Report of the

Committee of Experts on Insurance

14th October 2021

Letter of Transmittal

14th October 2021

Shri Injeti Srinivas,
Chairperson,
International Financial Services Centres Authority
Gandhinagar, Gujarat.

Dear Sir,

The International Financial Services Centres Authority (IFSCA) vide Officer Order dated 09th November 2020 had constituted an IFSC Insurance Committee. We thank you for the opportunity given to us and pleased to submit the report of the Committee.

In line with the terms of references, the Committee undertook an examination of global best practices in areas of insurance and reinsurance. The recommendations of the Committee aim to develop IFSC as a global hub for insurance and reinsurance activities.

Thanking you,

Yours sincerely,

(G.N. Bajpai)
Chairperson

(M.R. Kumar)
Chairman, LIC of India

(T. L. Alamelu)
WTM, IRDAI & Ex-Officio Member, IFSCA

(Atul Sahai)
CMD, New India Assurance Co. Ltd.

(Devesh Srivastava)
CMD, General Insurance Corporation of India

(Shankar Garigiparthy)
CEO & Country Manager, Lloyd's India

(Ieva Segura Cobos)
Head - Regulatory Risk Management Asia,
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(Sakate Khaitan)
Managing Partner, Khaitan Legal Associates,

(Manoj Kumar)
ED, IFSCA, Member - Secretary.

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BACKGROUND

In April 2020 the International Financial Services Centers Authority (IFSCA) was established under the aegis of the International Financial Services Centers Authority Act, 2019 (IFSCA Act). IFSCA is a unified regulator for the development of financial products and services, and financial institutions (FI) in International Financial Services Centers (IFSC).

IFSCA also has regulatory oversight over all FI's incorporated in the IFSC and been vested with the powers of four sectoral regulators viz. Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory Development Authority of India (IRDAI) and Pension Fund Regulatory Development Authority of India (PFRDAI).

Currently, the provision of financial services comes with several regulatory limitations that may have an impact on the ease of doing business and the overall economic growth and development. With new regulations emerging in the IFSCI and the new regulator, the focus would be on creating a light-touch regulatory model to promote innovation and growth through the sophistication of financial services.

Vision:

To develop IFSC as the preferred destination for, raising capital and investment and trading financial products, provision of financial services including "(Re)Insurance" and developing a (re)insurance hub.

Mission:

1. To facilitate global capital flows to meet India's development needs while providing a globally competitive platform for the full range of international financial services at the regional and the global level, which can act as a second engine of growth for the economy; and
2. To develop an insurance and reinsurance hub in IFSC.

What makes an International Financial Centre a preferred destination?

There are various factors including a clear and transparent regulatory framework, a_pragmatic approach towards business needs enabling lower and competitive costs and access to a large potential market.

The following seven factors are the key pillars for making IFSCI a preferred destination for the intermediation of financial products and services:

1. Ease of entry and exit
2. Ease of operations enabled by limited compliance burden and competitive costs
3. Ease and scope of innovation
4. Information symmetry
5. Widespread International co-operation with other key financial hubs globally
6. Regulatory predictability
7. Swift dispute resolution mechanism

Alternate dispute resolution

An alternate dispute resolution platform brings with it, tremendous possibilities in respect of ease and speed of business. Despite a large number of commercial arrangements and domestic as well as international disputes that arise therefrom, at this time, India is not a preferred destination for mediation/arbitration. One of the reasons is the lack of sufficient world-class institutions to address this burgeoning requirement and streamline the process. Given the need for an efficient dispute resolution mechanism, foreign seated arbitrations have emerged as the preferred option for resolving cross-border commercial disputes involving Indian counterparties. Some existing models across the globe such as the Singapore International Arbitration Centre may provide useful and cost-effective templates to be adopted in IFSCI.

India as the optimal destination

Indian economy:

India is a large and growing economy i.e., currently USD 3 Trillion in 2020, aspiring to be 5 trillion by 2025 and is forecast to become the 3rd largest economy of the world by 2050 (Source: PWC Report titles "World in 2050"). Various studies and trends suggest that India's real GDP growth rate will be around 8% per annum for the next five financial years and 7% for the next five years thereafter. The nominal GDP, for the next five financial years, is expected to grow at 12% per annum, 10% for five years thereafter and 8 % for decades thereafter. The trend suggests that Indian markets will outpace the growth trajectory of most peer markets and global trends. Economic growth will have a direct and proportionate impact on the growth of the insurance market.

Protection gap:

There is a vast protection gap in India. Amongst others, COVID-19 has created greater awareness amongst Indians to de-risk both personal and financial risks. India is a hugely untapped and underpenetrated insurance market, thus making it ideal for global market players to find lucrative business opportunities. Statistical reference about Insurance penetration and potential of the Indian insurance sector is outlined in Annexure – 1.

Tax benefits:

With successive budget announcements, IFSCI now has an internationally competitive tax regime. To further supplement this, IFSCA is actively engaging with various stakeholders to put in place a modern and internationally benchmarked regulatory framework.

Geographical Location:

In comparison to existing and emerging financial centers globally, India has numerous competitive advantages. India's geo-strategic location facilitates serving all time zones, including major financial markets like Hong Kong, London, New York, etc. It has a large pool of talented professionals and professional service providers and huge and diversified demography. Indian expats manage complex transactions and lead financial innovations at IFSCs in Hong Kong, London, Dubai, New York, and Singapore. India is also emerging as a leading technology innovation hub and through IFSCI, India can leverage several models of working including work from home or working remotely from other jurisdictions.

CONSTITUTION OF THE COMMITTEE

The International Financial Services Centers Authority (IFSCA), with an objective to develop the financial products and services in the Gujarat International Finance Tec-City International Financial Services Centre (GIFT IFSC) has constituted an Insurance Committee on 09th November 2020, chaired by Mr. G.N. Bajpai, former Chairman LIC and SEBI and currently Honorary Senior Adviser of IFSCA. The terms of reference of the Committee are as follows:

1. Identify areas for developing IFSCI as a global insurance and reinsurance hub and suggest strategic pillars for making IFSCI a preferred destination.
2. Suggest a roadmap for making IFSCI an insurance solution' hub for the large Indian Diaspora including those residents overseas.
3. Suggest a regulatory design conducive to building and operationalization of a globally competitive re/insurance hub.

The committee consists of the following members who are accomplished leaders with wide experience in developing insurance business and regulations, and have a strong global network:

1. Mr. M.R. Kumar (Chairman, LIC of India)
2. Mrs. T. L. Alamelu (Whole Time Member, IRDAI and Ex-Officio Member, IFSCA)
3. Mr. Atul Sahai (CMD, New India Assurance Co. Ltd.)
4. Mr. Devesh Srivastava (CMD, General Insurance Corporation of India)
5. Mr. Shankar Garigiparthy (CEO & Country Manager, Lloyd's India)
6. Ms. Ieva Segura Cobos (Head - Regulatory Risk Management Asia, Director, Swiss Re)
7. Mr. Sakate Khaitan (Managing Partner, Khaitan Legal Associates, India & UK)
8. Mr. Manoj Kumar (Executive Director, IFSCA), Member -Secretary.

EXECUTIVE SUMMARY

Globally, International Financial Service Centres are established to provide world-class financial services. Considering the uniqueness of India’s geographical location, size of the economy, economic growth, increasing international trade, an abundance of talent and need for faster economic development, the Government of India decided to set up the first IFSC and constituted the IFSCA under the provisions of IFSCA Act, 2019.

Insurance is a global business and is an essential pillar for economic development, global economic integration and growing international trade. Further, there are more than 250 operational special economic zones in India that are conducting a wide variety of free-trade, export processing businesses. Industrial estates, free ports and large-scale international businesses and multi-national corporations are also operational in special economic zones. The presence of these businesses opens immense opportunities for insurance.

In order to develop GIFT IFSC, the IFSCA formed a committee of experts to make recommendations to build a globally competitive insurances services hub in IFSCI.

The Committee after widespread consultations, incisive studies and in-depth discussions has made the following recommendations:

1. Promoting and building an Aviation Insurance Hub
2. Promoting and developing Trade Credit Insurance
3. Developing a new framework and permitting operations of Captives
4. Develop Protection and Indemnity Club
5. Facilitate the building of Global In-House Centres to provide services ancillary to insurance.
6. Creation of an attractive investment market
7. Introduce premium financing
8. Developing alternate risk transfer solutions such as insurance linked securities, catastrophe bonds and parametric risk transfers available for the global market

The Committee has also recommended the mapping of insurance needs of the Indian diaspora and meet such needs through promotion and development of the ‘hub and spoke’ model.

Currently, the regulatory architecture and supervisory framework of IFSCA are under design and development. The Committee has outlined a series of propositions to help build a modern and globally competitive framework.

In conclusion, the Committee has recommended that the IFSC maintains a regular review of its Business and Regulatory framework, to ensure that it remains competitive among other leading IFSCs globally.

RECOMMENDATIONS OF THE EXPERT COMMITTEE

The Committee met virtually on 10-Dec-2020, 30-Apr-2021, 17-May-2021 and on 25th August 2021. The Committee utilized the services of senior level professionals from reinsurers, regulators, and direct underwriters. The Committee of professionals, which was chaired by the Secretary to the Committee undertook detailed studies, scanned relevant literature, and held widespread consultations (Report annexed as Annexure 4).

