



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

CIRCULAR

REF: IRDA/F&I/INV/CIR/213/10/2013

30th October, 2013

The CEOs of all insurers,

SUB: Clarifications on IRDA (Investment) Regulations, 2000, Circulars & Guidelines and Misc. Matters related to Investment Regulations.

The Fifth amendment to the IRDA (Investment) Regulations, 2000 was gazetted vide notification dated 16th February, 2013 and subsequently a circular no. IRDA/F&I/CIR/INV/067/04/2013 Dated 1st April, 2013 was issued regarding key changes in the said amendments. Post issuance of amended regulations and said circular, there have been a number of representations from the Insurers on different issues seeking clarification and exemptions from the applicability of the provisions. Further, feedback has also been received from Insurers and the Life Council on miscellaneous issues on policy matters. After careful examination of these representations, it is decided to issue the following clarifications:

A. Clarifications on IRDA (Investment) Regulations, 2000, Circulars & Guidelines

1. Thinly Traded Equity:

The declaration vide clause VI (B) (11) of Form 4 from the CEO/CFO/CIO on quarterly basis on the thinly traded equity is not in line with the regulation Note 6 to Reg. 9 of Investment Regulations. Accordingly, the declaration shall be read as "***Whether investments in equity shares listed on a recognised stock exchange are made in actively traded and liquid instruments?***"

2. Restraining the Fixed Deposit with Promoter Group Banks

The Fifth Amendment to Investment Regulations restricts the exposure to promoter group companies at 5% of Investment Assets of the Insurer. Further, the said clause (Note 7 to Reg. 9) reads as:

“investment made in all companies belonging to be promoters group shall not be made by way of private placement (equity) or in unlisted instruments (equity, debt, CDs and FDs (without prejudice to Sec. 27A(9) and Sec. 27B(10) of the Act) held in a Scheduled Bank)....”

However, the Authority vide circular dated 1st April, 2013 clarified that ‘no investment shall be made in FDs and CDS in financial institutions falling under promoter group’.

Considering the representations from the Industry and the Life Council, it is hereby decided to permit FDs, as stated in the regulations, in promoter group Scheduled banks within the 5% limit prescribed for Promoter Group subject to the overall limits prescribed for FDs vide sec. 27A(9) and sec. 27B (10) of the Insurance Act, 1938.

3. Investment in Housing :

The Insurers have to meet the industrial exposure norms(except Infrastructure sector) based on the NIC classification. It is noted that specific classification is not available for ‘Housing Sector’, in NIC classification. Whereas, Investments eligible for housing sector are stated in the Reg. 4 & 7 of the Investment regulations. It is hereby clarified that the investments as specified under Regulation 4 & 7 shall be treated as investments in Housing Sector.

4. Time limit for submission of returns

The time limit for submission of the Investment Returns was reduced from 45 days to 30 days from the end of the quarter vide the Fifth Amendment to the Investment Regulations. In view of the difficulties expressed by the Insurers, the time limit for submission of Investment returns is reinstated to 45 days from the end of the quarter.

5. Daily disclosures prescribed vide Circular No. IRDA/F&I/CIR/INV/067/04/2013 dated 1st April, 2013.

- a) Disclosure/reconciliation of Product and Fund Information on the websites of the Life Insurer and the Life Council vide Annexure II of the circular :

It is hereby clarified that Insurers are not required to daily disclose reconciliation on the website(s) as prescribed. However, Insurers have to implement the reconciliation process and get the same certified by the concurrent auditor and submit to the Authority along with the quarterly concurrent audit report.

Further, Insurers are permitted to implement the said reconciliation by the end of 31st December, 2013.

b) Daily disclosure of SFIN wise units and charges prescribed vide **Annexure III** of the Circular:

It is noted that many of the Insurers have been providing SFIN wise units and charges to the policyholders in various formats. Insurers expressed difficulties in implementing the requirements of Annexure III. Therefore, the implementation of Annexure III is postponed till further instructions. In the meantime, the Insurers shall continue to disclose the unit information to the policyholders as required by the Regulation 13D(4) of the Fifth Amendment to the Investment Regulations.

6. **Inconsistencies in the Regulatory Returns prescribed vide Fifth Amendment to the Investment Regulations :**

Form wise clarifications of the Investment Returns:

a) **Form 2 – Part A :**

The Footnote No. 3, shall be read as:

*“FORM-2 shall be prepared in respect of each fund. In case of ULIP **FORM-2** shall be prepared at Segregated Fund(SFIN) level and also at consolidated level.”*

b) **Form 2- Part B:**

The different column headings shall be read as follows:

Column No.	At present	Shall read as	Remarks
5	AA+ or Equivalent'	AA+ or AA'	The classification required to know the distribution of approved and other investments

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6	AA or lower upto A+ or Equivalent	AA- or lower upto A+ or Equivalent	-do-
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Further, the investments made in CBLO shall be classified as AAA rated instruments.

