

Circular No: 25/IRDA/ACTL/RSM/2008-09

December 17, 2008

To  
CEOs of Life Insurance Companies

**Sub: Determination of Required Solvency Margin under Life Insurance Business**


Please refer our circular No.065 /IRDA/ACTL/RSM/2007-08 dated March 24, 2008. In the light of the recent developments in financial markets there is an urgent need to emphasize the efficient use of capital and provide insurance products at affordable premium rates while maintaining the continued safety of the insurance companies so that they remain solvent at all points of time.

As you are aware that the computation of the required solvency margin reckons two factors, viz., the first factor which is applicable to the mathematical reserve under each policy and the second factor, which is applicable to the sum at risk.

The Authority has reviewed the position in the above background and proposes the following first factor and second factor with respect to non-linked business in working out the required solvency margin. These factors shall come into effect for the business as on December 31, 2008 and onwards.

Category of business	First factor	Second factor
<b>Non-linked Business</b>		
<b>Individual Business</b>		
01: Life Business		
Pure Term	3%	0.1%
Others	3%	0.3%
02: General Annuity	3%	0%
03: Pension	3%	0%
04: Health	3%	0%
<b>Group Business</b>		
Life: Premium guaranteed for		
05: not more than one year	1%	0.1%
06: more than one year	1%	0.1%
07: General Annuity	3%	0%
08: Pension	3%	0%

With this change, the first factor for other than pure term products is brought on par with pure term products. In addition, the revision of the first factor for general annuity and pension business, both for individual and group under non-linked business would help life insurers to offer more affordable pension / annuity products. It may be noted that there is no change in the factors that pertain to non-linked pure term business and linked business. These changes would help in widening and deepening the market.

  
(R. Kannan)