INSURANCE REGULATORY COMMISSION OF SRI LANKA

Revised Solvency Margin (Risk Based Capital) Rules

Responses to comments received on Public Consultation

16 September 2025

Introduction
1. The Commission invited responses, via public consultation, from interested parties to provide their views and comments on the proposed RBC consultation including
2. The following document provides resolution to comments received from insurers that provided valuable input for further improvements and revisions

Question reference in consultation document	Reference to current RBC rule	Consultation question	Proposal / Feedback - Ceylinco	Proposal / Feedback - Union Assurance	IRCSL Comments
General questions					
Question 1	Part II – Required Financial Resources	Please provide with rationale, if there are additional considerations with respect to Part II -Required Financial Resources of the current Rules, which are required to be considered as part of the revision to the Rules.	The minimum CAR required is 120%. However, as we understand there is a level of CAR where the IRCSL can intervene which is set at 160%. It is better to mention this in the revised Rules for clarity.	N/A	**Ceylinco:** Noted. This has been included as part of the Exposure Draft on the Revised Solvency Margin (Risk Based Capital) Rules
Question 5	Part III – Determination of TAC and CAR #10 and 11	Please indicate whether your company is considering the issuance of any new capital instruments that are not listed under paragraphs 10 and 11. If yes, please provide details of the instruments, the rationale for their issuance and the proposed classification of these instruments under the RBC framework	Insurance companies can have other revenue reserves in addition to the retained earnings. For example, when the retained earnings of the composite insurer was transferred to individual companies, they carried them as a "special reserve". Tier I Capital should accommodate such other revenue reserves as well. Insurance companies also have "restricted regulatory reserves", for example the one-off surplus reserve transferred to shareholders. This can be included in the list of reserves under Tier II Capital.	N/A	**Ceylinco:** a. The recognition of any reserve as Tier I Capital requires a clear understanding of its nature, purpose, and availability. Tier I Capital is intended to represent the highest quality capital, which is fully available to absorb losses on a going-concern basis. While retained earnings and certain freely available revenue reserves qualify for inclusion, this determination can only be made if the reserve is unrestricted and does not carry conditions that limit its use. Accordingly, without sufficient information regarding the nature of the special reserve referred by the company, it is not possible to categorize same as Tier I Capital at this stage. b. Based on the input received from the Company, this has been included in the Rules under Tier II capital. Insurers are encouraged to setup required board approved policies and meet the requirements outlined as part of Direction 16 (Identification and Treatment of One-off Surplus) for IRCSL to allow the release of Restricted Regulatory Reserve. Hence, it is currently proposed to not change it to Tier I capital. Further, it was assessed that such change would not result in any impact on the TAC calculations.
Question 6	Part III – Determination of TAC and CAR	Please share your comments on the items that are affected by the difference in valuation basis between SLFRS 17 and the current RBC Rules. Please provide details of the affected items and suggestions on how these items could be adjusted under revised RBC Rules.	- Risk adjustment will be based on each company's risk profile. Therefore the liability CFs under RBC will differ from the Fulfilment CFs under I17. - Discount rates may differ from the RFR depending on the underlying assets of each company - Reporting cohorts will differ from the Fund segregation used for RBC - Expenses used for RBC liability cashflows will differ from the expenses used for SLFRS17 Fulfilment cashflows	In situations where market prices for debentures are not readily available, we propose using alternative valuation approaches to derive their fair value. The mark-to-model framework, recognized within SLFRS 9, provides a robust and appropriate methodology for this purpose Rationale: The debenture market in Sri Lanka lacks sufficient depth and liquidity. Consequently, quoted market prices are often outdated and may not be a reliable indicator of current fair value.	**Ceylinco:** A walk has been setup as part of the QIS template between the SLFRS 17 liabilities and RBC liabilities. **Union Assurance:** **<u>Quoted Debentures</u>** It would not be reliable to use a separate valuation methodology to determine their price since the price of quoted debentures should be determined by the market based on their demand and supply. Therefore, it is prudent to continue with the current methodology specified in the rule **<u>Unquoted Debenture</u>** We agree with applying the valuation methodology in accordance with SLFRS 9 and SLFRS 13 for debentures where market prices are not readily available. However, it is essential that the external auditor should confirms the appropriateness of the valuation methodology used to value such debentures