Additionally, the Committee members individually interacted with various stakeholders. The consultations were widespread and in-depth. Based on the discussions, a detailed examination of information, data and literature and widespread consultations the following recommendations are made:

I. Identify areas for developing IFSCI as a global insurance and reinsurance hub

The committee was of the view that the undermentioned areas offer great opportunities for developing IFSCI as a global insurance and reinsurance hub and makes following recommendations:

A. Aviation / Marine direct insurance:

India is poised to have the third-largest aviation sector in the world and should enter aircraft financing and leasing activities from its shores. This is critical for the "development of self-reliant aviation industry" and creating, "aspirational jobs" in aviation finance. This will be in addition to leveraging the business opportunities available in IFSCI.

On 16 October 2020, the Government of India, on the recommendation of IFSCA, had notified "Aircraft lease", as a 'financial product' under International Financial Services Centres Authority Act, 2019. 'Aircraft Lease' includes operating and financial lease along with any hybrid of operating and financial lease of aircraft or helicopter and engines of aircraft or helicopter or any part thereof'

The IFSCI is endeavoring to develop an 'Aircraft Leasing Centre' which can facilitate the development of an aviation insurance hub.

In this regard, the IFSCA has notified the Framework for Aircraft Operating Lease on 19 February 2021 to enable and facilitate the setting up of the Aircraft Leasing business in IFSCI.

The committee is of the view that the IFSCI has great potential to emerge as an "Aviation Insurance Hub" with insurers providing aviation insurance cover to aviation companies across the globe. The presence of GIC Re, New India Assurance and other insurers who are big aviation insurance players should be encouraged to help migrate large Aviation Insurance businesses into the IFSCI.

B. Trade Credit Insurance and other related products such as Surety Bond:

Businesses face various risks, including counter-party risk. These risks could arise due to bankruptcy of a counter-party, worsening of political situations immediately after the supply of goods, trade sanctions, war and volatile currency fluctuations, etc.

In such scenarios, trade credit insurance plays a vital role in de-risking counter-party risk in international trade.

Currently, the Indian insurance market offers cover only for trade receivables caused by the default of the buyer. Other forms of credit insurance like the risk of banks, financial institutions and factoring companies, which provide finance to suppliers by way of discounting or purchase of bills are not available. These covers can be made available in the IFSCI by IFSC insurance offices with adequate reinsurance support.

A surety bond is a promise to be liable for the debt, default, or failure of another. It is a three-party contract by which one party (the surety) guarantees the performance or obligations of a second party (the principal) to a third party (the obligee).

There are two broad categories of surety bonds: (1) contract surety bonds; and (2) commercial (also called miscellaneous) surety bonds.

(a) Contract Surety Bonds:

Surety bonds that are written for construction projects are called contract surety bonds. A project owner (the obligee) seeks a contractor (the principal) to fulfil a contract. The contractor, through a surety bond producer, obtains a surety bond from a surety company. If the contractor defaults, the surety company is obligated to find another contractor to complete the contract or compensate the project owner for the financial loss incurred.

There are four types of contract surety bonds:

(i) Bid Bond: Provides financial protection to the owner if a bidder is awarded a contract but fails to sign the contract or provide the required performance and payment bonds.
(ii) Performance Bond: Provides an owner with a guarantee that, in the event of a contractor's default, the surety will complete or cause to be completed the contract.
(iii) Payment Bond: Ensures that certain subcontractors and suppliers will be paid for labour and materials incorporated into a construction contract.
(iv) Warranty Bond (also called a Maintenance Bond): Guarantees the owner that any workmanship and material defects found in the original construction will be repaired during the warranty period.

(b) Commercial Surety Bonds

Commercial surety bonds cover a very broad range of surety bonds that guarantee performance by the principal of the obligation or undertaking described in the bond. They are required of individuals and businesses by the federal, state, and local governments; various statutes, regulations, ordinances; or by other entities.

Commercial surety bonds can generally be divided into five types of bonds:

(i) License and Permit Bonds: Required by federal, state, or local governments as a condition for obtaining a license or permit for various occupations and professions. License and permit bonds include auto dealer bonds, mortgage broker bonds, contractor license bonds, and surplus lines broker bonds.
(ii) Court Bonds (also called judicial bonds): Required of a plaintiff or defendant in judicial proceedings to reserve the rights of the opposing litigant or other interested parties. Court bonds include appeal bonds,

supersedeas bonds, attachment bonds, and injunction bonds.

(iii) Fiduciary Bond (also called probate bonds): Required of those who administer a trust under court supervision. Typical such bonds are executor and administrator bonds, trustee bonds, guardian bonds, and conservator bonds.

(iv) Public Official Bonds: Required by statute for certain holders of public office, to protect the public from malfeasance by an official or from an official's failure to faithfully perform duties. Public official bonds included county clerk bonds, tax collector bonds, notary bonds, and treasurer bonds.

(v) Miscellaneous Bonds: These are commercial surety bonds that do not fit into any of the types above. Included are a wide variety of bonds, such as warehouse bonds, title bonds, utility bonds, and fuel tax bonds

Since this is an unexplored area even in the domestic market, the Committee recommends that insurers in the IFSCI should be permitted to explore and offer such bonds to foreign corporates for exposure out of India.

Further, insurance companies based in the IFSCI should be allowed to issue trade credit insurance to banks based in the IFSCI. These trade credit insurance policies can cover two categories - Corporate Risk (mainly Indian corporates borrowing from IFSCI located entities) and Financial Institution Risk (various global banks issuing Letter of Credit for exports from India). Such risk can be ceded to reinsurers present in IFSCI or any other global reinsurer.

C. Captives - (Insurance & Reinsurance) and its development in IFSC:

A Captive is a wholly-owned subsidiary or a group company tasked with unwriting group risks. Captives are generally created by large corporations/associations of corporations. Globally, Captives are licensed by territory regulators. While IRDAI has not permitted establishing Captives, big PSUs and even some State Governments have wholly-owned vehicles that insure their risks, a surrogate of captives.

In 2017, over 6,500 captives were operating in the world and 47% of these captives are owned by private entities. Thousands of global companies now successfully use captives. There is increasing momentum of owning captives.

The commercial rationale for establishing Captives is cost-efficiency and insuring uninsurable risks. Risks retained on the balance sheet are self-insured through reserves. Reserves are created from post-tax money. Since insurance premium is tax-deductible expense, it is a cost-efficient way of managing own risk. Further, insureds do not have direct access to the reinsurance market, a Captive is able to access the reinsurance market and get better pricing for placing risks resulting in cost efficiencies.

Captives insure group risks which are uninsurable due to high premium, unavailability/limited availability of underwriting capacity and/or absence of cover. Further Captives permit self-risk management with customised coverage, stability of risk coverage, flexibility in risk retention and risk transfer, access to government programs and reduced insurance administration costs and recapture of underwriting profits.

The captive model can play a vital role as a development catalyst for the insurance sector in IFSCI. It will propel many corporates and reinsurers to enter the sector. It will also facilitate the de-concentration of the risk of traditional carriers. Captive insurance can specifically cover workers' compensation risk, specialised risks like weather, political including geo-political risk, micro-insurance, trade credit, health etc. and can be used for building the run-off business in India. The IFSCI could be an incubation centre for captives by non-insurance entities – domestic and overseas. Captive model of other jurisdictions is Annexure – 2.

The Committee has noted that the concept of captives is not explicitly prohibited by the Indian Insurance Act, 1938, though it has not been enabled by the IRDAI as yet. To introduce the concept of captives in IFSCI, the Committee recommends enabling the required framework by incorporating modifications in ***the Insurance Act, 1938 as laid down in Annexure 5****:*

The Committee suggests that IFSCA should enable the concept of captives in IFSCI along with the modern and robust IT-enabled infrastructure so that the cost of compliance and operations is substantially reduced. It is understood costs are high in financial centres in other jurisdictions.

D. Protection & Indemnity Club

Currently, all shipowners go abroad for availing insurance cover for protection and indemnity. Since protection and indemnity covers are either not available in India or available in a limited manner, ship owners with the prior permission of the IRDAI are using foreign insurers for covering the risk. *IFSCA may explore introducing such covers in IFSCI for the benefit of all. The Committee is of the view that in addition to the above, IFSCA should actively engage with IRDAI with a view to evolve a suitable mechanism for utilizing the IFSCI platform as a testing ground for introducing other such currently unavailable products in India, a kind of functional Sandbox.*

E. Global In-house Centers (GIC)

Insurance is a niche business and requires experts from various fields such as actuarial sciences, marketing, research, claims handling etc. Insurers from any part of the world should be allowed to set up an in-house centre in the IFSCI to cater to this need in a cost-efficient manner. Even third parties not directly undertaking insurance activities should be allowed to set up such expert services centres, which can provide services to both domestic and international clients. Global experts will be able to contribute to developing specialty lines in India and gain leverage due to the various benefits available in the IFSCI. Further, on 18 November 2020, IFSCA has notified the application for setting up a GIC in IFSCI.

Given the benefits of GICs, the offshore Insurers and Reinsurers should be permitted to expand into GIFT IFSCI and render such services globally.

