of the principal Act, the following shall further be inserted, namely:

"16(CAA) 'Special Purpose Insurer' means an insurer registered by the Authority to carry on special purpose insurance business."

(The provisions contained in Sections 6, 10, 11, 13, 27, 64V and 64VA of the principal Act shall be made applicable to such Special Purpose Insurer, with such exceptions, modifications and adaptations as may be specified in regulations issued by the Authority.) will require to be addressed through notification, after amendment of the Act.

7. Suggested Alternative Route

The recent amendments to the Insurance Act, 1938, via the Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025, have, inter alia, widened the definition of 'insurance business' by inserting Sec. 2(6D) in the Insurance Act.

As per the inserted definition under Sec. 2(6D), insurance business means the business of effecting insurance contracts and includes any other form of contract as may be notified by the Central Government in consultation with the Authority from time to time. Further, it is explained that the expression "insurance contract" means the contract whereby the insurer, on payment of premium, undertakes to assume risk and to pay to the insured person an agreed compensation for loss, damage or liability arising from a contingent event on such terms and conditions and subject to such limitations as may be agreed.

Since the underlying intent of an ILS transaction is to transfer risk from a risk carrier (cedant / sponsor) to a bankruptcy-remote special vehicle (called Special Purpose Insurer) by entering into a contract (i.e. reinsurance contract), the new definition of insurance business provides a comfortable space for the regulator (IFSCA or IRDAI) to work with the Central Government and enable the issuance of ILS instruments without proposing any amendments in the Insurance Act as it stands today.

As amending the Insurance Act is an elaborate exercise and may take considerable time, the WG believes that notification route may be explored under Section 2(6D) of the Insurance Act to recognize ILS contracts funded through insurance securitization or any such funding mechanism, as may be specified by the Authority (IFSCA / IRDAI).

Thereafter the other desired relaxations such as capital requirement, solvency etc., may be explored under Section 2CA of the Insurance Act, 1938. This can be immediately followed up by notification of relevant regulations to detail the granular modalities for the operationalisation of the ILS ecosystem.

Thus, as a cleaner alternative approach, the WG suggests the following draft of notification in terms of Sec. 2(6D) of the Insurance Act for the IFSC jurisdiction –

MINISTRY OF FINANCE
(Department of Financial Services)
NOTIFICATION
New Delhi, the …day of …month, 2026

S.O. XX.— In exercise of the powers conferred by section 2(6D) and section 2CA of the Insurance Act, 1938 (4 of 1938) (hereinafter referred to as the Insurance Act), the Central Government hereby notifies the inclusion of following in insurance business –

"business of effecting insurance contracts that may be supported by insurance securitisation or any other mechanism, in accordance with regulations as may be specified by the Authority"

Further,(i) The provisions contained in Sections 6, 10, 11, 13, 27, 64V and 64VA of the Insurance Act shall be made applicable to entities permitted to undertake such insurance business, with such exceptions, modifications and adaptations as may be specified in regulations issued by the Authority.

(ii)The expression "Authority" shall have the same meaning as assigned to it under sub-section (1A) of section 2 of the Insurance Act.

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Name & Designation

This shall be followed with regulatory framework detailing operational modalities of how such business shall be carried out. Such regulatory framework can then introduce the term 'Special Purpose Insurer (SPI)' to refer to entities who shall be granted registration in terms of the regulatory framework to undertake such notified insurance business.

8. Recommended Steps

To translate these recommendations into an operational framework, the following phased approach is proposed:

a) Obtain a targeted statutory carve-out/amendment under the Insurance Act, 1938.
b) Develop the legal architecture necessary to recognise SPIs as a distinct category of regulated insurance entity.
c) Notify dedicated regulations governing SPIs and ILS.

d) Encourage the establishment of catastrophe modelling and risk analytics capabilities and development of specialist SPV administration, trustee, collateral management and actuarial services within GIFT IFSC.

e) IFSCA may consider benchmarking issuance cost of ILS or other securities with International Jurisdictions and consider a comparable support mechanism, if required.

9. Development of ILS Market Infrastructure and Data Ecosystem

Market participants should proactively engage with established commercial catastrophe-modelling vendors to develop and maintain India-specific catastrophe-risk models covering key perils such as cyclones, floods and earthquakes. Such engagement should focus not only on the availability and suitability of models for Indian geography, but also on obtaining appropriate licensing and access arrangements for their use in underwriting, pricing, structuring and ongoing risk assessment of ILS transactions.

Given the importance of reliable underlying hazard and exposure data to the credibility of catastrophe models, market participants should also establish appropriate mechanisms for accessing relevant publicly available hazard, meteorological, geological, exposure and loss data maintained by institutions such as the National Disaster Management Authority (NDMA), Indian Meteorological Department/meteorological agencies, National Remote Sensing Centre (NRSC), Building Materials and Technology Promotion Council (BMTPC), and other relevant public authorities.

Where required, IFSCA may facilitate institutional coordination and liaison with such agencies to enable efficient access to reliable and standardised datasets, while ensuring appropriate data-sharing, confidentiality and usage protocols.

The development of the ILS ecosystem in GIFT-IFSC may follow a phased approach, with catastrophe bonds serving as the initial and principal product around which the market infrastructure, expertise and regulatory capacity are developed. Once the foundational ecosystem has matured, the scope may progressively be expanded to other forms of insurance-linked and alternative risk-transfer structures, including reinsurance sidecars, collateralised reinsurance and other sophisticated ART vehicles. This approach would allow market participants and regulators to build experience progressively while establishing the specialised service providers, modelling capabilities, legal expertise, transaction-management infrastructure and investor base required for a deeper ILS market.

In parallel, GIFT-IFSC should ensure that ILS issued from the jurisdiction have efficient access to internationally accepted clearing, settlement and custody infrastructure used by global ILS investors. Connectivity with established international securities infrastructure and custodians, including systems such as Euroclear, Clearstream and Depository Trust Company (DTC), would facilitate participation by international institutional investors, reduce operational friction in cross-border transactions and enhance the attractiveness and credibility of GIFT-IFSC as an ILS issuance and investment centre. The regulatory and market

infrastructure framework should therefore seek to ensure that ILS securities can be issued, held, settled and transferred through internationally familiar mechanisms, subject to applicable regulatory and investor-eligibility requirements.

10. Conclusion

The recommendations contained in this report provide a roadmap for establishing an internationally credible ILS framework in GIFT IFSC. The proposed approach is firmly grounded in comparative international practice, consistent with the supervisory principles of the IAIS and supported by a clear legal and prudential rationale for distinguishing fully collateralised SPIs from conventional insurance companies. Such a framework would not only integrate India into the global ILS market but also contribute to strengthening the country's long-term financial resilience against increasingly frequent and severe natural catastrophes.

End of Report