Question 12	Part IV – Admissible assets, asset limits, and asset valuation #Table 2	Are there any other comments regarding Part IV –Admissible assets, asset limits and asset valuation, that the Commission shall consider in the development of revised Rules? If “yes”, please explain with sufficient details and rationale.	We believe that the use of Last Traded Price for RBC valuation of certain assets (equity, corporate debt and related party investments) has certain limitations and therefore we propose to use the Closing Price. In valuation for ordinary shares and corporate debt, prudent valuation method would be to use the “Closing Price (CP)”, rather than the “Last Traded Price (LTP)”. This ensures that securities are not inflated or deflated due to arbitrary trades, which might include – inter alia - price manipulation. Given that not all securities carry the same level of liquidity, free float and volumes (turn over) valuing a security holding based on the price of the last single trade may not be reflective of the actual market price throughout that given day, or time period.	Receivables arising from equity sales on a licensed stock exchange carry minimal counterparty risk due to guaranteed settlement. Therefore, such balances outstanding at month-end should be recognized as admissible assets, irrespective of their classification under 'Other Receivables' Rationale: Currently, proceeds from equity sales are deemed inadmissible if they are outstanding at period-end and classified under 'Other Receivables'. This treatment overlooks the asset's fundamental credit quality. As these receivables arise from transactions on recognized exchanges with guaranteed settlement dates, they possess a high degree of certainty and minimal counterparty risk. We therefore recommend they be explicitly included as admissible assets.	**Ceylinco:** We are agree to change the valuation method to average closing price. **Union Assurance:** With Central Counterparty (CCP) framework becoming effective from 28 July 2025, we agree with the proposal to include the receivables from equity sales for not greater than 2 days as admissible assets. The treatment of receivables for a period greater than 2 days remains unchanged and such amount shall be considered inadmissible
Question 15	Part V - Valuation of liabilities #24	In your opinion, are there any other cash flows that you believe should be considered for inclusion or exclusion when calculating policy liabilities?	Cashflows relating to policy loans should be included.	N/A	**Ceylinco:** Currently policy loans are shown as admissible assets. Cashflows if required could be included as part of the liability cashflows. However, if policy loan cashflows are included with liability cashflows, then no asset shall be considered
Introduction of mass lapse risk charge and eliminate SVCC					
Question 63	Part VII – Determination of Risk Capital Required (RCR) #59	a.Please share your comments on the proposed approach for inclusion of mass lapse risk capital in the lapse module. b.Please comment on the proposed approach of considering mass lapse stress as additive stress from Sri Lankan perspective including the quantum of the proposed stress. c.Please share your comments and rationale with alternative approach in case you disagree.	a. This is in line with the ICS and practices in the region. Whilst SVCC implicitly accounted for mass lapse risk by flooring RCR, this approach is more direct. It captures sudden lapses that may arise due to extreme circumstances. Therefore we are in agreement. The impact of the proposed stress will be noted during QIS testing - after which we can comment more on the suitability. b. Given the high lapse rates experienced in Sri Lanka we are in agreement. c. N/A	N/A	Noted
Question 67	Part VII – Determination of Risk Capital Required (RCR) #60	a.Please share your comments on removal of Surrender Value Capital Charge floor from the calculation of RCR. b.In your view, please share (with rationale) if current approach or proposed approach is more suitable from the Sri Lankan context.	a. Refer response to Q63 (a). b. Refer response to Q63 (a) and (b).	N/A	Noted
Zeroisation of negative long-term insurance liabilities					
Question 2	Part III – Determination of TAC and CAR #10 (g)	a.Please share your comments on the proposed approach of holding Reserve Floor Adjustment within mathematical reserves, equal to the amount of negative reserves, with allowance of taking 100% credit of such adjustment as part of the Total Available Capital. Please include any alternative approach with rationale. b.Please share your comments on level of granularity on which such Reserve Floor Adjustment should be determined with respect to negative mathematical reserves (policy level, product level, line of business level, company level, or any other granularity).	a. Given that we are removing the SVCC with the mass lapse risk charge being introduced, we are in agreement with this. b. The granularity should continue as the current RBC framework which is at Company level (split between Par and Non Par).	N/A	Noted
Question 28	Part V – Valuation of Liabilities #36	For the purpose of taking IRCSL approval on the amount of the dividend payable to shareholders, please share your comments with underlying rationale, on the proposed approach of re-calculating surplus underlying policyholder fund with zeroising the negative liabilities at adequate level of granularity as will be prescribed by IRCSL in a separate direction/clarification (such as product level or line of business level) – to restrict dividend distribution attributable from surplus arising from negative liabilities? Please include any alternative approach with rationale	- The distribution basis should be independent of the solvency basis. - The current dividends have been declared without the intervention of the regulator. We would need more information on the level of granularity IRCSL would enforce on surplus calculation for dividend distribution to comment further on this matter.		**Ceylinco:** The comment is well noted that this should be independent of solvency calculation and relates to the distribution basis. However, the granularity at which the negative policy liabilities will be zeroised will be assessed as part the QIS. Accordingly, a clarification or guideline shall be issued by the IRCSL.

