



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

CIRCULAR

REF: IRDA/F&I/CIR/INV/172/08/2013

August 23, 2013

The CEOs of all Insurers

SUB: Permission to Insurers to Invest in Category I & II Alternative Investment Funds (AIFs)

The Authority vide Circular No.INV/CIR/007/2003-04 dated December 15, 2003 issued guidelines on the investments by insurance companies in venture funds. Further, in August 2008, the Authority vide its Circular No.IRDA/INV/GR/008/2008-09 dated August 22, 2008 advised insurance companies that such investments would be made in venture funds which would invest in infrastructure facility as defined in IRDA (Registration of Indian Insurance Companies) Regulations, 2000.

In the year 2011, the scope of investments by insurance companies in venture funds was expanded to include venture funds investing in micro, small and medium enterprises.

SEBI (Venture Capital Funds) Regulations, 1996 (hereinafter referred as Venture Fund Regulations) are now replaced with SEBI (Alternative Investment Funds) Regulations, 2012 (hereinafter referred as Alternative Fund Regulations) vide notification dated May 21, 2012. The Venture Funds registered under Venture Fund Regulations will continue to be regulated by the said Regulations till they wound up or obtain re-registration under the Alternative Fund Regulations, as prescribed.

The Authority vide its Circular No.IRDA/F&I/INV/CIR/054/03/2013 dated March 18, 2013 permitted insurers to invest in Category I Alternative Investment Funds (AIF) and clarified that such investments would be restricted to Infrastructure and SME sectors.

Pursuant to the issue of this Circular, the Authority received several representations from various stakeholders including large insurance companies to expand the scope of the AIF and include Category II AIF also. This matter was referred to the Expert Committee on Investment constituted by the Authority and the Expert Committee was of the view that the insurance companies should be allowed to invest in Category II AIF also.

In view of the above and in partial modification to the Circular dated March 18, 2013, insurers are permitted to invest in Category I & II AIFs under the extant SEBI Regulations. The permitted Funds in Category I are Infrastructure Fund, SME Fund, Venture Capital Fund and Social Venture Fund as defined in Alternate Fund Regulations. Whereas, in Category II, at least 51% of the funds of such AIF shall be invested in either of the Infrastructure entities or SME entities or Venture Capital undertakings or Social Venture entities. The restrictions

Page 1 of 2

regarding investment of funds outside India, promoter group, combined exposure limits in venture capital funds and AIFs under the Other than Approved category of investments will continue to apply. Insurers are also not permitted to invest in AIFs, which has the nature of Funds of Funds and Leverage Funds.

The investments in Category I AIF shall be shown under category code 'OAF A' and Category II AIF shall be shown under category code 'OAF B'. The existing investments made in AIFs and shown under 'OVNF' shall be reclassified under the above two category codes. The valuation of the Cat II AIF shall be in line with the valuation of Cat I AIF as per the valuation guidelines. Accordingly, the reporting has to be made while filing the quarterly returns on investments.

Investment in the AIFs along with the existing investments in Venture Funds shall be subject to the following revised exposure limits:

Type of Insurer	Overall Exposure to Venture Funds and AIFs put together	Exposure to single AIF/Venture Fund
(a)	(b)	(c)
Life Insurance Company	3% of respective Fund	10% of AIF / Venture Fund size or 20% of Overall Exposure as per (b), whichever is lower. The above '10%' Limit shall be read as '20%' in case of Infrastructure Fund
General Insurance Company	5% of Investment Assets	10% of AIF / Venture Fund size or 20% of Overall Exposure as per (b), whichever is lower. The above '10%' Limit shall be read as '20%' in case of Infrastructure Fund

All fresh investments in AIFs/Venture Funds shall comply with the above stated exposure limits and the Insurers are permitted to continue to hold the existing investments in AIFs/Venture Funds which are not complying with the above exposure limits.


R. K. NAIR
MEMBER (F&I)