F. Attracting Lloyd's entities

Most insurers have set up a syndicate in the Lloyd's Market, with a view to accessing reinsurance business in various jurisdictions through service companies or Managing General Agents, appointed to underwrite (re)insurance business on behalf of the relevant syndicates. The committee is of the view that IFCA should evaluate the feasibility of attracting such entities into the IFSC, whilst also evaluating the feasibility of Lloyd's syndicates being set up in the IFSC.

G. Premium financing in IFSCI

For a policy to incept, Indian law requires upfront payment of premium. Affordability, therefore, hinders penetration and increases the coverage gap.

Premium Finance offers the customer the option of spreading premium payments for insurance cover over the period of insurance. Current regulations permit instalment payment of premium for health insurance. Premium finance is well known in mature insurance markets like the UK and experience shows a positive impact on penetration, coverage of individuals and development of the insurance market. In the context of IFSCI, the Lender is likely to be an IFSC Banking Unit (IBU) or any other Bank regulated by IFSCA or regulator of the jurisdiction in which finance would be sought.

Premium financing provides an elegant solution. Premium is paid upfront by a lender to the insurer on a non-recourse basis against and on behalf of the insured. The insured repays the lender in instalments being fully kept aware of the interest built-in such instalments. The collateral is only the policy. In event of default, the lender is given the right to cancel the policy and on cancellation, the Insurer refunds the pro rata portion of the premium for the unexpired period of the policy, to the lender.

In the current regulatory framework applicable in the IFSC, there are three features that require solutions for the product to work efficiently.

(i) The lender must be able to cancel the insurance policy in the event of default.

(ii) The refund pursuant to early termination of the policy must be paid to the lender, not the insured.

(iii) The refund amount needs to be calculated on a pro rata basis, not the short period rates.

These features represent minor changes to the way in which the insurance market currently works in IFSCI.

The regulatory framework needs slight intervention for premium financing to be offered, and as such regulatory coordination is needed. Premium financing should be designed in such a way so as to comply with the provisions of Section 64 VB of the Insurance Act, 1938.

Globally, premium financing solutions have increased penetration and reduced the coverage gap. It will be beneficial to explore such solutions to be provided globally through the IFSCI.

H. Alternate risk transfer solutions

Alternate risk transfer (ART) solutions are risk mitigation solutions that provide coverage and protection to risk-bearing entities without traditional insurance.

The key features of ART solutions are: (a) ART solutions can be customized to specific problems, (b) typically ART solutions are a multi-year, multi-line cover, (c) risk may be spread over time and within a policyholder's portfolio, and (d) risk is assumed by non- (re)insurers.

The ART market primarily functions as two solutions, (a) alternative products and (b) alternative carriers.

The alternative carrier concept encompasses self-insurance, pools, captives, and risk retention groups (RRGs). Risk transfer through alternative products generally includes transactions such as integrated multiline products, insurance-linked securities (or CAT bonds as they are commonly referred to), credit securitization, committed capital, weather derivatives, and finite risk products.

Insurance-linked securities (ILS) are products that converge between the insurance industry and the capital markets.

Catastrophe bonds (commonly abbreviated to cat bonds) are a segment of the ILS market. They are used by property/casualty insurers and reinsurers to transfer major risks on their books (such as for hurricanes, windstorms, and earthquakes) to capital market investors, reducing their overall reinsurance costs while freeing up capital to underwrite new insurance business. Cat bonds are structured so that payment of interest or principal to the reporting insurance company depends on the occurrence of a catastrophe event of a defined magnitude or, that causes an aggregate insurance loss in excess of a stipulated amount.

Parametric insurance covers the probability of a predefined event happening (e.g., a major hurricane or earthquake), paying out according to a predefined trigger.

For ART solutions to develop, there is a requirement of deregulation and provision of incentives. As an example, in Singapore, tax incentives apply to parametric re/insurance and the Monetary Authority of Singapore is supportive of various developments and incentives in the ART market. The Monetary Authority of

Singapore has also been actively supporting academic, industry and academic-industry joint initiatives to produce an accurate and fair assessment of risk, industry exposures and weather reporting. One of such initiatives is the Global Asian Insurance Partnership which will bring together regulators in the region, academic and insurance companies to improve specific aspects of climate risk modelling in the region which could help to improve insurance penetration. As the initiative is open to other regulators in the region, IFSCA should consider having a representative on this platform.

In the journey of being an insurance and reinsurance hub, the IFSCI should enable providing a comprehensive range of ART products and provide an ability for re/insurers to use IFSCA as a basis for offering such covers globally. IFSCA should also support and encourage academic institutions like National Insurance Academy (NIA) for industry-academic joint initiatives to produce an accurate and fair assessment of risk, industry exposure and weather reporting.

II. To suggest a roadmap for making IFSCI an insurance solutions hub for the Indian diaspora.

Indian diaspora has a long and cultural affinity to its roots. Currently, there are close to 31.23 million Indians and persons of Indian origin spread across the globe. A congenial ecosystem for NRIs/ PIOs to buy insurance from companies set up in the IFSCI and pay the premium in the currency of their choice (including Indian Rupees) offers large potential.

The Committee proposes the following for harnessing a very large untapped insurance potential:

A. A Bouquet:

IFSCI should enable providing a comprehensive range of products such as term insurance, endowment, unit-linked plans, annuities and pension, health, property etc.; in effect a diversified bouquet to choose from.

Further, NRIs should be permitted to buy portable insurance policies while they are outside India. NRIs should also be allowed to buy insurance policies for their dependents in India from an IFSCI unit. The insurance premium paid by them in foreign currency should not be subjected to the Goods and Services Tax (GST), which would make the policies more attractive from a pricing standpoint. Flexibility should also be provided to people migrating back to India to continue to service policy/s taken from an IFSCI unit in foreign currency and they should be allowed to remit premium under the liberalized remittance scheme of the Reserve Bank of India.

B. Hub and Spoke Model:

LIC of India operates a hub & spoke model through LIC International EC Bahrain (LICI) in GCC countries. LICI Bahrain is the 'hub' - the manufacturer and service provider and 'spokes' in various GCC countries operate as distribution centers. LIC and other direct insurers from both life and non-life should be facilitated to replicate that model from IFSCI to operate globally.

The Committee, therefore, recommends that IFSCI enters into MOUs with other jurisdictions to facilitate the creation of spokes for an entity that has a Hub in the IFSCI.

Life Insurance Companies should explore providing Pension and Group schemes for expatriates serving in multinational companies in India. Several large companies like Allianz, Generali, AXA etc. have corporate insurance verticals to offer P&G Schemes to expatriates of multi-national companies across geographies. Since such covers will be in foreign currencies mostly in USD & Euro, IFSCI can be an ideal platform to onboard such products globally. LIC may be requested to consider taking lead on this behalf and provide such services globally from IFSCI like other transnationally operating insurance companies.

C. Health Insurance for resident Indians under LRS:

Most Indian health insurance policies do not cover treatment outside India. In case an individual requires treatment outside India for any ailment, they may be required to meet such treatment expenses from their own funds, as the local insurance product does not cater to overseas treatment expenses. The limited number of policies that are currently available in India to cover overseas treatment are very expensive and offer limited benefits.

Therefore, it is recommended that residents be permitted to buy overseas health insurance policies for themselves and their dependents (in India or overseas) from insurance players operating out of the IFSC to be treated anywhere in the world.

The premium payable on such policies should be permitted within the liberalized remittance scheme limits.

III. Suggest a regulatory design conducive to building and operationalizing a global re/insurance hub.

The Committee proposes the following suggestions:

A. Regulatory Architecture

1) In March 2015, the Government of India notified the IRDA (Regulation of Insurance Business in Special Economic Zone) Rules, 2015. In 2017, the IRDAI issued the IRDAI {Registration and Operations of International Financial Service Centre Insurance Offices (IIO)} Guidelines, 2017 replacing the rules of 2015.

   These guidelines mainly discuss the permitted activities of Indian and foreign insurers and also permit them to carry on business in the IFSCI subject to the following conditions:

   i) It requires the insurer to set up its place of business in an SEZ.
   ii) A foreign insurer can set up its branch in the IFSCI to transact the business of insurance and/or reinsurance business.
   iii) An insurer can underwrite only such classes or sub-classes of business of life insurance, general insurance, health insurance or re-insurance as may be specified by IRDAI.
   iv) The insurer is allowed to accept re-insurance of all classes of business involving cover either within the SEZ or from outside the country, i.e., foreign to foreign, foreign to India.
   v) Domestic Tariff Area (DTA) entities may be allowed to procure services relating to insurance and reinsurance from insurers operating from the IFSCI on the same terms, as they may be allowed in general from offshore entities.