Catastrophe risk capital charge (long term insurance)					
Question 35	Part VII – Determination of Risk Capital Required (RCR) #46 (1)	Please share your comments on treating catastrophe risk charge similar to other risk charges as market risk charge, operational risk charge etc. (vis-à-vis including within liability risk charge). Please include any alternative approach along with the rationale.	- We are in agreement of this treatment. This risk is faced and managed at an entity level and therefore should be allowed for in that manner.	N/A	Noted
Question 44	Part VII – Determination of Risk Capital Required (RCR) #new section to be added	Please share your comments on the proposed approach of inclusion of catastrophe risk in the RCR calculation for long term insurance business including the proposed quantum of the stress. Please share the alternative approach or stress quantum and rationale for the same.	- We are in agreement to include this to holistically account for all risks applicable to the insurance business written. This is also in line with the ICS principles. Due to the lack of data in Sri Lanka we agree to align with the prescribed ICS stress. However, we can comment further after QIS testing.	N/A	Noted
Question 45	Part VII – Determination of Risk Capital Required (RCR) #new section to be added	a.Please confirm if the hospitalisation benefit riders/ disability riders/ any base product offering hospitalization and disability benefits sold by your company are exposed to pandemic risks and cover a payment to the policyholder in case of a pandemic. b.Please provide the current exposure (SA or benefit offered) of your products which are covering pandemic risk (as at 31 March 2025) as proportion to the total exposure to health riders (irrespective of pandemic risk covered or not).	a. Our disability and CI riders are exposed to pandemic risk. B. SA of health riders Rs 17 Mn; SA on products/ riders covering pandemic risk: Rs 777 Mn. Ratio 4551%	N/A	Noted
Risk margin and liability risk charge calculation for long term insurance					
Question 31	Part VI – Determination of RM #44	Please share your comments on the proposed methodology for calculation of risk margin for long term insurance business. Please include any alternative approach along with the rationale.	- We are principally in agreement. However, if there is a lack of credible to data to derive own RMs, we can align with ICS margins. The impacts will need to be tested during QIS.	N/A	Noted
Question 33	Part VI – Determination of RM #44	Please share your comments on the choice of confidence interval for calculation of risk margin for long term/general insurance along with the rationale.	- This is in line with ICS and therefore we are in agreement, subject to QIS testing.	N/A	Noted
Question 60	Part VII – Determination of Risk Capital Required (RCR) #59	Please share your comments on the proposed approach of calculation of risk capital as the difference in net asset value wherein liabilities exclude risk margin. Please provide any other alternatives with rationale.	- This is in line with the ICS standards and since it is a capital adequacy test it is consistent if you want to see how much capital would erode if the liability assumptions vary.	N/A	Noted
Question 61	Part VII – Determination of Risk Capital Required (RCR) #59	Please share your comments on the proposed quantum of risk charge applicable on each stress. Please share any alternative risk charge factors along with underlying source and rationale.	- This is in line with ICS and therefore we are in agreement, subject to QIS testing.	N/A	Noted
Question 62	Part VII – Determination of Risk Capital Required (RCR) #59	Please share your comments on the level at which the onerous of lapse stresses shall be assessed including the choice of level and any alternative approach with necessary details and rationale.	- In agreement, as we need to consider both up and down stresses for lapse (varies with product and time in-force) and the mass lapse risk.	N/A	Noted
Question 64	Part VII – Determination of Risk Capital Required (RCR) #59	Please share your comments on the proposed approach of aggregating the risk capital using the correlation matrix instead of performing a combined stress as per the current Rules. Please include any alternative approach with adequate details, specifications and rationale.	- This is in line with ICS, and since we are adopting certain aspects of ICS it is good to ensure we adopt the whole methodology (concerning risk charge calculation) to avoid overstating or understating the capital.	N/A	Noted
Question 65	Part VII – Determination of Risk Capital Required (RCR) #59	Please share your comments on the challenges foreseen in calculation of liability risk capital charge for long term insurer along with the rationale and alternative approach for the Commission's consideration.	- If we are calibrating in the future, data gathering make take significant effort and time. - To adopt and automate methodology changes may take time during initial implementation.	N/A	Noted

Re-insurance receivables					
