

Aligning Indian Risk-Based Capital and Ind AS 117

Connecting the Prudential and Accounting Perspective

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CONCEPTUAL FOUNDATIONS

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Ind AS 117 (Accounting)

- Primary purpose: Provide financial position, financial performance and cash flows to user of financial statements.
- Entity specific calibration
- Faithful economic representation.
- Explicit time value of money.
- Deferred profit via Contractual Service Margin.

RBC QIS 2 (Solvency)

- Primary purpose: Policyholder protection and capital adequacy assurance.
- Market wide calibration and valuation approach.
- Risk-sensitive capital adequacy.
- Total Balance Sheet Approach (TBSA).
- 99.5% VaR stress scenario survival.

POSSIBLE CONSIDERATIONS FOR ALIGNMENT

- Arriving at Available Capital
- Arriving at Risk Based Capital Requirement

Minimum Re-calculation

Leverage IFRS 17 fulfillment cash flows directly for RBC base liabilities to reduce industry friction.

Uniformity & Objectivity

Ensure standardized, rule-based calibrations across all players to maintain a level playing field.

Risk-Driven Parameters

Base statutory capital charges on parameters that truly reflect the underlying driver of risk.

IND AS 117 EQUITY → RBC AVAILABLE CAPITAL (PART I)

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S.No	Line Item	Adjustment Approach	Considerations
1	Goodwill & Intangibles	Deduct in full from RBC Available Capital	IFRS 3 business combinations may recognise significant goodwill; determining standalone realisable value requires judgement
2	Deferred Tax Assets (DTA)	Partial or full deduction — only DTA on TP timing differences may be partially admitted	Recoverability under stress scenarios is uncertain; the very scenario needing capital is when future taxable profits are least likely
3	CSM (Liability) — Reclassification	Add back to equity (partially) — CSM represents future economic value not a solvency liability	QIS 2 guidance on URR with/without flooring of UPR is under study.
4	CSM — Deferred Tax Effect	Adjust associated deferred tax liability correspondingly if CSM treated as equity	Creates interaction between CSM admissibility decision and deferred tax position
5	Premium Liability — PAA vs. UPR Floor	RBC floors premium liability at gross UPR (1/365th method); **no netting of DAC**	Revenue recognition either on passage of time or expected incurred service exp. **What about significant financing component.**

IND AS 117 EQUITY → RBC AVAILABLE CAPITAL (PART II)