2) With the formation of IFSC Authority, the objective is to create a regulatory architecture, which is at par with the leading global financial centers in terms of ease of doing business, the flexibility of product design, regulatory

equivalence, protection of policyholders etc. Some of the key recommendations for improving the efficacy of regulatory architecture are as follows:

i) Operational Framework on the scope business activities to be carried out from IFSCI:

An IFSCI Insurance office should be allowed to do business in all SEZs in India, within IFSCI and outside India. To facilitate that IFSCA needs to issue an elaborate and detailed framework about operating modalities for each segment of the insurance business i.e., Life, Health, General and Reinsurance etc. so that the prospective entities can evaluate a business case for setting up Insurance offices in the IFSCI. Global outlook in the design of operating framework must be kept in view. A comparison in some of the areas is in Annexure 3.

ii) Regulations for product design and approval:

While competing in global markets, speed to market solutions and products features are vital for success. Currently, IFSCI Insurance Offices can offer products only with the approval of the IFSC Authority. This creates a bottleneck in comparison to other international financial centers thereby hampering the speed to market. However, if a "Use and File" replaces the "File and Use" model currently adopted by IFSCA, many insurers would be keen to utilize the IFSCI platform to innovate and develop new lines of products. The regulations need to support the speed of innovation in line with the demands of the market while balancing risks.

The *framework should allow flexibility in the design of products, and it should not be restrictive as the IFSCA is going to service the global population and industry. It is further recommended that there is no strict compartmentalization of life and health insurance, and products should be aligned with global market practices and customer requirements.*

IFSCA can also permit on-demand and pocket-sized products that can cater to the various requirements of industries and services in the various SEZs in India. The IFSCA should give broad contours of "Use and File" within which insurers can operate.

iii) Mutual recognition of supervisory practices:

One of the primary motivations to operate from an IFSCI, especially the Life Insurance companies would be to expand the customer base beyond the national boundaries. The success of insurance companies in the IFSCI also depends upon their ability to offer products which are acceptable in other countries. Often, host country regulations act as an impediment to participation by foreign insurance companies and intermediaries.

An essential requirement is that the products developed and sold in IFSCI are recognized in other countries – particularly in the Middle East by the UAE financial regulatory authority (Qatar, Abu Dhabi, Dubai etc.) to facilitate seamless access to such markets and in particular, to the large Indian diaspora in these countries. IFSC should be prepared to facilitate the issuance of such products.

The IFSCA should seek to have mutual recognition of supervision / rely on each other's supervisory practices with all the key jurisdictions. This will make the IFSCI attractive for insurers and intermediaries reducing regulatory overlap and time to market.

iv) Investment Avenues:

IFSCI Insurance Offices (IIOs) have been permitted to transact only in Foreign Currency. Currently, the IFSCI Insurance Offices have a limited scope of investment i.e., to invest in fixed deposits with IFSC Banking units, and the rate of interest is around 2 percent per annum. In the current low-interest regime coupled with highly competitive markets, the_yield from investments is the major source of income and profits.

The framework for investment regulations, therefore, should be redesigned to give more avenues for insurers to mobilize their funds to a basket of financial instruments and products so that returns can be higher, making the IFSCI attractive. India permits overseas insurance companies to invest their surplus resources in India through the FPI route. Insurance entities operating out of IFSCI be given the same benefit of generating higher returns on their investible surplus, without further regulatory approvals.

It is necessary to draft separate investment regulations, offering more flexibility to invest both in India and abroad to get better returns, while fully taking care of the solvency issues.

v) Entities Eligible to Undertake Insurance Activities in IFSCI:

Currently, IIOs are allowed to be set up only as branches in the IFSCI. Subsidiaries, Incorporated Entities, and other recognized formats should also be permitted to be set up to undertake insurance, reinsurance, and insurance intermediation in IFSCI.

vi) Solvency Requirements:

Capital, Solvency and other terms and conditions should be prescribed for entities other than branches based on the volume of business transacted rather than a minimum requirement structure to offer more efficient use of capital. Risk-based solvency regimes as practiced in countries like Bermuda, Singapore, DIFC, ADGM etc. may be considered and adopted by the IFSCI.

vii) Outsourcing Requirements:

Units in IFSCI cannot be viewed from the same prism as insurers operating in DTA. Subjecting them to the same restrictions with respect to outsourcing and a highly regulated framework is not recommended. IFSCA should introduce a special framework with respect to outsourcing for these units.

B. Business Practices:

(i) IFSCI should create a niche for itself. The current Covid-19 scenario has impelled leveraging technology substantially. It can be a niche for GIFT IFSC.
(ii) A longer tax holiday of 50 years should be considered.
(iii) There should be better and more efficient claims settlement practices and AI-enabled technological solutions like smart contracts should be introduced.
(iv) Insurance / Reinsurance intermediaries are an integral part of the reinsurance business. The IFSCI operating guidelines for insurers, reinsurers (Indian and Foreign) and intermediaries have been issued. However, these guidelines for Insurance intermediaries do not cover foreign intermediaries. In the absence of basic operating guidelines, the participation of foreign

insurance intermediaries would be difficult in IFSCI, which adversely impacts foreign reinsurers. Intermediaries are the backbone of any insurance hub, and this should be done on priority.

(v) FRBs and their satellite offices in IIOs should be treated at par with Indian reinsurers.

(vi) IFSCA should accept reinsurance on a cross-border basis from entities based outside of the IFSC or India.

C. Business Developments

IFSCA should conduct roadshows in major insurance markets engaging inter alia direct insurers, reinsurers, and intermediaries (including loss adjusters, risk modelers, surveyors, etc.) to showcase the advantages of operating in India's International Financial Center. These roadshows should be held on a priority basis, in countries where there is a concentration of Indian diaspora to harness their latent potential and to target specific segments such as protection and indemnity clubs, top cross-border reinsurers, risk management agencies and loss adjusters.

D. IT Infra-structure:

Globally, the financial sector has benefitted immensely from the introduction of new technologies. It has significantly enhanced efficiency and ease of doing business. The insurance industry is relying on digital technology to develop products, assess claims, manage business processes, and provide greater customer satisfaction. This is made possible with the help of new technologies. Going forward key areas of focus should be:

(i) Use of Blockchain technology:

The use of blockchain will help in driving radical transformation in the insurance sector while increasing transparency, security, and outcomes across the entire value chain. The insurance industry has several challenges like accounting for third-party payment transactions, fraudulent claims, handling massive amounts of data and complex compliance issues. Leveraging Blockchain technology increases transparency, enhances security and reduces transaction friction. Blockchain can reduce the incidence of fraud and can manage, share, and monetize large amounts of data, in turn, saving a significant amount of time and costs.

(ii) Artificial intelligence (AI) and Internet of Things (IoT)

AI can help automate a complicated task with perfection and limited manual intervention. The use of AI not only speeds up the time for a customer to buy a policy or settle a claim, but it also helps in creating personalized packages by making use of historical and behavioral data such as a driving record etc. A suite of Internet of Things (IoT) technologies can help reduce manual interventions in claims settlement and pricing of policy, eventually, bring down the cost of operations and therefore, premium resulting in increased penetration.

(iii) Robotic Process Automation (RPA) for claims and data management.

Cloud computing, advanced analytics, big data can be used to measure and control risk. This will also facilitate the development of new insurance products and models. There should not be requirements / expectations to localize these data centers within the country / IFSCA. This weakens the operational resilience of the company and increases operational costs. The same may be reviewed and permitted in compliance with the National Data Protection Policy.

E. Database - Knowledge warehouse

Database - knowledge warehouse facilitates product development, customer service, creates/promotes expertise formation, retention, and use. Database - knowledge warehouse can be used to enhance the underwriting processes. Negotiations should be held, and agreements reached with owners of databases across geographies including insurers, reinsurers, syndicates, international financial centers, Regulators etc. to create a knowledge hub in IFSCA. The services of IT experts should be utilised to organize the hub.

F. Building of Talent Pool

In any International Financial Centre, the availability of talent is essential. IFSCA should take special steps to build a local talent pool while allowing access to a global talent pool and expertise. The following ideas could be explored:

i) Lower Income Tax on the income generated out of operations by the professionals serving exclusively for IFSCI. This will facilitate the relocation of talent from low-tax jurisdictions like Singapore.

ii) An internship programme should be started by IFSCA to build a future ready talent pool with the stipulation that they would serve IFSCI for say a minimum period of 3/5 years. The pool should include underwriters, claim adjusters, investment experts, actuaries, data scientists, business process managers etc.

iii) Companies looking to aid the value proposition of the IFSC, such as Aviation, Trade Credit, etc., can get the benefit of a subsidy for training Indian staff in these areas such as a 50% subsidy on the training cost incurred by the entity.

CONCLUSION

The global environment is constantly undergoing metamorphic transformation. Today's competitive edge fast disappears for lack of vigilance and constant innovation. The digitization of assets, moneys and business processes enables the frictionless transfer of operations. The longevity of stay has been contracting. Businesses are in search of returns and building a competitive edge. Policymakers have, therefore, been at pains to evolve, reengineer, refurbish structural, systemic, and operating frameworks periodically.

The businesses that IFSCA is seeking to attract are global. Hence, IFSCA will have to be agile and create a regulatory environment which is robust and growth-oriented i.e., Pro-active, Co-active and Re-active, the TRINETRA (3 eyes) for a robust and growth-oriented regulatory framework.

The pro-active will focus on understanding the impact of macro-economic, political, social, environmental, and technological factors to suggest the appropriate regulatory environment in the IFSCA. Innovation is being marshalled by market participants even before the regulators can make sense of the impact and risks. An incisive approach can mitigate and de-risk the likely impact.