Question 5	Part III – Determination of TAC and CAR #12 (n)	Please share the average time taken by your organisation to get reinsurance receivables settled. Please comment on whether these are driven by the nature of the process for admitting such claims by reinsurers or any delay is driven by operational delays of the insurer or reinsurer?	We settle reinsurance (RI) accounts on a net basis, offsetting claim receivables against premiums payable. In cases where there is a net receivable, we typically receive a refund from the reinsurer within 1–3 months, subject to administrative processes on the reinsurer's end. Payments due to the reinsurer are settled once the final invoice is raised by the reinsurer and confirmed by the insurer. However, operational delays can occur on both sides due to the reconciliation of accounts, which involves premium and loading calculations, reinsurance commission computations, claim assessments, and clarifications on data files. These data files are often large and complex, covering various risk classes. Even after finalization, further delays may arise in obtaining tax clearance from the Inland Revenue Department (IRD), which can impact the overall timeline for settlement (which might take around 3 months).	N/A	Noted
Treatment of new asset classes					
Question 8	Part IV – Admissible assets, asset limits, and asset valuation #Table 1	A discussion for consideration of long-term leasehold land and building constructed on leasehold land by the lessee as admissible assets for solvency calculation was undertaken within the task force. One of the factors for an asset to be considered as admissible for solvency purposes is the ability to transfer the asset at a realisable value. Hence, it was proposed to consider such assets as admissible if the terms and conditions of the lease allows a transfer of lease in exchange for a consideration, subject to the approval from the Commission based on the application made by the insurer. a.Please share your comments on proposal of case-by-case assessment of asset admissibility of long -term leases by the Commission, based on the application made by an insurer b.Please share your comments with respect to perceived difference between the long term lease taken from a private institution vis-à-vis, taken from the government which can impact the admissibility and transferability of such leases. c.Please share any other considerations to be assessed by the Commission while assessing asset admissibility of long-term leases	Accounting standards permit a book asset (right-of-use) asset to be recognized in the books of accounts since the company can derive economic benefits from the asset. However, these assets cannot cover for long-term liabilities. We cannot realize lease assets to meet liabilities nor they support any liquidity. Considering these facts, it is questionable whether such leasehold assets can be considered admissible under RBC.	N/A	**Ceylinco:** As per the discussion with the task force, the admissibility of leasehold land and building is only to the extent of long term leases with a transferability clause to the third party. Thus, in case the need arises, such leases can be converted to cash. Hence, this would be a case-by-case analysis based on the submissions made by the insurers to the IRCSL whereby it would be assessed if the leasehold land and building can be transferred as per the terms and conditions of the existing lease contract. Further, the valuation of such land and building to be determined by an approved valuer (similar to that of freehold property). In case such assets are deemed to have no liquidity, then they will continue to be treated inadmissible in the Revised Rules
Question 10	Part IV – Admissible assets, asset limits, and asset valuation #Table 2	Please indicate whether your company is considering investing in any assets apart from those outlined in Table 1 and Table 2. Please provide details around the nature of the asset along with the necessary details such as issuing agency, listed / unlisted, rated / unrated, tenure and means to arrive at the market consistent valuation of such assets.	Currently, the following types of Corporate Debt are considered as "admissible" in RBC. * Corporate debt issued by a licensed commercial bank or a licensed specialised bank * Corporate debt listed on licensed stock exchange * Corporate debt issued by a company and carrying an investment grade rating to the instrument In Corporate Debt, the current RBC Framework does not have a separate category for corporate debt issued by a Licensed Finance Company. We propose to have a separate category for this. Under Bank Deposits, there is a separate category for bank deposits with a Licensed Finance Company. Currently, the RBC Framework allows Unlisted shares and corporate debt investments (except investments in related parties) - held in shareholders' funds (category n in Table 1) and Unrated corporate debt investments - held in shareholder funds as admissible assets (category o in Table 1), subject to a limit of 5%. Why is this limited only to shareholder fund? Does this mean if we hold such investments from the long-term insurance fund they are inadmissible for RBC and be shown under Other inadmissible assets, not already included in TAC deductions (Section XVII),	Exchange Traded Derivatives Rationale: In light of the Colombo Stock Exchange's (CSE) planned introduction of derivative instruments, we recommend the proactive development of regulations to govern their use by insurance companies. These instruments, such as options and futures, are essential tools for modern risk management and can serve as a strategic asset class for investment.	