

**IRDA (Issuance of Capital by General Insurance Companies) Regulations, 2012**

*In exercise of powers conferred under section 14 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), read with sections 6AA and 114A of the Insurance Act, 1938, the Authority, in consultation with the Insurance Advisory Committee, hereby makes the following regulations, namely:-*

**1. Short title and commencement**

- i. These Regulations shall be called the IRDA (Issuance of Capital by General Insurance Companies) Regulations, 2012
- ii. They shall come into force on the date of their publication in the Official Gazette.

**2. Definitions**

In these Regulations, unless the context otherwise requires:

- a. 'Act' means the Insurance Act, 1938 (4 of 1938);
- b. 'Applicant Company' means a General Insurance Company coming within the definition of Indian Insurance Company.
- c. 'Authority' means Insurance Regulatory and Development Authority established under Section 3 of the Insurance Regulatory and Development Authority Act, 1999;
- d. 'Application' means application submitted to the Authority under the IRDA (Issuance of Capital by General Insurance Companies) Regulations, 2012
- e. 'Corporate Governance Guidelines' means the guidelines issued by the Authority vide its Circular no. IRDA/F&A/CIR/025/2009-10 dated 5<sup>th</sup> August, 2009 as amended and modified from time to time.
- f. 'Date of commencement of business' means the date of grant of certificate of registration under IRDA (Registration of Indian Insurance Companies) Regulations 2000.
- g. 'Excess Shareholding' means shareholding over and above the limits of shareholding prescribed under Section 6AA of the Insurance Act.
- h. 'Insurance company' means the 'Indian Insurance Company' as defined in Section 2(7)A of the Insurance Act 1938;
- i. 'SEBI' means the Securities and Exchange Board of India
- j. 'ICDR Regulations' means the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 as amended and modified from time to time.

- k. 'Key Managerial Personnel' shall include but not limited to the key persons as defined in IRDA (Registration of Indian Insurance Companies) Regulations, 2000.
- l. 'Offer Document' means a document as defined under the ICDR Regulations.
- m. 'Promoter' of an applicant company means  
'Any person or persons who holds equity shares in the insurance company at the time of grant of registration (R3) by Authority, and includes any person or persons who may have acquired equity shares in the company with the prior approval of the Authority under the provisions of section 6A (including Regulations, Circulars and clarifications framed there under) of the Insurance Act, 1938.'

Provided that an existing or an ex-director or ex-officer of the issuer who has acquired a stake under any form of Employee Stock Option Scheme (ESOP) shall not be deemed as a promoter.

Provided further, that for the purpose of filing of the offer document with SEBI, the definition of 'promoter' under SEBI (ICDR) Regulations 2009 shall apply.

- n. 'Proposal' means the application filed by the applicant company with the Authority under Form 'A' attached to these Regulations for obtaining formal approval of the Authority.

All words and expressions used herein and not defined in these Regulations but defined in the Insurance Act, 1938 (4 of 1938), or the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), shall have the same meaning respectively assigned to them in those Acts.

### **3. Prior Written Approval by the Authority:**

No general insurance company shall approach the SEBI for public issue of shares and for any subsequent issue, by whatsoever name called, under the ICDR Regulations without the specific previous written approval of the Authority accorded in the manner prescribed herein.

### **4. Manner and Procedure:**

These Regulations shall be applicable to divestment of the excess shareholding by the promoters of the applicant company as prescribed in Section 6AA of the Act 1938 and/or to otherwise raise funds under the ICDR Regulations, *inter alia* through any of the following options:

- a. Issue of capital under ICDR Regulations; and
- b. Divestment of equity by one or more of the promoters through a public offer for sale under the ICDR Regulations.

The application for the approval of the Authority shall be filed in Form 'A' forming part of these Regulations.

**Provided** that no issuance and allotment of capital by an insurance company shall be in any form other than as fully paid up equity shares.

**Further provided** that any issue of capital other than as specified at (a) and (b) above, including any transfer of shares beyond the specified limits as laid down under section 6A(4)(ii)/(iii) of the Insurance Act, 1938 shall require the specific prior approval of the Authority. Such approvals shall be governed by the stipulations laid down by the Authority.