The Co-active will collect the intelligence of what is happening in other global IFSCs and decipher what re-orchestration is necessary. This will enable IFSCA to consider changes simultaneously to keep pace with the competitors.

IFSCA like other regulators is expected to maintain the rhythm of the markets in IFSCI. To effectively render this obligation, the study and interpretation of data will have to be undertaken constantly. This will help inter-alia in understanding market trends and behavior of operators enabling the IFSCA to fix the regulatory gaps and prevent market misconduct. Further, every unexpected and intertwined event must be studied to update the regulatory framework so that its repetition is avoided. Regulatory cognizance should extend beyond penalties to introduce changes in the systems and processes that may be necessary.

An anecdotal study by the Chairman of the Committee of a few financial misconducts impacting the markets in India revealed that enforcement action against the initial misdemeanors undertakers was not accompanied by appropriate changes in the operational framework i.e., appropriate preventative measures have not been adopted. One of the underlying philosophies of combining Legislative, Executive and Judicial powers in one authority, is the speed of consequential action in the event of an untoward incident, enabling markets to operate efficiently. Hence, the committee suggests a comprehensive reactive approach.

Whereas the expeditious and efficacious implementation of the recommendations of the Committee made above has the propensity to place IFSCI alongside the best in the world in terms of framework, the Committee strongly recommends an evolutionary approach also be pursued, being the third leg of the TRENETRA (3 EYES) strategic framework. Periodical up-gradation will not be enough. Constant reengineering will keep IFSCI ahead in the race and attractive to global businesses.

ACKNOWLEDGEMENT

At the outset, we would like to express our sincere gratitude to Mr. Injeti Srinivas, Chairperson, IFSCA who has reposed trust and confidence in the committee and proffered an opportunity to make some contribution to the development of IFSCI Insurance Hub.

We would like to thank Professor Anantha Nageswaran, all senior-level professionals, who were members of the Sub-Committee namely Shri K R Ashok (Chief Actuarial, LIC of India), Ms. Kuhu Mohapatra (Deputy General Manager, The New India Assurance Co. Ltd.), Ms. Sheetal Gawde (Deputy Manager, GIC Re) and other industry experts who shared their opinions and made valuable suggestions to the committee. The inputs provided by each one of them were of immense help in shaping the report.

We would also like to thank IFSCA officials namely Mr. Rishi Kale, Assistant Manager, Ms. Manju Choudhary, Manager and Mr. Bhaskar Khadakbhavi, Deputy General Manager for their help, support, co-operation, and co-ordination in recording the discussions, summarizing, recommendations and drafting the report. We are grateful to the IFSCA staff for their support in organizing the virtual meetings and providing other logistical support.

Chairman & Members of the Committee

GLOSSARY

Sr. No.	Abbreviation	Definition
1	AI	Artificial Intelligence
2	ALC	Assessment and Licensing Committee
3	BMA	Bermuda Monetary Authority
4	CIGA	Core Income Generating Activity
5	DTA	Domestic Tariff Area
6	ES	Economic Substance
7	FRBs	Foreign Reinsurance Branches
8	GCC	Gulf Cooperation Council
9	GIC	Global In-house Centers
10	GIC Re	General Insurance Corporation of India
11	GIFT	Gujarat International Finance-Tech city
12	GST	Goods and Service Tax
13	IFSCI	International Financial Services Centre of India
14	IFSCA	International Financial Services Centres Authority
15	IIIO	IFSC Insurance Intermediary Office
16	IIO	IFSC Insurance Office
17	IoT	Internet of Things
18	IRDAI	Insurance Regulatory and Development Authority of India
19	LIC	Life Insurance Corporation of India
20	LICI	Life Insurance Corporation International
21	LRS	Liberalized Remittance Scheme
22	NRI	Non-Resident Indian
23	PFRDAI	Pension Fund Regulatory Development Authority of India
24	RBI	Reserve Bank of India
25	RPA	Robotic Process Automation
26	SEBI	Securities and Exchange Board of India
27	SEZ	Special Economic Zone

ANNEXURES

Annex 1: Statistical reference on Insurance Penetration in India and the humongous potential of the insurance sector to develop in India.

Following is the historical data in of India for the amount of premium generated in India, its growth rate, premium to GDP, premium per person and Global trends:

a. Life Insurance in India

Sr. No.	Year	Amount of Premium (INR in Crore)	% of Growth rate over previous year	% of Total Premium to GDP of India (Penetration %)	Premium Per Person (USD)	Amount of Premium paid for Reinsurance INR in Crore	% of reinsurance premium
1	2000-01	34898.47		1.65	7.40	2438.46	6.99
2	2001-02	50094.46	43.54	2.15	9.10	2199.63	4.39
3	2002-03	55747.55	11.28	2.59	11.70	3186.33	5.72
4	2003-04	66653.75	19.56	2.26	12.90	3991.79	5.99
5	2004-05	82854.80	24.31	2.53	15.70	4373.68	5.28
6	2005-06	105875.76	27.78	2.53	18.30	4880.77	4.61
7	2006-07	156075.84	47.41	4.10	33.20	7404.17	4.74
8	2007-08	201351.41	29.01	4.00	40.40	8311.14	4.13
9	2008-09	221785.47	10.15	4.00	41.20	7402.33	3.34
10	2009-10	265447.25	19.69	4.60	47.70	8777.00	3.31
11	2010-11	291638.64	9.87	4.40	55.70	10513.00	3.60
12	2011-12	287072.11	-1.57	3.40	49.00	12558.00	4.37
13	2012-13	287202.49	0.05	3.17	42.70	13771.00	4.79
14	2013-14	314301.66	9.44	3.10	41.00	13213.00	4.20
15	2014-15	328102.01	4.39	2.60	44.00	13857.00	4.22
16	2015-16	366943.23	11.84	2.72	43.20	16375.00	4.46
17	2016-17	418476.61	14.04	2.72	46.50	30175.00	7.21
18	2017-18	458809.44	9.64	2.76	55.00	43850.00	9.56
19	2018-19	508132.03	10.75	2.74	55.00	54055.43	10.64

b. Non-Life Insurance in India: Data for General, Health and Special Insurers transacting Direct Insurance Business

Sr. No	Year	Gross Written Premium (GWP) INR in Crore	% of Growth rate over previous year	% of Total Premium to GDP of India (Penetration %)	Premium Per Person (USD)
1	2000-01	10087.03		0.54	2.40
2	2001-02	12694.92	25.85	0.56	2.40
3	2002-03	14337.59	12.94	0.67	3.00
4	2003-04	15595.00	11.16	0.62	3.50
5	2004-05	17481.00	12.09	0.64	4.00
6	2005-06	20359.72	16.46	0.61	4.40
7	2006-07	24905.47	22.33	0.60	5.20
8	2007-08	27823.74	11.72	0.60	6.20
9	2008-09	30351.84	9.09	0.60	6.20
10	2009-10	34620.45	14.06	0.60	6.70
11	2010-11	42576.45	22.98	0.71	8.70
12	2011-12	52875.77	24.19	0.70	10.00
13	2012-13	62972.81	19.10	0.78	10.50
14	2013-14	77553.80	12.15	0.80	11.00
15	2014-15	84684.28	9.19	0.70	11.00
16	2015-16	96379.38	13.81	0.72	11.50
17	2016-17	128128.34	32.94	0.77	13.20
18	2017-18	150662.13	17.59	0.93	18.00
19	2018-19	169448.46	12.47	0.97	19.00

c. Global Scenario

(i) Life Insurance

Penetration in Life Insurance (%)						
Sr. No	Country	2014	2015	2016	2017	2018
1	Japan	6.844	6.812	6.028	5.797	6.056
2	Korea	7.075	7.069	6.883	6.209	5.854
3	United Kingdom	7.971	7.583	6.112	9.045	9.572
4	United States	4.499	4.536	4.468	4.401	4.42
5	Malaysia	3.09	3.093	3.094	3.004	2.972
6	Hong Kong, China	12.646	13.335	16.187	16.582	16.806
7	Brazil	1.712	1.932	2.169	2.151	1.983

(ii) Non- Life Insurance

Penetration in Non-Life Insurance (%)						
Sr. No	Country	2014	2015	2016	2017	2018
1	Japan	..	..	1.703	1.651	1.708
2	Korea	4.899	4.824	4.854	4.812	4.659
3	United Kingdom	2.778	2.64	3.511	3.62	3.562
4	United States	6.353	6.567	6.758	6.794	6.845
5	Malaysia	1.723	1.685	1.602	1.467	1.428
6	Hong Kong, China	1.435	1.453	1.405	1.354	1.35
7	Brazil	1.132	1.148	1.113	1.084	1.1

Annexure 2: Regulatory overview of Captives:

The global environment including in insurance sector is undergoing unremitting transformation. The rapidity and profundity of changes confound even the most agile. Dynamism in building and maintaining an updated and modern market environment will be an essential requirement for the success of the insurance hub. Hence, the regulatory authority will have to be pro-active and co-active rather than merely reactive in building, maintaining and regulating the rhythm of the hub. The concept of captives is well established in various jurisdictions such as Bermuda, Cayman Islands, Luxembourg etc. The regulatory framework of Bermuda and Puerto Rico is presented hereunder:

A. Bermuda

i) Fred Reiss, who was a property-protection engineer in Youngstown, Ohio and founded Steel Insurance Company of America for Youngstown Sheet & Tube Company in Ohio established the first captive insurance company in Bermuda in 1962.

ii) Bermuda's progressive regulatory system is risk-based with a supervisory process that involves a high degree of cooperation between insurance companies and the regulator. Regulation is conducted under a multi-license system, whereby every insurer must obtain a certain class of license depends on its size and the lines of business it will write.

iii) Bermuda Monetary Authority[1]

a) The Bermuda Monetary Authority (BMA) acts as a gatekeeper to Bermuda's insurance and reinsurance markets.[2] Every application to incorporate and license a captive insurance company undergoes a thorough review. This risk-based regulatory approach recognises, among other things, the more limited risks that captive insurers pose. The supervisory regime for captives is less onerous than that applicable to commercial insurers.[3]

b) The BMA operates on a three-tiered captive insurance classification system:[4]

Class 1: captives of single-parent companies writing only the exposures of their parents or affiliates.

