



बीमा विनियामक और विकास प्राधिकरण
**INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY**

REF: IRDA/F&I/CIR/INV/063/02/2014

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CIRCULAR

The CEOs of all Insurers,

Sub: Bank's Capital Instruments under Basel III – Investments by Insurance Companies.

IRDA vide circular vide Point 7 of Circular No. INV/CIR/008/2008-09 dt. 22nd August, 2008 and Cir. No. INV/CIR/019 & 20 /2008-09 dt. 11th November, 2008 allowed Investment in Perpetual Debt Instruments of Bank's Tier-I Capital and Debt Capital Instruments of Upper Tier- II Capital.

With the migration of banks to Basel III capital adequacy norms, there is a substantial need for raising additional capital by banks. Globally, banks have started augmenting capital by issuance of Common Equity Tier I (CET-I), Additional Tier-I(AT-I) and Tier II (T-II) instruments. RBI has issued detailed guidelines vide Circular no. DBOD.No.BP.BC.98 /21.06.201/2011-12 dt. 2nd May, 2012 regarding implementation of Basel III capital Regulations in India.

IRDA had examined the various instruments prescribed under Basel III framework and have decided to permit following new instruments issued by Domestic Banks for Investment by Insurers:-

S.No.	Tier II (T-II) – capital
1	Debt Capital Instruments (DCI)
2	Redeemable Non-cumulative Preference Shares (RNCPS)
3	Redeemable Cumulative Preference Shares (RCPS)

Above mentioned instruments may be deemed as a part of 'Approved Investments' for the purpose of Sections 27A and 27B of Insurance Act, 1938, under powers vested in sections 27A(1)(s) and 27B(1)(j) of Insurance Act, 1938, subject to the following conditions:

- a) The Debt Instrument issued by Banks shall be rated not less than 'AA' by an independent, reputed and recognised Rating Agency, registered under SEBI.

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- b) If the Instruments are downgraded below AA, such investments shall be re-classified as 'Other Investments'.
- c) Preference shares issued by the Banks shall satisfy the conditions specified under section 27A and 27B of Insurance Act, 1938.
- d) In case the Interest on the Instrument is not serviced on due dates, the Investment in such instruments are to be re-classified as 'Other Investments' from such date for reporting to the Authority.

Insurers are also required to note that:

- (i) All Exposure norms as specified in Regulation 9 of IRDA (Investment) Regulations, 2000 shall apply to these Instruments/Preference Shares Issued by Banks i.e. Group exposure, Single Investee exposure, Industry exposure, etc.
- (ii) Category codes for these instruments are:

Instruments	Category codes
Approved Investments	
Debt Capital Instruments (DCI- Basel III))	EDCI
Redeemable Non-cumulative Preference Shares (RNCPS- Basel III)	ERNP
Redeemable Cumulative Preference Shares (RCPS- Basel III))	ERCP
Other Investments	
Debt Capital Instruments (DCI- Basel III))	ODCI
Redeemable Non-cumulative Preference Shares (RNCPS- Basel III)	ORNP
Redeemable Cumulative Preference Shares (RCPS- Basel III))	ORCP

- (iii) Investments in these instruments shall be classified under 'Financial and Insurance Activities' sector.


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