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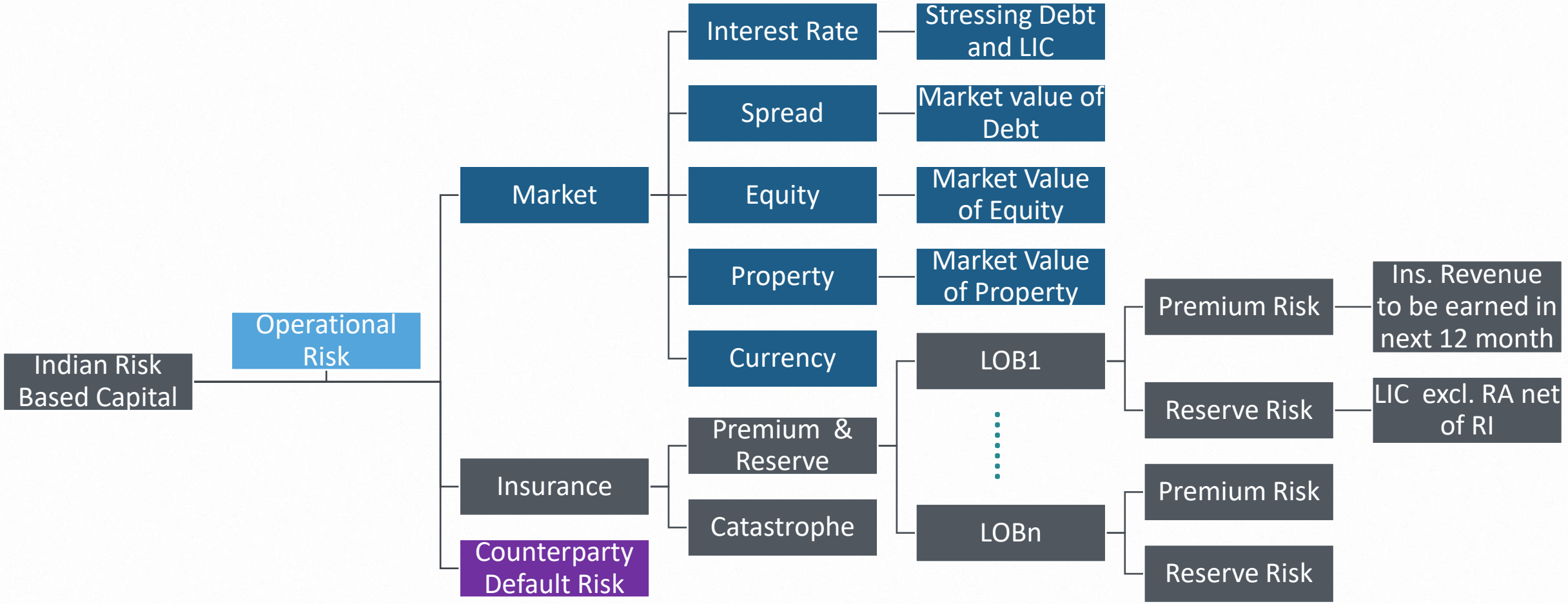
S.No	Line Item	Adjustment Approach	Considerations
6	BEL — Discount Rate Restatement	Replace Ind AS 117 curve with IRDAI prescribed risk-free G-Sec term structure	Two distinct curves (Ind AS with Illiquidity Premium); OCI option needs adjustment in equity.
7	Risk Adjustment (RA) → Risk Margin (RM)	Remove Ind AS 117 RA; substitute prescriptive RBC RM (CoC 6%)	RA is entity-specific and unconstrained; RM is formula-based; difference can be material.
8	Reinsurance Asset — Non Performance Risk	Needs to adjusted in RBC	RI expected default is part of Ind AS best estimate RI asset.
9	Onerous Contracts / Loss Component	Ind AS 117 recognises onerous contract liability immediately; RBC BEL captures adverse expected cash flows	Directionally aligned; timing and granularity differ — PAA uses simplified eligibility assessment vs. full BEL for RBC

IND AS 117 EQUITY → RBC AVAILABLE CAPITAL (PART III)

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S.No	Line Item	Adjustment Approach	Considerations
10	Investment Assets (mark-to-market)	Ind AS 109 fair value largely aligned with RBC market value basis	Fixed Income with Hold to Collect model measured on amortised cost needs MTM adjustment. OCI adjustment for Fair Value through OCI.
11	Foreseeable Dividends & Distributions	Deduct declared but unpaid dividends from Own Funds	Creates timing differences at balance sheet dates near dividend declarations
12	Subordinated Debt / Hybrid Capital	Admit as Tier 2 Capital subject to RBC tiering criteria	RBC tiering criteria (permanence, loss absorbency) may differ from Ind AS 32 equity/liability classification
13	Encumbered / Pledged Assets	Exclude assets pledged as collateral or subject to restrictions	Not all restrictions apparent from Ind AS disclosures; requires operational review of asset registry
14	Regulatory Adjustment to Tier 1 Capital	Adjustments based on availability and loss absorbing capability	Provided as part of the solvency regulation

INDIAN RBC CAPITAL: MAPPING TO IND AS LINE ITEM



POSSIBILITIES OF SYNERGIES: THE TECHNICAL ALIGNMENT

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Shared Cash Flow Engine

✦ KEY SYNERGY: Same projected cash flows;

Discount curve differs

Probability-Weighted Means

✦ KEY SYNERGY: A unified actuarial projection engine serves both

Unified Contract Boundaries

✦ KEY SYNERGY: Both Based on substantial right and obligation.

POSSIBILITIES OF SYNERGIES: DATA & OPERATIONAL ARCHITECTURE

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Data Domain	Ind AS 117 Use	RBC Use	Unified Approach
Policy-level data	Contract grouping, cohort identification, premium allocation	Portfolio segmentation for BEL calculation	Single policy data warehouse
Claims development data	Development pattern selection, LIC/LRC projection	BEL for claims liabilities	Single claims DB and development triangles
Expense allocation	Attributable and non-attributable expense split	Allocated expense loadings in BEL	Single expense study
Reinsurance data	Ceded premiums, recoveries — RI contract valuation	Gross and net BEL; RI credit risk charge	Single reinsurance data model

