

TERMS AND CONDITIONS TO BE COMPLIED WITH BY INSURERS UNDER SECTION 31(1) OF THE REGULATION OF INSURANCE INDUSTRY ACT, NO. 43 OF 2000

Insurers are required to adhere to the following terms and conditions in relation to all transactions involving reinsurance placements in terms of section 31(1) of the Regulation of Insurance Industry Act, No. 43 of 2000 (RII Act). Such terms and conditions shall apply to all reinsurance placements effected for year 2013 onwards:

(1) (a) An insurer shall place its reinsurance only with an entity authorized by the regulatory authority (authority which issues a license to carry on insurance/reinsurance) of the respective country to carry on reinsurance business in or outside that country;

(b) An insurer shall place its reinsurance only with an entity which has the following long term ratings:

Rating Organization	Type of Rating	Acceptable Ratings	
Standard & Poor	Credit Rating (long term)	AAA	Extremely Strong
		AA	Very Strong
		A	Strong Capacity
		BBB	Adequate Capacity
Ratings from AA to BBB may have (+) or (-) sign to show relative standing within the major categories			
Rating Organization	Type of Rating	Acceptable Ratings	
AM Best	Financial Strength Rating (long term)	A++,A+	Superior
		A,A-	Excellent
		B++,B+	Good
	Credit Rating (long term)	aaa	Exceptional
		aa	Superior
		a	Excellent
		bbb	Good
Ratings from aa to bbb may have (+) or (-) sign to show relative standing within the major categories			

Rating Organization	Type of Rating	Acceptable Ratings	
Moody's	Credit Rating (long term)	Aaa	Highest Quality
		Aa1	High Quality
		Aa2	High Quality
		Aa3	High Quality
		A1	Upper Medium Grade
		A2	Upper Medium Grade
		A3	Upper Medium Grade
		Baa1	Medium Grade
		Baa2	Medium Grade
		Baa3	Medium Grade
Rating Organization	Type of Rating	Acceptable Ratings	
Fitch	Credit Rating (long term)	AAA	Highest Credit Quality
		AA	Very High Credit Quality
		A	High Credit Quality
		BBB	Good Credit quality
Ratings from AA to BBB may have (+) or (-) sign to show relative standing within the major categories			

(c) An insurer shall place its reinsurance only with an entity which has been assigned with any of the above ratings within the preceding period of eighteen months at the time of reinsurance placement;

(d) During the year of cover, if the rating of the entity falls below the minimum rating as required above or if the rating has been withdrawn, the insurer shall forthwith inform the Insurance Board of Sri Lanka (IBSL) details pertaining to same including the following:

- (i) the new rating assigned, rating classification, date of assignment and rating organization; and
 - (ii) date of withdrawal and the reasons for same.
- (e) An insurer who wishes to place its reinsurance with a reinsurance pool is required to obtain prior approval of IBSL for the use of such security, on a case by case basis, separately for each such pool every year.
- (f) The above terms and conditions shall not apply in relation to reinsurance placements with NITF.

(2) Unlimited liability covers.

Where unlimited liability cover is provided under a policy, irrespective of the class or the category, no un-rated Insurer/Reinsurer should be accepted as the Reinsurer on the panel of insurers. The ideal situation, from a security point of view, being that the Insurer should obtain unlimited reinsurance protection. However, in so far as motor third party bodily injury under Motor Policies or Common law Liability under WCI policies are concerned, if an Insurer, either in consideration of the past claims experience, the composition of the portfolio and/or the level of exposure, opts to have a limited reinsurance protection, such decision shall be at their own risk, in view of the unlimited cover provided under the policies. Where an option to obtain a restricted limit of cover is exercised, such limitation shall however not be less than Rs. 200 million on any one loss or series of losses arising out any one event.

In respect of all classes/categories, other than Third party bodily injury cover under Motor Policies and Common law liability cover under WCI policies, unlimited cover may be provided under an original policy only if there is in place, an unlimited reinsurance protection relating to such liability.

Terms and conditions specified in (1) above shall apply to unlimited liability covers as well.

(3) Reinsurance Treaty cover notes

Certified copies of all Cover Notes in respect of Reinsurance Treaties should be forwarded to IBSL as soon as possible, but before 15th of March each year together with details required by IBSL in the format prescribed therein.

(4) Details relating to facultative reinsurance

Insurers are required to forward to IBSL details of all facultative reinsurance transactions entered by the Company within a quarter in the format prescribed by IBSL. Such details are required to be forwarded along with the quarterly returns of insurers.

(5) Furnishing copies of reinsurance treaties

Insurers are required to forward to IBSL certified copies of its reinsurance treaties (including treaties which are revised), contracts and arrangements relating to any class of insurance business transacted by such insurer in Sri Lanka in accordance with Section 50 (1) of the RII Act.