[1] https://www.mondaq.com/reinsurance/821292/the-bermuda-captive-insurance-market
[2] https://www.captiveinternational.com/contributed-article/bermuda-s-captive-insurance-industry-a-vote-of-confidence-from-the-top
[3] https://home.kpmg/bm/en/home/insights/2019/06/captive-guide.html
[4] https://kennedyslaw.com/media/4270/kennedys_bermudacaptiveinsurers_longversion.pdf

Class 2: captives of single-parent or multi-owned/held companies that have the ability to write unrelated risk up to 20 percent of gross written premiums.

Class 3: captives are companies which can write over 20 percent, but less than 50 percent, of gross written premium in unrelated risk.

c) Having determined what license to seek, the proposed owners must apply to the BMA's Assessment and Licensing Committee (ALC) for preliminary approval[5] Based on compliance with solvency requirements, adequate knowledge and expertise, appropriate corporate governance policies and processes are established given the nature, size, complexity and risk profile of the insurer etc., the applications are reviewed

d) Bermuda has robust laws to combat risks of money -laundering and terrorist financing. Accordingly, BMA conducts due diligence on the proposed ultimate beneficial owners of Bermuda captive insurers. Strict rules apply in relation to persons connected with countries designated as high-risk or as having inadequate systems and controls to combat money laundering and terrorist financing.

e) Bermuda also has a discrete licensing system for captive insurers who wish to experiment in new technologies and/or provide innovative products, services and delivery mechanisms to a limited number of policyholders.[6]

iv) The Segregated Accounts Companies Act 2000, establishes a registration regime whereby a Bermuda company may register as a segregated accounts company. Segregated account structures are often used in "*rental captive*" structures.[7] The use of a segregated account can be substantially less expensive as it avoids the attendant administrative and capital costs associated with a pure captive. This structure is attractive to smaller corporations which might otherwise find establishing their own captive too expensive.[8]

v) The Insurance Act, 1978 provides the authority under it with substantive licensing, supervision and intervention powers. Bermuda captive insurers are registered under the Insurance Act 1978. The Insurance Act prohibits persons from carrying on insurance business in or from within Bermuda without being registered under the Insurance Act or unless they benefit from a statutory exemption. The supervision and inspection of entities registered under the Insurance Act is the responsibility of the BMA. [9]

vi) Bermuda's Economic Substance (ES) legislation took effect from July 1, 2019. ES legislation was enacted in Bermuda and other offshore captive domiciles to address EU concerns that offshore structures were generating profits disproportionate to the real economic activity taking place within the

[5] https://kennedyslaw.com/media/4270/kennedys_bermudacaptiveinsurers_longversion.pdf
[6] https://kennedyslaw.com/media/6528/kennedys_bermudacaptiveinsurers_shortversion_feb2021.pdf
[7] https://www.captiveinternational.com/contributed-article/regulations-steering-bermuda-captives-ahead-of-the-competition
[8] https://www.mondaq.com/reinsurance/821292/the-bermuda-captive-insurance-market
[9] https://www.bma.bm/insurance-supervision-regulation

jurisdiction.[10] The ES legislation applies to all captives that are carrying on a core income generating activity (CIGA) with respect to a relevant activity, such as insurance, and are deemed to be “tax resident” in Bermuda.

B. Puerto Rico

(a) Puerto Rico is already a well-established domicile and is also the third-largest insurance domicile in all Latin America. Industry sectors best represented in the domicile are Professional Services, Technology, Healthcare, Construction, Farm.

(b) On 9 July 2004, the Puerto Rico Legislature unanimously passed the Puerto Rico Insurance Code that established a comprehensive tax and insurance regulatory structure to encourage and regulate the formation of Puerto Rico International Insurers to write insurance on foreign risks. To attract participants, the Act granted broad exemptions and established a regime of flexible, yet prudent, insurance regulation within the Commonwealth.

[10] https://www.mondaq.com/reinsurance/821292/the-bermuda-captive-insurance-market

Annexure – 3: Comparison with other IFSC Centres:

MARKET/ JURISDICTION	NAME OF REGULATOR	NATURE OF ENTITIES	MINIMUM CAPITALISATION	SOLVENCY	REMARKS	COMPARISON WITH GIFT/IFSC
London (UK)	Financial Conduct Authority/Prudential Regulation Authority Lloyd's of London HM Treasury and the English and Scottish Law Commissions also have roles in developing policy that influences the insurance and reinsurance sector.	Insurers and Re-insurers.	Minimum Capital Requirement is set at a lower threshold — at a confidence level of 85%. The MCR has an absolute floor that depends on the type of insurance sold (life/general/insurers/reinsurers/ captives)	Solvency Capital Requirement to be retained at a confidence level of 99.5%. to be calculated as per the formula laid out.	• London/UK is one of the oldest and most developed/evolved insurance regimes in the world supported with a dependable legal system. • The political and commercial/ business uncertainty following the EU referendum (Brexit) has meant that new market entrants do	GIFT IFSC is new and untested. Cost of compliance will be significantly lower than London/UK FCA/PRU is seen as responsive, dynamic and adapt to business requirements, despite the costs and no 'light touch regulation' Significant scope of innovation Currently, challenges faced by direct insurers and reinsurers in the UK market are:

MARKET/ JURISDICTION	NAME OF REGULATOR	NATURE OF ENTITIES	MINIMUM CAPITALISATION	SOLVENCY	REMARKS	COMPARISON WITH GIFT/IFSC
					not have the same degree of certainty in relation to the breadth/reach of the market. • The UK is a highly regulated market. The cost of compliance can pose a significant challenge to new entrants, however, the proportionality of applicability of regulations allows smaller firms	• Low-interest rates and investment returns remaining low. • Political events such as Brexit causing uncertainties and a need to consider relocations, and often portfolio transfers, out of the UK to the EU for ongoing EU business presently written in the UK. • Currency movements (especially GBP/USD) have been significant and impacted earnings.

MARKET/ JURISDICTION	NAME OF REGULATOR	NATURE OF ENTITIES	MINIMUM CAPITALISATION	SOLVENCY	REMARKS	COMPARISON WITH GIFT/IFSC
					to thrive along with big firms. • The highly regulated market ensures consumer protection that in turn helps in the orderly growth of the market. • Includes market for Alternative Capital (such as Insurance Linked Securities)	• 2019 and 2020 (so far) have seen some hardening of rates in selected lines.
Singapore	Monetary Authority of Singapore	Insurers 113 - Insurers and Reinsurers	Capital adequacy requirement of a licensed insurer must not at any time be less than the amount of the total	Companies representin g entities writing property/ca tastrophe or	Singapore shares the same Top 3 risks as Global and Asia-Pacific: Cyber	Not enough clarity on GIFT IFSC's ability to house captives or other such specialty insurers.

MARKET/ JURISDICTION	NAME OF REGULATOR	NATURE OF ENTITIES	MINIMUM CAPITALISATION	SOLVENCY	REMARKS	COMPARISON WITH GIFT/IFSC
		85 - Brokers	risk requirement of the licensed insurer at the higher/lower solvency intervention level; $5 million; and	excess liability coverage, have a minimum solvency margin of the greater of $100 million, 15% of net loss reserves and 50% of net premiums written	risk, Technology and Change management. Singapore currently has 76 captive insurers active in the state. It recently extended the Insurance Business Development Scheme for Captive Insurance (IBD-CI) to 31 December 2025, which it said supported the state's value proposition as a full-service	Strong local/regional market/industry to consume insurance services from Singapore. Singapore has established GAIP (Global – Asia Insurance Partnership) for insurers and academia to work with public policy makers to create innovative insurance solutions to address systemic structural protection gaps as well as new and emerging risks. Singapore market has a strong focus on modern and digital marketplace and future ready

MARKET/ JURISDICTION	NAME OF REGULATOR	NATURE OF ENTITIES	MINIMUM CAPITALISATION	SOLVENCY	REMARKS	COMPARISON WITH GIFT/IFSC
					risk financing hub. Singapore aims to be a global capital for Asian risk transfer, offering a wide spectrum of risk financing solutions including: 1. retention using captives; 2. risk transfer to reinsurance and insurance markets; 3. risk pooling using commercial and sovereign risk pools; 4. risk transfer to capital markets using	workforce, working in collaboration with insurtech start-ups, academia and international organizations to transform the way risks and capital are connected.