**Ceylinco:** a. We have accepted the proposal to include "Corporate debt carrying an investment grade rating to the instrument (that is not related party debt) (including bonds, debentures, commercial papers, and similar financial instruments) issued by the licensed finance company listed on a licensed stock exchange and carrying and investment grade rating" b. Yes, Company's understanding is correct in this respect **Union Assurance:** The comment is well noted. The guidelines on the investment in derivatives by insurers will be issued in due time. However, insurers are further required to assess the additional risk while investing in such assets and Appointed Actuary shall make appropriate allowance of these in the solvency calculations

Question 11	Part IV – Admissible assets, asset limits, and asset valuation #Table 2	Please share your comments on the appropriateness of the proposed approach for the valuation of leasehold land and building. Please include any alternative approach along with the rationale.	We do not this that allowing leasehold land and buildings is a good proposals due to the reasons we have explained under Question 8.	N/A	**Ceylinco:** the admissibility is limited to long term leases with a transferability clause to the third party. The valuation would be determined by an independent valuer
Question 56	Part VII – Determination of Risk Capital Required (RCR) #55	Please share your comments on the proposed approach of keeping the risk charges for leasehold land and building constructed on leasehold land by the lessee identical to that of freehold property. Please share your comments if you expect the level of riskiness for a leasehold land and building to vary when compared with freehold land and hence shall have a differential risk charge. Please provide sufficient details and rationale.	The current risk charge of 25% computed on freehold and investment property is too much and does not reflect the actual property market conditions in Sri Lanka. We understand that there can be fluctuations in property market prices, but an excessive risk charge would penalize insurance companies who want to operate their business in their own premises. Therefore, we propose to bring this charge down to around 10%-15%.	N/A	**Ceylinco:** Please note that all asset charges were reviewed and discussed with in the RBC Task force. It was noted that these charges had originally been benchmarked against the property risk charges prescribed under the Solvency II regime. In the absence of sufficient local data to recalibrate these charges specifically for Sri Lanka, it was agreed to retain the current charges for all asset risks. These were accordingly updated in the final report submitted by the RBC Task force to IRCSL Furthermore, the prescribed charge for property risk is also consistent with the calibration under the ICS framework.
Question 39	Part VII – Determination of Risk Capital Required (RCR) #48 (2)	a.Please share your comments on the proposed preferential treatment of green bonds while calculation of credit risk capital charges with rationale. Please include any alternative approach along with the rationale. b.Please share your comments on the quantum of relief/haircut on the credit risk capital charges for green bonds along with the rationale. Please provide a numeric response to this question.	a. Suggest rewording of 48 (2) (a) as below, for avoidance of doubt. apply the risk factor applicable to the guarantor, or 1.6%, whichever is higher, to the portion of the debt that is guaranteed; and b. We welcome this favourable treatment towards green bonds. i. However, it is proposed that the same to be extended for all sustainability linked bonds. Usually, these are referred collectively as “GSS+ bonds” - green, social, sustainable, and other labelled (GSS+) bonds. ii. Also, applying a blanket haircut on each bond, irrespective of its original credit rating might encourage higher risk taking, as explained below.	N/A	**Ceylinco:** a. We have accepted the proposed change to the wordings. This change doesn't intend any change in the underlying calculations b. We have accepted the proposed change to extend the favourable treatment in calculation of credit risk capital charge to Green, Social and Sustainable bonds since the underlying listing and reporting guidelines for these and green bonds are identical ii. While we appreciate that a blanket haircut on each bond, irrespective of its original credit rating might encourage higher risk taking however, the total applicable risk factor is still varied based on the credit rating. Hence, for an insurer investing in a lower rating green bond, the overall charge applicable would still be higher when compared to that of a better rating.