c) **Form 4A-Part A :**

Ref.	Text in the Form	Clarifications
Note 3	<i>'Exposure would be on the basis of book value'</i>	The note is meant for calculating the exposure limit based on the Investment Assets.
Sub column 2 of column 4	<i>Actual</i>	The equity investments are valued at Face Value. Table under Reg. 9B, sec. 27A(4) and 27B(5) calculates the exposure limit based on face value of shares/subscribed share capital
Sub column 2 of column 5	<i>Actual</i>	The debt investments are valued at book Value
Sub column 2 of column 6	<i>Actual</i>	The equity investments are valued at face value and debt investments are valued at book Value. Table under Reg. 9B, sec. 27A(4) and 27B(5) calculates the exposure limit based on face value of shares/subscribed share capital

d) **Form 7:**

The Total column of the Investments shall include all categories of Investments as per Form 3A/3B.

e) **Form 3A (Part A), Form 3A (Part D), Form 3B (Part A), Form 3B (Part B), Form 5 and Form 6 :**

While calculating the Totals, the investment in Central Govt. Securities is double counted as per the Formats given. It is hereby clarified that investments in Central Govt. securities shall not be double counted for arriving the Totals.

B. Misc. Matters pertaining to the Investments:

1. **'Other Investments' in Pension, Annuity and Group Funds (P&A)**

Other Investments are not permitted in P&A Funds. However, Approved Investments may turn into Other Investments due to change in rating in case of debt. 'Distress sale' to meet

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the pattern requirement may be detrimental to the policyholders' interest as the secondary market for debt securities is not vibrant / liquid.

Therefore, Insurers are now permitted to hold such debt instruments which got classified as 'other investments' due to downgrading of rating and make efforts to regularize the pattern as soon as possible without affecting the policy holders interest and the Investment Committee shall review the process on quarterly basis with an intimation to the Authority.

2. Exemption from Exposure norms if the fund size is small:

Insurers would be exempted from adhering to the Industry, Group and Single Investee company exposure norms if the Segregated Fund size is below ₹ 5crs. However, Insurers shall continue to follow the pattern of investments at segregated fund level. Further, Insurer shall also continue to adhere to exposure norms and pattern of investments at overall ULIP Fund level.

3. Permission of excess Industry limits in specific Industry viz. Information Technology:

Presently, Insurers are permitted to take exposure in a specific industry up to 15% of the Investment Assets (25% in case of BFSI sector and no exposure limit for Infrastructure sector). We note that the industrial weightage on the benchmark indices is dynamic and presently IT industry contributes more than 15% on the benchmark indices. As the weightage keeps on changing from time to time, it is decided to give general permission to have exposure of further 5% in one industrial sector (not applicable to BFSI) with the following condition:

- i) Prior permission needs to be obtained from the respective Board of the Insurer. Board can permit such additional exposure in one industry by cancelling the earlier approval, if any, in this regard.
- ii) At any point of time, Insurers are permitted to have excess weightage beyond 15% in only one Industrial sector (except BFSI and Infrastructure sectors).

4. Valuation of Equity:

The Investment Committee of the Insurer shall select from NSE and BSE as Primary and Secondary Exchanges and the valuation of equity shares shall be made on the closing price of the Primary Exchange selected. If such security is not listed/not traded on the Primary Exchange, Insurer shall use the closing price of the Secondary Exchange. The

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selection of the Primary and Secondary Exchange shall be followed consistently. Any change in the selection shall have prior approval from Investment Committee with proper justification.

The Insurers shall implement the above within 30 days of issuance of this circular. The above stated selection for valuation purpose shall be notified on the websites of the Insurers in advance.

5. Declaration of business day on the eve of special trading on festival days

The Fifth Amendment to Investment Regulations prescribed to declare NAV on Business Day. Note to Reg. 13D states that:

Business day shall mean days other than holidays where stock exchanges with national wide terminals are open for trade (other than day on which exchanges are open for testing) or any day declared by the Authority as business day.

The special trading sessions such as Muharat trading on the eve of Diwali etc. is not meant for testing, it is hereby clarified that Insurers **may** treat such special trading days as business day and declare NAV subject to the requirements of the Investment Regulations.

6. Increasing the exposure limits in Liquid Mutual Funds for General Insurers:

The exposure norms for investments in MFs are governed by Circular no. INV/CIR/08/2008-09 dated 22nd August, 2008 and Circular no. INV/CIR/020/2008-09 dated 11th November, 2008. The Authority is in receipt of representations from the General Insurers to enhance the exposure limits in Mutual Funds for fund size above ₹ 2000 crores. It is now decided to reconsider exposure limits as below:

	Existing Limits (Percentage of Investment Assets)	Proposed Limits (Percentage of Investment Assets)
Liquid MFs eligible for Approved Investments category, if the Investment Assets crossed ₹ 2000 crores	1.5%	[₹ 100 crores] + [1.5% of Investment Assets beyond ₹ 2000 crores]

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The other terms and conditions for Investment in Mutual Funds shall continue to be governed by the above stated circulars.

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**R K NAIR
MEMBER (F & I)**

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