MARKET/ JURISDICTION	NAME OF REGULATOR	NATURE OF ENTITIES	MINIMUM CAPITALISATION	SOLVENCY	REMARKS	COMPARISON WITH GIFT/IFSC
					alternative risk capital mechanisms, such as insurance linked securitization.	
Bermuda	Bermuda Monetary Authority	• Class 1 insurers [11] and • Class 2 insurers [12]	$120,000.	The Minimum Margin of Solvency (MSM) is the higher of (i) $100 M USD; (ii) 50% of net premiums were written (with 25% maximum credit for reinsurance) and (iii)	Bermuda is a global business hub and is the second largest (re) insurance market after London, comprising numerous insurance and reinsurance companies, captive insurance, life and annuity insurance and insurance-	Not enough clarity on GIFT IFSC's ability to house captives or other such specialty insurers. Bermuda has a proven record for compliance and transparency and has more than 100 treaty partnerships with nations across the world.

[11]Single-parent captives or pure captives writing risks of the parent and its affiliates only.
[12]Insurers, multi-owner captives and captives writing up to 20% unrelated business.

MARKET/ JURISDICTION	NAME OF REGULATOR	NATURE OF ENTITIES	MINIMUM CAPITALISATION	SOLVENCY	REMARKS	COMPARISON WITH GIFT/IFSC
				15% of the loss Reserves.	linked securities.	
		Class 3	$1 million including at least $120,000 of paid-up share capital.		As per a 2019 report, more than 20 percent of the world's top 50 largest reinsurers are based in Bermuda or have a significant presence here.	
		Commercial insurers falling into Class 3A or 3B.	$1 million; or 20% of the first $6 million of net premiums written; if in excess of $6 million, the figure is $1.2 million plus 15% of net premiums written in excess of $6 million			
		Class 4 [13]	$100 million; or 50% of net premiums written (with credit for reinsurance ceded not exceeding 25% of gross premiums); or 25% of its enhanced capital requirement		The enhanced capital requirements that apply to commercial insurers require complex actuarial	

[13]Insurers a special category of excess liability or property catastrophe (re)insurers with minimum statutory capital and surplus of $100 million.

MARKET/ JURISDICTION	NAME OF REGULATOR	NATURE OF ENTITIES	MINIMUM CAPITALISATION	SOLVENCY	REMARKS	COMPARISON WITH GIFT/IFSC
			(see below) as reported at the end of the relevant year.		analysis and close co-operation with the BMA.	
Dubai International Financial Centre	DFSA More than 100 registered insurers, reinsurers and captives	Insurers	100 million Dirhams for insurers.	An insurer's Solvency Capital Requirement must take into account underwriting risk, market and liquidity (investment) risk, credit risk and operational risk;	DIFC will benefit from the slew of economic reforms being launched by UAE recently. The market suffers from the cyclical nature of the insurance market; for example, softening of rates caused by competition, liquidity flows	Not enough clarity on GIFT IFSC's ability to house captives or other such specialty insurers. Small companies that don't have sufficient size to justify captive, can implement DIFC's Protective Cell companies' structure, which offers low formation cost and capital Strong focus on insuretech in DIFC. The framework adopted is the common law framework and hub-
		Re-insurers The licensing	250 million Dirhams for reinsurers	An insurer's Solvency Capital Requirement must take into account		

MARKET/ JURISDICTION	NAME OF REGULATOR	NATURE OF ENTITIES	MINIMUM CAPITALISATION	SOLVENCY	REMARKS	COMPARISON WITH GIFT/IFSC
		options available are 1. Fully incorporated company, 2. Branch of a foreign (Re) Insurance company, 3. Insurance Management (MGA / Cover Holder) and 4. Rep Office.		underwriting risk, market and liquidity (investment) risk, credit risk and operational risk;	in terms of remittance of insurance premiums. In addition, whilst new products are being developed in connection with "electronic/connectivity" risks globally, the penetration in the UAE market is less marked, despite there being significant and quantifiable losses.	spoke model by providing businesses to centralize the regional and global management of operations and their rollout to branches around the world. Provides a 40-year guarantee of zero taxes on corporate income and profits.

MARKET/ JURISDICTION	NAME OF REGULATOR	NATURE OF ENTITIES	MINIMUM CAPITALISATION	SOLVENCY	REMARKS	COMPARISON WITH GIFT/IFSC
					DIFC has also seen the exit of insurance players in 2019. No restriction on capital repatriation - DIFC-based companies face no restrictions or constraints on capital or profit flows, and benefit from no currency exchange controls in the US-dollar denominated jurisdiction.	

MARKET/ JURISDICTION	NAME OF REGULATOR	NATURE OF ENTITIES	MINIMUM CAPITALISATION	SOLVENCY	REMARKS	COMPARISON WITH GIFT/IFSC
Hong Kong	HongKong Monetary Authority	General Insurers	HK $10 million	• The greatest of: Generally 20% of the relevant premium income; or • Generally 20% of the relevant claims are outstanding; or • HK $10 million •	Unrest in mainland China/Hong Kong and the emerging global economic order has dented the confidence of global players in Hong Kong. No person is permitted to carry on insurance business in or from Hong Kong other than a company authorized by the IA (an authorized insurer),	Not enough clarity on GIFT IFSC's ability to house captives or other such specialty insurers. Focus on the promotion of InsurTech in Hong Kong. In order to attract a critical mass of market participants and remain competitive among our archrivals, the IA is pushing ahead with the early introduction of profits tax concession for insurers and broker companies to promote the development of marine and specialty risks insurance in
		Captive Insurers	HK $2 million	The greatest of: • 5% of the net premium income; or • 5% of the net claims outstandin		

MARKET/ JURISDICTION	NAME OF REGULATOR	NATURE OF ENTITIES	MINIMUM CAPITALISATION	SOLVENCY	REMARKS	COMPARISON WITH GIFT/IFSC
				g; or HK $2 million	Lloyd's or an association of underwriters approved by the IA	Hong Kong and for insurance brokers.

Annexure 4: Report of the sub-committee of experts of insurance

1. Investment opportunities for insurers:

   (A) At present insurers in IFSC-SEZ are investing in Banking Units (BU's) of IFSC-SEZ and returns on investment are very low say close to two (2%) percent. Thus, insurers are requesting to allow them to invest in DTA i.e. mainland India;

   (B) Long term insurance cum savings products are possible only when the insurer is able to earn higher returns such as that is available in mainland India;

   (C) As per Sec 8 of IRDAI (Investment) regulations 2016 for life insurers applicable for insurers in IFSC, mandatory investments are required in Central government and state government securities and for insurers to be compliant they must be allowed to invest in mainland India;

   (D) Investments outside SEZ may be required as a part of risk management practice as this improves diversification.

   (E) The following are extant regulatory provisions on the matter:
      a. Guideline No. 22 of SEBI (IFSC) Guidelines, 2015 provides for conditions on investments in IFSC;
      b. As per the IFSCA, Act, 2019, certain provisions of the Insurance Act, 1938 are applicable to the insurers functioning from IFSC-SEZ;
      c. Thus, provisions of the IRDAI (Investment) Regulations, 2016 read with Master Circular on Investments dated 24-Aug-2016 are equally applicable to the insurers in IFSC-SEZ;

   (F) In view of the above, the Authority may consider the following:
      a. Allowing IFSC Insurance Units (IIUs) to invest in DTA i.e. mainland India;
      b. Investment income generated at DTA may be considered for exemption in taxes, as applicable for IIUs;
      c. Issue clarification on the matter.

2. Ease of Doing Business, Single Window Clearance and Compliances:

   (A) At present for getting registration in IFSC, the applicant Insurance Unit (IU) has to apply with the following authorities:
      a. SEZ Development Commissioner;

b. IFSC Authority for getting registration to transact insurance business from IFSC-SEZ;
c. IRDAI for getting NoC to establish a branch office in IFSC-SEZ in terms of Sec. 64VCof the Insurance Act, 1938 read with provisions of the IRDAI (Places of Business) Regulations, 2015.

(B) The following is suggested on the matter:
a. IFSCA may consider becoming a single point of contact for the entire registration process.
b. IFSCA may have MoU with other authorities on the matter and may develop a procedure to accept a single application which may include information / documents required and on behalf of the applicant it may coordinate with other authorities for compliances.

3. Transacting of business with Nepal, Bhutan, Sri Lanka from IFSC:

(A) Clarity on transacting business in INR with these countries: Bilateral trade with Nepal takes place generally in Indian rupees (Source: website of Embassy of Nepal, New Delhi). In view of the same insurers are requesting permission to transact insurance business in INR, with these countries;

(B) The following are extant regulatory provisions on the matter:
a. The provisions of Reg. 4 of Foreign Exchange Management (IFSC) Regulations, 2015 are reproduced: *"A financial institution or a branch of a financial institution shall conduct such business in such foreign currency and with such person, whether resident or otherwise, as the concerned Regulatory Authority may determine."*
b. Rule 53 (A) of SEZ, Rules, 2006: "*is Free on Board value of exports, including exports to Nepal and Bhutan against the freely convertible currency, by the Unit and the value of following supplies of their products ....."*

(C) On this matter it was informed that Nepal and Bhutan Governments has a trade treaty with India as per which transactions can be made in INR;

(D) In view of the above, and in consideration of treaty(ies) entered into between the Governments, the Authority may consider allowing to transact business with these countries in INR from IFSC.