Question 40	Part VII – Determination of Risk Capital Required (RCR) #48 (2)	a.Please confirm if your organisation has exposure to such bonds or if planning to invest in such bonds in near future. b.Please share your comments on the expected riskiness of green bonds vis-à-vis a corporate debt based on the expected listing requirements, governance framework, expected rating criteria etc.	We have invested Rs. 2 billion in a Green Bond issued by DFCC Bank PLC.	N/A	Noted
Treatment of universal life business					
Question 13	Part V – Valuation of Liabilities #22	Please share your understanding in respect of the calculation of policy liabilities for the universal life business i.e. whether policy liabilities shall be calculated using the gross premium valuation approach or shall the liability be based on fund value plus non-unit liabilities along with the rationale for the same.	- Our calculation for UL liability is based on fund value plus non-unit liabilities - this is in line with the current RBC and our actuarial models	N/A	Noted
Question 18	Part V – Valuation of Liabilities #30	Please share your comments on proposal for long term insurer to mandatorily have a board approved crediting rate policy driving future crediting rate assumption used to determine liability cashflows as well as driving change in future crediting rate assumption in calculation of liability cashflows underlying interest risk capital charge. Please provide any alternative approach with sufficient detail and rationale.	- Agreed, we already have a board approved crediting rate policy.	N/A	Noted
Question 36	Part VII – Determination of Risk Capital Required (RCR) #46 (3)	Please share your comments on the proposed approach for implementing a ceiling on the maximum benefit that can be availed by an insurer, with respect to change in future discretionary benefits allowed in calculation of RCR. Please also include alternative approach with rationale, if any.	- This is in line with ICS, and we are in agreement.	N/A	Noted

Question 37	Part VII – Determination of Risk Capital Required (RCR) #46 (3)	Please share any operational or modelling complexities envisaged by insurers to implement the calculation underlying a)change in liability cashflows (to the extent of expect change in future discretionary benefits) within interest risk charge calculation b)calculation of overall entity level RCR, taking into consideration maximum permissible benefit of such change in future discretionary benefit liability cashflows to be limited to future discretionary benefits allowed for in the base liabilities	a). Need to do separate liability model runs to obtain this. This would require additional time. b). Once the CFs are obtained, this is just a calculation to check this limit.	N/A	Noted
Treatment of participating business					
Question 14	Part V – Valuation of Liabilities #23	Please comment if you agree with the proposed approach of having a single policy liability estimate for participating business. Please share alternative approach in sufficient detail and rationale for alternative approach in case you disagree.	- Agreed, as this will capture all CFs and be market consistent.	N/A	Noted
Question 19	Part V – Valuation of Liabilities #30	Please share your comments on proposal of long-term insurer to mandatorily have a board approved bonus policy driving future bonus assumption used to determine liability cashflows as well as driving change in future bonus assumption in calculation of liability cashflows underlying interest risk capital charge. Please provide any alternative approach with sufficient detail and rationale.	- Consider this necessary to protect the PH interest. We already have this in place.	N/A	Noted
Question 37	Part VII – Determination of Risk Capital Required (RCR) #46 (3)	Please share your comments on the proposed approach for implementing a ceiling on the maximum benefit that can be availed by an insurer, with respect to change in future discretionary benefits allowed in calculation of RCR. Please also include alternative approach with rationale, if any.	- This is in line with ICS, and we are in agreement.	N/A	Noted
Question 38	Part VII – Determination of Risk Capital Required (RCR) #46 (3)	Please share any operational or modelling complexities envisaged by insurers to implement the calculation underlying a)change in liability cashflows (to the extent of expect change in future discretionary benefits) within interest risk charge calculation b)calculation of overall entity level RCR, taking into consideration maximum permissible benefit of such change in future discretionary benefit liability cashflows to be limited to future discretionary benefits allowed for in the base liabilities	a). Need to do separate liability model runs to obtain this. This would require additional time. b). Once the CFs are obtained, this is just a calculation to check this limit.	N/A	Noted
Derivation of risk-free interest rate yield curve					