- Audit & Regulatory Credibility: Consistent data lineage from SSOT to both outputs — eliminates inconsistency risk between solvency and accounting numbers
- Management Information: Combined actuarial/finance team produces both accounting profit movement and solvency position from the same model run

KEY DIVERGENCES/CHALLENGES (PART I)

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Risk Adjustment (Ind AS 117) vs. Risk Margin (RBC QIS 2)

Dimension	Ind AS 117 — Risk Adjustment	RBC — Risk Margin
Purpose	Compensation for bearing non-financial risk uncertainty	Cost of capital to support liability run-off
Method	Entity-specific; VaR, TVaR, or CoC — all permitted	Prescriptive: 6% Cost of Capital method ONLY
Calibration	Entity reflects own risk profile & diversification	Reference undertaking SCR over run-off horizon
Comparability	Low — entity-specific choice	High — prescribed formula ensures market comparability
Disclosure	Confidence level equivalent disclosed	Formula-based; less actuarial judgement
Potential Divergence	Can be calibrated to approximate RM	Fixed calibration; may differ from entity risk profile

KEY DIVERGENCES/CHALLENGES (PART II)

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PAA vs. GMM — The Dual-Model Challenge

Dimension	PAA (Simplified)	GMM	RBC Impact
Time Value of Money	Not required if no significant financing component (< 1 year)	Explicit discounting of ALL future cash flows mandatory	PAA companies need additional discounted URR calculation for RBC; GMM companies are naturally aligned
Insurance Revenue and Premium Risk Capital	Close to current earned premium in concept	Has impact of time value of money	There may be difference of Premium risk capital if Insurance revenue is used, though most natural replacement of earned premium.
CSM and Profit	Level of profitability does not go through the audit process	CSM level is audited	RBC currently applies premium risk charge on next 12 month earned premium while the risk is not dependent on level of profit.

INTERNATIONAL PRECEDENTS: EU — SOLVENCY II & IFRS 17

Context: Solvency II effective Jan 2016 | IFRS 17 effective Jan 2023 — 7+ years of Solvency II before IFRS 17

Area	Solvency II Approach	IFRS 17 Approach	EU Reconciliation Method Adopted
Risk Margin vs. RA	CoC 6% mandatory	Entity-specific RA	Most large EU insurers aligned RA to CoC at 5–7% range for operational consistency
CSM	No equivalent — full economic value in Own Funds	CSM defers Day-1 profit as liability	SFCR disclosures show 'Own Funds > IFRS equity by CSM amount' — market-accepted narrative
Discount Rate	EIOPA risk-free curve + matching/volatility adjustment	Current rate or OCI option	Dual-curve systems maintained; EIOPA and IFRS curves tracked separately in all systems
Contract Grouping	Portfolio of risks sharing similar characteristics	Annual cohort grouping within portfolios	Separate contract grouping frameworks maintained — two different granularity levels

Key Lessons for India:

- **Integrated data platforms: 'build once' model**
- **Regulatory disclosure forced convergence: Solvency & Financial Condition Report and IFRS 17 Annual Report requirements drove actuarial and finance teams to develop unified narrative**
- **Risk Margin vs. RA resolved pragmatically: operational efficiency drove methodological alignment — not regulatory requirement**

INTERNATIONAL PRECEDENTS: AUSTRALIA — LAGIC & AASB 17

APRA carried out a detailed alignment exercise

Metric	AASB 17	LAGIC – Capital Treatment
Discount Rates	Uses market consistent yield curves	Requires APRA-specified risk-free rates
Acquisition Costs	Allows deferred acquisition costs	Excluded entirely from the regulatory capital base
Risk Adjustment	Calculated via company-selected models	APRA views that risk adjustment required for AASB 17 and risk margin are two different concepts. Adopting the risk adjustment principle could reduce consistency across insurers.
Un invoiced Premiums	Included inside standard liabilities (LRC)	Re-added to Common Equity Tier 1 (CET1) capital. Aim to explicitly see money owed to the company subject to Asset Risk Charge.

ROADMAP FOR INDIAN GENERAL INSURERS

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1

Unified Data

Single source of truth-policy/claims database.

2

Actuarial Engine

One cash flow model, configurable parameters.

3

Bridge Reporting

Automated IFRS to RBC reconciliation.

4

Governance

Integrated Actuarial, IT, and Finance team.

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Thank You

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