#### **5. Approval of the Authority:**

- (i) An applicant company proposing to raise share capital through a public issue in terms of these regulations may do so only on completion of 10 years from the date of commencement of business by the applicant company or such other period as may be prescribed by the Central Government.
- (ii) The approval granted by the Authority shall have a validity period of one year from the date of issue of the approval letter, within which the applicant company shall file the Draft Red Herring Prospectus (DRHP) with SEBI under the ICDR Regulations.
- (iii) Any approval by the Authority in terms of the Regulations herein, shall not in any manner be deemed to or serve as a validation of the representations by the applicant company in any offer document, which fact shall be disclosed in bold letters in any offer document.
- (iv) The Authority reserves the right not to accord its approval if, in its opinion,  
(i) the applicant company is not compliant with the regulatory framework; or  
(ii) where it may be detrimental to the interests of policyholders; or  
(iii) it may not be in the interest of the insurance business in the country.

#### **6. Criteria for consideration for approval:**

The Authority shall generally consider the applicant company's overall financial position; its regulatory record; the proposal for issue/offer of capital; the capital structure post issue/offer of capital; and the purposes to which the share capital proposed to be raised will be applied. In particular, the Authority shall consider the following parameters amongst others:

- (i) the period for which the applicant has been in the general insurance business;
- (ii) the history of compliance with the regulatory requirements by the applicant company;
- (iii) the maintenance of the prescribed regulatory solvency margin as at the end of the preceding six quarters commencing from the quarter immediately prior to the date of filing the application;
- (iv) compliance with the disclosure requirements mandated under IRDA Circular No. IRDA/F&I/CIR/F&A/012/01/2010 dated 28<sup>th</sup> January, 2010 as amended and modified from time to time;
- (v) compliance with the Corporate Governance Guidelines;
- (vi) its record of policyholder protection; and
- (vii) the Embedded Value of the applicant company. Such Embedded Value Report shall be prepared by an independent Actuarial Expert and peer reviewed by another independent Actuary and shall be prepared in the manner prescribed by the Actuarial Practice Standard issued by the Institute of Actuaries of India or in compliance with the prescriptions laid down by the Authority in this regard.  
The Authority generally expects the Embedded Value to be two times the paid up equity capital (the paid up capital shall be inclusive of the share premium).

## **7. Conditions for approval**

While according its approval, the Authority may prescribe:

- (i) the extent to which the promoters shall dilute their respective shareholding;
- (ii) the maximum subscription which could be allotted to any class of foreign investors;
- (iii) minimum lock-in period for the promoters from the date of allotment of shares. The lock-in period shall be without prejudice to the requirements which may be in place under the ICDR Regulations; and
- (iv) the disclosures in the Prospectus/Offer document, in addition to such disclosures as may be prescribed by SEBI, which may include the disclosures as indicated at Annexure-1 to these Regulations.

## **8. Timelines for approval by the Authority:**

The Authority shall process and grant approval on the application as expeditiously as possible, and the applicant company shall ensure prompt response to the queries and requests for information from the Authority for processing the application.

**(J. Hari Narayan)**  
**Chairman**

**FORM A**

The Chairman  
Insurance Regulatory and Development Authority  
Parishram Bhavan  
3<sup>rd</sup> Floor,  
Basheer Bag  
Hyderabad – 500 004

Dear Sir,

**Re.: Application for approval in terms of IRDA (Issuance of Capital by General Insurance Companies) Regulations, 2012**

In terms of the **IRDA (Issuance of Capital by General Insurance Companies) Regulations, 2012**, M/s..... (Registration No. .... dated .....) which has completed ..... years of operations, hereby applies to the Authority for issue of capital under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations).

2. The details of the various eligibility parameters referred to under Regulation 6 of the Regulations are placed at Annexe along with the requisite enclosures as listed below:

- i)
- ii)
- iii)

The Report on Embedded Value calculation prepared by an independent actuarial expert and peer reviewed by another actuary in compliance with the prescriptions laid by the Actuarial Practice Standard issued by the Institute of Actuaries of India or in compliance with the prescriptions laid down by the Authority in this regard is annexed to the Application.