Question 23	Part V – Valuation of Liabilities #32	Please share your comments on the appropriateness of the proposed approach as well as parameters used for derivation of risk-free interest rate yield curve from the Sri Lankan context including any possible alternatives for derivation of risk-free interest rate curve with rationale. Parameters include: a. Last liquid point b. Basis of interpolation (Smith Wilson approach), including tolerance limit c. Convergence point d. UFR	a. Given the volatility of Sri Lankan interest rates and lack of liquidity in the long-term as well as mid-term end of the curve, setting a maximum year-on-year change of 12 bps would be very low. Further, we are interested to know how the said 15 bps cap was determined. b. While the inflation rate of 4% is based on past data, the future inflation outlook doesn't reflect the same. Given that the RBC framework focuses being market consistent, I believe that the future expectations of macro variables should carry more weight, rather than the past. Especially given that the country and economy itself has gone through a tremendous transformation. CBSL now conducts monetary policy in line with a flexible inflation targeting framework, aimed at stabilising inflation at mid single digit levels over the medium term while supporting economic growth to reach its potential. Further, in fulfilment of Section 26 of the Central Bank of Sri Lanka Act, No. 16 of 2023, the Minister of Finance and the Central Bank of Sri Lanka entered into this monetary policy framework agreement, which aim to maintain quarterly headline inflation rate at the target of 5%., with a margin of ±2%.	N/A	**Ceylinco:** a. Regarding the cap on the year on year change in the LTFR, the cap is applicable on the long term rate used for the convergence point (proposed to be 60 years). The long term rate is not expected to be impacted by the short or medium term volatility and thus, to be fairly stable year on year. As a result, it is proposed to apply a cap of 15 bps. The cap is based on the cap proposed by ICS (applicable for all currencies and not just for the developed market). b. Regarding the inflation assumption, while we agree that long-term targets are set at 5%, the proposed approach is to align to the ICS prescribed methodology i.e. set the inflation assumption to: • 1%, where the inflation target is lower than or equal to 1%; • 2%, where the inflation target is higher than 1% and lower than 3%; • 3%, where the inflation target is higher or equal to 3% and lower than 4%; and • 4% otherwise. Hence, the inflation assumption was set to 4% (unless historic trends / future expectations are materially different from the proposed rate)
Question 24	Part V – Valuation of Liabilities #32	Please share your comments on the proposed methodology of smoothing the market yields in the first segment using Nelson-Siegel-Svensson equation, from Sri Lankan context, to overcome the limitation in respect of negative forward rates and market volatility. Please share your comments on any alternative approach that can be used to overcome this challenge, with underlying rationale.	- Given the volatility experienced in the recent past, agreed to include this.	N/A	Noted

Interest rate risk charge and interest rate shock calculations					
Question 50	Part VII – Determination of Risk Capital Required (RCR) #52	Please share your comments on the proposed approach to calculate the value of surplus as per paragraph 52 (1d) as the difference between present value of interest sensitive asset cashflows and present value of best estimate net of reinsurance liability cashflows excluding risk margin. Please include any alternative approach with rationale	Agreed. It is applied on NAV, consistent with all other ICS risk charges. However, this will be subject to QIS testing.	N/A	Noted
Question 52	Part VII – Determination of Risk Capital Required (RCR) #52 (6)	Please share your comments on the proposed approach for derivation of shocked yield curves to be consistent with the approach used for derivation of base yield curve. Please share the rationale and alternative approach in case you disagree with the proposed approach.	Agreed. Considering the limitations of the current data it is best to retain the existing shock factors for the market-observable period with a stable (lower) shock factor for the UFR	N/A	Noted
Question 53	Part VII – Determination of Risk Capital Required (RCR) #52 (6) and Table 8	Please share your comment on the proposed lower risk charge applicable to the ultimate risk forward rate. Please include any alternative approach and rationale for the same.	Due to expected lower volatility in long term yield estimates, this seems reasonable.	N/A	Noted
Question 55	Part VII – Determination of Risk Capital Required (RCR) #53 (5)	Please share your comments with rationale on the proposed approach for calculation of stressed “risky” yield curve. Please include any alternative approach for the calculation of stressed curve along with the technical specifications and other necessary details.	Will need to see impact during QIS testing to comment further.	N/A	Noted