

TERMS AND CONDITIONS TO BE COMPLIED WITH BY INSURANCE COMPANIES
UNDER SECTION 31 (1) OF REGULATION OF INSURANCE INDUSTRY ACT No. 43
OF 2000.

With effect from after 31st December 2003, all Insurers are required to adhere to the following procedure in relation to all transactions involving any Reinsurance placement, whether they be Treaty, Line Slip or Facultative business.

1. Reinsurance Security.

All Reinsurers including any Lloyd's Underwriters should fall within the level of security rating listed below.

Security Rating Organisation	Level of Security Rating		
Standard & Poor	AAA	=	extremely strong
	AA	=	very strong
	A	=	strong
	BBB	=	good
AM Best	A ⁺⁺ and A ⁺	=	superior
	A and A	=	excellent
	B ⁺⁺ and B ⁺	=	very good
Moody's	Aaa	=	exceptional
	Aa	=	excellent
	A	=	good
	Baa	=	adequate

In addition to the above levels of security, the under noted Reinsurers may also be considered as acceptable security.

- I Reinsurers whose liabilities are guaranteed by a Government/Governments
- II Reinsurers who are fully sponsored or 100% of the capital provided by a Government/ Governments (but no guarantee being provided) as in the case of Asian Re, provided however that prior approval of the Insurance Board of Sri Lanka is obtained for the use of such security, on a case by case basis, separately for each such Reinsurer.
- III Reinsurance Pools formed/established on a regional basis, the objectives of which shall include promoting regional co-operation among the members and increasing additional underwriting capacity within the Region as well as of the members, provided however that prior approval of the Insurance Board of Sri Lanka is obtained for the use of such security, on a case by case basis, separately for each such Pool.

In order to obtain approval, of any Reinsurer under item II and / or III above, a request must be made in writing to the Insurance Board of Sri Lanka, at least 15 working days prior to the use of such security, along with the following information.

- a) Full name and address of the Reinsurer/Pool, along with telephone and fax numbers, and email address.
- b) The nature of sponsorship.
- c) The names of the States/Governments which have provided the sponsorship and / or the share or capital provided by each such state/Government, or in the case of a Pool, the names of the Member countries and the member Companies.
- d) Authorised capital and the paid up capital.
- e) Particulars of any other affiliations.
- f) A copy of the latest annual report and any other available information about the Reinsurer or the Pool that may be useful to the IBSL in granting the approval.
- g) The sovereign rating of the country/countries sponsoring or providing the capital of the Reinsurer or of the member countries of the Pool, as the case may be.
- h) Whether any security rating had ever been given to any Reinsurer referred to under item II or to any member company of the Pool referred to under item III above, by any approved rating agency, and if so:
 - A. the level of rating enjoyed by any Reinsurer under item II or any member company of the Pool under item III, immediately prior to withdrawal
 - B. name of the security rating organization from which such rating was obtained.
 - C. when was such rating given.
 - D. when was it withdrawn, if a rating had earlier been given, and
 - E. reasons for such withdrawal.

Where the sovereign rating given to a particular country is lower than the rating given to any Reinsurer/s in that country, then the level of the sovereign rating of the country only shall be taken as the security applicable to any Reinsurer in that country, for the purpose of compliance with these directives.

Except as stated above, no un-rated Insurer/reinsurer shall be accepted as a reinsurer on the panel of Reinsurers on any Reinsurance placement/slip

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 Reinsurer on the panel of insurers, except as stated above, 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 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.

3. Reinsurance Treaty cover notes

Certified copies of all Cover Notes in respect of the Reinsurance Treaties should be forwarded to the Insurance Board of Sri Lanka as soon as possible, but latest by the end of March, each year.