On receipt of the approval from the Authority, the (insurance company).....shall file an offer document with the Securities and Exchange Board of India (SEBI) under the ICDR Regulations within a period of one year and shall ensure compliance with the requirements under the said Regulations.

Place:

Yours faithfully

Date:

**(Signature of the Chief Executive Officer)**  
**Designation**

**(Signature of the Chairman of the Board)**  
**Designation**

**Annexe to the Application**

1. Name of the applicant Company:
2. No. and Date of Registration:
3. Renewal certificate issued on:
4. Number of years from the date of commencement of business:
5. Status of Compliance with the expenses of management requirements under the Insurance Act, 1938 and the Rules framed thereunder for the last five years:

Sl. No.	Financial year (last first)	Allowable Expenditure (Rs. in crore)	Actual Expenditure (Rs. in crore)	Compliance status
1				
2				
3				
4				
5				

6. Details of the net profit, paid up capital and networth of the insurer for the last five years:

Sl. No.	Financial Year (last first)	Net Profit/Loss (Rs. in crore)	Paid up capital (Rs. in crore)	Net worth (Rs. in crore)
1				
2				
3				
4				
5				

7. Solvency Position for the quarter ended (for the last six quarters):

Sl. No.	Quarter ended (last first)	Solvency Position
1		
2		
3		
4		
5		
6		

8. Confirmation of Compliance with the Disclosure Requirements:  
M/s ..... hereby confirms that it is compliant with the disclosure requirements as mandated in the IRDA Circular No. IRDA/F&I/CIR/F&A/012/01/2010 dated 28<sup>th</sup> January, 2010 as amended and modified from time to time.  
*(Details of deviations, if any, should be brought out).*
9. Confirmation of Compliance with the Corporate Governance Guidelines:  
M/s ..... hereby confirms that it is compliant with the Corporate Governance Guidelines issued by IRDA vide Circular no. IRDA/F&A/CIR/025/2009-10 dated 5<sup>th</sup> August, 2009.  
*(Details of deviations, if any, should be brought out).*
10. Details of regulatory action initiated by IRDA against the insurer for the last five years are as under:
11. Details of company's record of Policyholder Protection and the pendency of the policyholder complaints for the last five years:

GRIEVANCE DISPOSAL							
Sl. No.	Particulars	Opening Balance*	Additions	Complaints Resolved			Complaints Pending
				Fully Accepted	Partially Accepted	Rejected	
<b>1</b>	<b>Complaints made by customers</b>						
a)	Sales Related						
b)	Policy Administration Related						
c)	Insurance Policy Coverage Related						
d)	Claims Related						
e)	Others						
	<b>Total Number</b>						
<b>2</b>	<b>Duration wise Pending Status</b>		<b>Complaints made by customers</b>	<b>Complaints made by Intermediaries</b>	<b>Total</b>		
a)	Less than 15 days						
b)	Greater than 15 days						
	<b>Total Number</b>						

\*Opening balance should tally with the closing balance of the previous financial year.

12. The details of claims outstanding for the last five years:

**CLAIMS OUTSTANDING**

Sl. No	PARTICULARS	Fire	Marine Cargo	Marine Hull	Engineering	Motor OD	Motor TP	Health	Overseas Travel	Personal Accident	Liability Insurance	Crop Insurance	Credit	All Other Miscellaneous	Total
1	Claims O/S at start of the year														
2	Claims Intimated/ Booked during the year														
3	Claims Settled during the year														
4	Claims Repudiated during the year														
5	<b>Claims O/S at end of year</b>														
Age wise details of outstanding claims															
	Less than 1 month														
	1 month to 3 months														
	3 months and less than 6 months														
	6 months and less than 1 year														
	1 year and less than 3 years														
	3 years and less than 5 years														
	5 years and above														
	<b>Total</b>														

Note : Details to be furnished for both number of claims and amount (Rs. in lakhs) Outstanding.

13. The Embedded value of the insurance company as arrived at by the independent actuarial expert is .....

The Embedded Value Report has been prepared by .....

The Embedded Value has been peer reviewed by .....