4. Rationalizing the Tax Structure:

As per records, there is a tax holiday in IFSC for ten (10) years. However, at present IFSC Insurance Unit has to file the following tax returns namely Form 15A, 15B and GST etc. In view of the tax structures adopted at IFSC, the Authority may consider issuing clarification on the matter;

5. Suggestions on Business Opportunities at IFSC:

(A) Avenues for IFSCA to be evaluated Considering BREXIT:

a. The United Kingdom formally exited the single market and customs union of the European Union on 1 January 2021;
b. Now EU will not have unrestricted freedom to live, study, work or start a business in UK and vice versa;
c. The clarity on trade deals will be available in ensuing days and respective regulations across various sectors in UK and EU;
d. However, a (Re) Insurer which has a setup or planning a setup in UK / EU can opt for the option of IFSC as a global financial centre as it may bring some tariff and operational complexities to operate in EU from UK and vice versa.
e. India has hinted to resume talks of a free trade agreement with EU and US (source: https://www.business-standard.com/article/economy-policy/india-set-to-resume-talks-on-free-trade-agreements-with-eu-us-120112100594_1.html).

(B) Development of Protection & Indemnity Club (P&I Club) Insurance Business in IFSC:

The P&I Clubs cover a wide range of liabilities, including loss of life and personal injury to crew, passengers and others on board, cargo loss and damage, pollution by oil and other hazardous substances, wreck removal, collision and damage to property, Hull & Machinery Cover.

The Clubs also provide a wide range of services to their members including claims handling, advice on legal issues and loss prevention, and they regularly play a leading role in coordinating the response to, and management of, maritime casualties.

a. At present under provisions of Sec. 2CB of the Insurance Act, 1938, the majority of the insurance business of P&I Club has been placed with foreign insurers;
b. The IRDAI has requested Indian National Ship-owners Association (INSA), to explore the possibility of having a P&I club branch in GIFT City;

c. It is suggested that the IFSC development wing may pursue the matter with:

i) INSA and P&I Clubs to explain the advantages of setting up operations in IFSC;

ii) Insurers / Insurance Brokers who are well versed in the subject to establish contact with P&I Clubs;

iii) Directorate General of Shipping, Nautical Wing, Insurance Branch, Ministry of Ports, Shipping and Waterways, GoI.

(C) Re-insurance Business placed out-side India:

i) The details Re-insurance business placed out site India are as under:

Re-insurance business Placed outside India					
Sr. No.	(Re)Insurer	2018-19		2019-20 (Provisional)	
		INR Crore	USD (Mln)	INR Crore	USD (Mln)
1	Indian Non-Life and Health Insurers	12,821.56	1709.54	13,959.77	1,861.30
2	GIC Re and FRBs	8,442.07	1125.61	9,456.10	1,260.81
	TOTAL	21,263.63	2835.15	23,415.87	3,122.12
(Conversion rate USD 1 = INR 75)					

ii) The Authority by coordinating with Indian (Re)Insurers / FRBs and Insurance Brokers on the matter may endeavor to book this business in and / or through IFSC-SEZ.

6. Other Suggestions on operations in IFSC:

(A) In the initial stages, the Authority may consider reduction / exemptions in application fees to be charged for applicant insurance units. As per records such reduction / exemptions are extended by Dubai International Finance Centres;

(B) The Authority may consider issuing clarification / guidelines on repatriation of surplus generated or excess assigned capital maintained by insurance units in IFSC-SEZ;

(C) Development of Corporate Governance structure: In IFSC, to promote corporate sector reform, market development, good and transparent governance, increased investment, promote institution building and growth. It will be beneficial in assisting the private and government players in achieving sustainable growth and developing corporate governance strategies which are in tune with local, national, and international practices and norms;

(D) Technology initiatives can be introduced to (Re) Insurers, for example, in a way by offering Automated Payment systems and other supporting transactions in coordination with banks.

(E) Workforce development – The Authority may partner with top ranking business schools, corporate universities, professional development providers as well as accreditation, certification, and rating organizations to provide training and education opportunities to create a highly skilled workforce. It is observed from the top financial centres of the world that, investment in developing skilled workforce lies at the core of such financial service centres. The Authority may emerge as the leading hub for globally ranked executive education and training.

On this matter inputs from other financial centres are at the following URLs:

DIFC - https://www.arabianbusiness.com/industries/banking-finance/378408-dubais-difc-launches-the-academy-centre-of-excellence

Singapore - https://www.mas.gov.sg/development/why-singapore

Hong Kong - https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/hong-kong-as-an-international-financial-centre/competitive-international-financial-platform/

(F) Developing a world-class infrastructure in terms of a "Global Ecosystem" for various entities to coexist in a conducive environment which shall be equipped with a range of business and lifestyle facilities, to attract foreign players.

(G) In the case of commercial or civil matters, there can be a court in IFSC based on the common law system. A separate court / centre could be set up for Arbitration matters for dispute resolutions. The court proceedings could prevail in English.

(H) At a later stage, opportunities can be explored to partner with certain established and emerging financial centres across the world.

7. Maintenance of Solvency Margin by Insurance Units in IFSC:

(A) On the captioned matter, the extant provision of Clause 21 (f) of IRDAI (IFSC Insurance Office) Guidelines, 2017 stipulates that, "The IIO shall prepare and submit a separate statement of assets, liabilities and solvency margin requirements in the matter as may be specified in the IRDAI Assets, Liabilities and Solvency Margin Regulations, 2016 applicable for General and Life insurers respectively.

(B) Insurance Units in IFSC has requested the Authority that, they will maintain stipulated solvency margin at their parent company level;

(C) For the purpose of Ease of Doing Business, the Authority may consider the following:

a. May give a road map on the matter to Insurance Units in IFSC, say for an initial period of three years Insurance Units may be permitted to maintain stipulated solvency margin at their parent Company;
b. The assets backing such solvency margin should be invested in government bonds.
c. The Insurance Unit for every quarter or half-year shall furnish a certificate to the Authority with details of assets, liabilities and solvency margin maintained at parent company on behalf of Insurance Unit in IFSC. The certificate should mention that the assets backing the solvency margin are unencumbered. Such certificate shall necessarily be signed by an Appointed Actuary of the parent company.

Annexure 5: Amendments to the Insurance Act 1938 for establishing Captives

The committee has noted that the concept of captives is not explicitly prohibited by the Insurance Act, 1938 in India. However, the same has not been enabled by the IRDAI yet. To introduce the concept of captives in IFSCI, the committee recommends enabling the required framework by incorporating the following modifications in the Insurance Act, 1938:

i) The following definition of *"Captive"* under Section 2 of the Act may be introduced. This may bring more clarity on what all activities may be permitted in the ambit of captive:

"Captive insurance entity" means an insurer a) registered as a trust under the Indian Trusts Act 1882 or under any other law for the time being in force in any State relating to trusts, or (b) which is registered as a Special Purpose Vehicle formed in India by any person including Government or (c) a public company.

The sole purpose of which is to carry on Life Insurance Business or General Insurance Business or Re-Insurance Business or Health Insurance Business or on a standalone basis undertake insurance business as defined under sub-section 6A, 11, 13A and 13B of Section 2 of the Act."

ii) The definition of Insurer under Section 2(9) may be modified in the following manner to include the captive as a category of insurer:

Section 2(9): Definition of "insurer" means: "(a) an Indian Insurance Company, or (b) a statutory body established by an Act of Parliament to carry on insurance business, or (c) an insurance co-operative society, or (d) a foreign company engaged in re-insurance business through a branch established in India or ***(e) a captive insurance entity"***

iii) The committee also recommends the form in which Captives may be allowed in IFSC by making necessary changes in Section 2C of the Act. the proposed wordings for the same are as under:

Section 2(C): Prohibition of transaction of insurance business by certain persons

"(1) Save as hereinafter provided, no person shall, after the commencement of the Insurance (Amendment) Act, 1950, begin to carry on any class of insurance business in India and no insurer carrying on any class of insurance business in India shall after the expiry of one year from such commencement, continue to carry on any such business unless he is--

(a) a public company, or

(b) (b) a society registered under the Co-operative Societies Act, 1912 (2 of 1912), or under any other law for the time being in force in any State relating to co-operative societies, or

(c) a body corporate incorporated under the law of any country outside India not being of the nature of a private company: or

(d) a trust registered under the Indian Trusts Act 1882 or under any other law for the time being in force in any State relating to private or public trusts, or

(e) a special purpose vehicle formed in India by any person including Government." .....

...Provided

.... Provided further....

Provided also that, no insurer other than an insurer under section 2 (9) of the Act shall begin to carry on any class of insurance business in India under this Act on or after the commencement of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).

iv) The Committee also recommends changes in the following Section for the purpose of consistency:

a) Section 114A – Regulation by IFSCA on the registration and operations of Captive Insurance Entities