14. The details of the pre and post issue shareholding pattern are as under:

Sl. No.	Existing shareholding pattern				Proposed Offer for Sale/Issue		Proposed shareholding pattern		
	Name	Status (Indian/ Foreign)	No. of shares held	Per cent held	No. of shares	Per cent	Status (Indian/ Foreign)	No. of shares	Per cent
1.									
2.									
....									
....									
....									
....	<b>Issue under ICDR Regulations</b>								



15. The requisite extracts of the Board meeting held on ..... duly certified by the Chief Executive Officer approving the issuance of capital/offer for sale as proposed by the applicant company.

It is hereby confirmed that the information furnished in Form A along with attachments therewith is correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Place:

Yours faithfully

Date:

**(Signature of the Chief Executive Officer)**

**Designation**

**(Signature of the Chairman of the Board)**

**Designation**

## **Annexure 1**

### **Disclosure Requirements for Applicant General Insurance Company**

The Securities and Exchange Board of India (SEBI) has laid down the framework for issue of capital and disclosure requirements in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations). Part 'A' of Schedule VIII of the ICDR Regulations lays down the disclosure requirements in the Draft Red Herring Prospectus, Red Herring Prospectus, Shelf Prospectus and Prospectus.

An applicant company seeking to issue capital/ make an Offer for Sale under these Regulations shall make the following disclosures in the offer document. These disclosures shall be in addition to the prescriptions laid down by SEBI in the ICDR Regulations and shall not be seen in derogation of the requirements prescribed by SEBI:

- a. Risk factors specific to the insurance companies
- b. Overview of the insurance industry
- c. Disclosure of Financial Statements
- d. Glossary of terms used in the insurance sector
- e. Particulars of the Issue
- f. Particulars about the Issuer
- g. Legal and other Information.

The details of disclosures are as indicated below:

#### **a. Risk factors specific to the applicant company**

The Offer Document shall list out the risk factors specific to the insurance sector, to be broadly segregated into the following categories:

1. Insurance Risk: Risk arising because of inaccurate estimation of the best estimate or because of random fluctuations in the frequency and size of the claims and other cash flows. Risks relating to Catastrophic losses shall also be covered.
2. Market Risk: Risk arising out of variations in the level or volatility of the market prices of assets, liabilities and financial instruments due to external market and economic factors.

3. Credit Risk: Risk of default of a counterparty or obligor, including the risk of default to risk mitigating contracts like reinsurance and financial derivatives.
4. Liquidity Risk: The risk that the business will encounter difficulty in realizing assets or otherwise raising funds to meet commitments.
5. Operational Risk: The risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events.
6. Reinsurance risk: Risk arising out of the reinsurance arrangements, including any significant reserve and capital impact; and whether the arrangement involves true transfer of risk.

At the minimum, the associated risks shall cover the illustrative list as prescribed by the Authority from time to time.

**b. Overview of the insurance industry**

The overview of the insurance industry shall briefly cover the background of the insurance industry, the global and domestic insurance environment, industry outlook, analysis of trends, investment of funds by the sector, FDI in Insurance Sector, Intermediaries, changes in Insurance Legislation, and compliance status with the applicable Corporate Governance Guidelines furnishing particulars on the following aspects:

1. Introduction
2. Background about Insurance Industry
  - 2.1. Overview of the Insurance Industry
  - 2.2. Insurance Regulatory and Development Authority
3. Global Insurance Environment- A brief on global and domestic scenario covering Insurance Penetration, Density, growth of Industry, etc.
  - 3.1. Global Insurance Environment
  - 3.2. Domestic Market Overview
4. Industry Outlook - General Insurance - Premium Underwritten
  - 4.1. Market Share (% share)
  - 4.2. Growth of Business
5. Analysis of Trends – General Insurance

- 5.1 General Insurance
  - 5.1.1 Enlarged Coverage
  - 5.1.2 Introduction of New Products
  - 5.1.3 Tariffed and non-tariffed products (to discuss)
  - 5.1.4 Reinsurance Supported Products (to discuss)
  
- 5.2 Health insurance
  - 5.2.1 Enlarged Coverage
  - 5.2.2 Introduction of New Products
  
- 5.3 Reinsurance Business
  
- 6. Investment of Funds by the Insurance Industry
  - 6.1. Investment Pattern
  
- 7. FDI in Insurance Sector
  
- 8. Intermediaries
  - 8.1. Commission Structure
  - 8.2. General Insurance Industry
  
- 9. Changes in Insurance Legislation
  - 9.1. Changes in Insurance Legislation
  - 9.2. Regulatory Issues and Changes
  - 9.3. Consumer Related Changes
  - 9.4. Removal of Redundant Clauses
  - 9.5. Enhancement of Enforcement Powers and Levy of Penalties
  
- 10. Corporate Governance Guidelines for Insurance Companies
  
- 11. Conclusion

**c. Disclosure of Financial Statements**

Disclosures specific to the insurance industry would broadly cover the following aspects:

1. Presentation of the financial statements: The presentation of financial statements shall be made for the period as specified in the ICDR

Regulations as per the formats prescribed by the Authority from time to time.

**2. Additional disclosures shall be made to the financial statements:**

- i. Gross premium- along with Geographic segmentation
- ii. Cross selling
- iii. Distribution network
- iv. Operating expense ratio
- v. Investment yield
- vi. Investment of above 5% of total Funds in each sector through equity and bonds
  - (a) Reinsurance: Number of re- insurers with break-up- domestic and foreign
  - (b) Ratings of re-insurers
  - (c) Type of arrangement with Reinsurers:
    - I. Treaty Reinsurance-
      - i. Proportional treaties
        1. Obligatory and
        2. Others
      - ii. Non-proportional Treaties
        1. Excess of Loss
        2. Stop Loss
        3. Any other
    - II. Facultative Reinsurance.-
    - III. Obligatory and
- vii. Others
- viii. Reinsurance balances outstanding- age-wise
- ix. Maximum probable Loss Ratio
- x. Incurred but not reported (IBNR) /Incurred but not enough reported (IBNER)
- xi. Claims outstanding for the last five years
- xii. Interest rate sensitivity
- xiii. Manner of arriving at unrealized gain/losses
- xiv. Solvency Coverage ratio
- xv. Certification by the Auditor confirming that the amount of liabilities has been determined in the manner prescribed in the IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 and the amount of liabilities are fair and reasonable. The Auditor shall also certify that the amount of liabilities includes the IBNR (and the IBNER) reserves which have been determined by the appointed actuary;

- xvi. Embedded Value as per the Actuarial Practice Standard issued by the Institute of Actuaries of India/or in compliance with the prescriptions laid down by the Authority in this regard.
- xvii. Accounting and other ratios: The ratios with specific reference to the insurance industry as prescribed by the Authority from time to time shall be disclosed.

3. Legal and other Information: Compliance with the regulatory requirements laid down by the Authority under the Insurance Act, 1938, IRDA Act, 1999 and the regulations framed thereunder.

4. Details of company's record of Policyholder Protection and the pendency of the policyholder complaints for the last five years, including but not limited to grievance redressal and ageing of claims.

**d. Definitions and Abbreviations:**

At the minimum, the illustrative glossary of terms as prescribed by the Authority from time to time shall be included in the Offer Document giving details of the Issuer and industry related terms.

**e. Particulars of the Issue:**

The following disclosures shall be made about the objects of the Issue:

- a. to augment the solvency requirement;
- b. general corporate purposes; and/or
- c. any other purpose which has the specific approval of the Authority.

**f. Particulars about the Issuer:**

The following additional disclosures shall be made about the insurance company:

**1. Corporate Governance:**

- Disclosure to the effect that the insurer has complied with the requirements of Corporate Governance as laid down by the Authority in addition to those contained in the Listing Agreement.

- Details of all Committees set up by the issuer, including the names of committee members and a summary of the terms of reference under which the respective committee operates.

2. Key Managerial Personnel

3. Promoters

**g. Legal and Other Information**

***Disclaimer clause:***

*The declaration indicating that Insurance Regulatory and Development Authority (“IRDA”) does not undertake any responsibility for the financial soundness of the insurance company or for the correctness of any of the statements made or opinion expressed in this connection.*

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