

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

NOTIFICATION

New Delhi, the 31st May, 2001

F.No. IRDA/Reg/5/2001. - In exercise of the powers conferred by sections 27A, 27B, 27D and 114A of the Insurance Act, 1938 (4 of 1938), the Authority, in consultation with the Insurance Advisory Committee, hereby makes the following regulations to amend the Insurance Regulatory and Development Authority (Investment) Regulations, 2000, namely:-

- 1 (1) These regulations may be called the Insurance Regulatory and Development Authority (Investment) (Amendment) Regulations, 2001.
- (2) They shall come into force on the date of their publication in the Official Gazette.
- 2 In the Insurance Regulatory and Development Authority (Investment) Regulations, 2000, -

After Clause (b) of Regulation 2, the following clause shall be added:-

“(ba) ‘Assets’ means all the assets of insurer, at their carrying value, shown in his Balance Sheet drawn in Form B-BL of the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditors’ Report of Insurance Companies) Regulations, 2000, but excluding items under the head ‘Miscellaneous Expenditure’”

3. For the existing regulation 3, the following shall be substituted:-

“3.Regulation of Investments

(1) Life Business: In terms of explanation in Section 27 A of the Act, the Authority has determined that assets relating to Pension business, Annuity business and Linked Life Insurance business shall not form part of the Controlled Fund for the purpose of that section.

Without prejudice to Section 27 or Section 27A of the Act, - Every insurer carrying on the business of life-insurance shall invest and at all times keep invested his controlled fund (other than funds relating to pension and general annuity business and unit linked life insurance business) in the following manner:

S.No	Type of Investment	Percentage
i)	Government Securities	25%
ii)	Government Securities or other approved Securities (including (i) above)	Not less than 50%

iii)	Approved Investments as specified in Schedule I	
a)	Infrastructure and Social Sector Explanation: For the purpose of this requirement, Infrastructure and Social Sector shall have the meaning as given in regulation 2(h) of Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000 and as defined in the Insurance Regulatory and Development Authority (Obligations of Insurers to Rural and Social Sector) Regulations, 2000 respectively.	Not less than 15%
b)	Others to be governed by Exposure norms as specified in regulation 5. Investment in "other than approved Investments" can in no case exceed 15% of the fund	Not exceeding 35%

(2) 'Pension and General Annuity Business': Every insurer shall invest and at all times keep invested funds belonging to his Pension Business, General Annuity Business in the following manner:-

Sl.No.	Type of Investment	Percentage
(i)	Government Securities, being not less than	20%
(ii)	Government Securities or other approved securities (inclusive (I) above, being not less than)	40%
(iii)	Balance to be invested in Approved Investments as specified in Schedule I and to be governed by Exposure/Prudential Norms specified in Regulation 5	Not exceeding 60%

Note : For the purposes of this sub-regulation no unapproved investments shall be made.

(3) 'Unit Linked Life Insurance Business': Every insurer shall invest and at all times keep invested his segregated fund of unit linked life insurance business as per pattern of investment offered to and approved by the policyholders. Unit Linked policies may only be offered where the units are linked to categories of assets which are both marketable and easily realizable. However the total investment in other than approved category of investments shall at no time exceed 25% of the fund.

4. For the existing regulation 4, the following shall be substituted:-

"4. Regulation of Investments

4(1) General Business: Without prejudice to Section 27 or Section 27B of the Act, - Every insurer carrying on the business of general insurance shall invest and at all times keep invested his total assets in the manner set out below:

S.No	Type of Investment	Percentage
i)	Central Government Securities being not less than	20%
ii)	State Government securities and other Guaranteed Securities including (i) above being not less than	30%
iii)	Housing and Loans to State Government for Housing And Fire Fighting equipment, being not less than, (Subscription to/purchase of Bonds/debentures issued by HUDCO, National Housing Bank or House building institutions duly accredited by National Housing Banks, for house building activities, duly guaranteed by Government or carrying current rating of not less than 'AA' by independent, reputed and recognised rating	5%

agencies would also qualify for compliance of this regulation.)

- iv) Investments in Approved Investments as specified in Schedule II
- a) Infrastructure and Social Sector

Not less than 10%

Explanation:

For the purpose of this requirement, Infrastructure and Social Sector shall have the meaning as given in regulation 2(h) of Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000 and as defined in the Insurance Regulatory and Development Authority (Obligations of Insurers to Rural and Social Sector) Regulations, 2000 respectively.

- b) Others to be governed by Exposure Norms specified in regulation 5 so however that investment in "other than approved investments" can in no case exceed 25% of the assets.

Not exceeding 55%

(2) Reinsurance Business: Every reinsurer carrying on reinsurance business in India shall invest and at all times keep invested his total assets in the same manner as set out in sub-regulation (1), until such time separate regulations in this behalf are made by the Authority.

Note : For the purpose of the regulations 3 and 4:

1. Every insurer shall endeavor to maintain a proper balance between the investments made in infrastructure sector and those in the social sector. Bonds issued for development of these sectors, duly guaranteed by Government or otherwise rated not less than "AA" by independent, reputed and recognised rating agencies, issued by others would qualify for compliance of this regulation.
2. All investment in assets/ instruments, which are capable of being rated as per market practice, be based on rating of such assets/ instruments.
3. The rating should be by an independent, reputed and recognised Indian or foreign rating agency.
4. The assets/ instruments under consideration for investment, shall be of a grade not less than "AA" of investment grade as per their current rating. In case Investments of this grade are not available to meet the investment requirements of the investing insurance company and investment committee of the investing insurance company is fully satisfied about the same, then, for the reasons to be recorded in the investment committee's minutes, the investment committee may approve investment in instruments carrying current rating of not less than +A. Investments in the +A to be kept to the minimum.
5. The rating of Debt Instruments issued by all India financial institutions recognised as such by RBI may be of 'AAA' or equivalent rating. In case investment of this grade are not available to meet the requirements of the investing insurance company and investment committee of the investing insurance company is fully satisfied about the same, then, for the reasons to be recorded in the investment committee's minutes, the investment committee may approve investments in instruments carrying current rating of not less than 'AA' or equivalent as rated by an independent, reputed and recognised Indian or foreign rating agency.
6. No investment shall be made in an asset/ instrument, which is capable of being rated as per market practice but has not been rated.
7. Investments in equity shares listed on a recognised stock exchange should be made in actively traded and liquid instruments viz., its trading volume does not fall below ten thousand units in any trading session during the last 12 months or trading value of which exceeds Rs. 10 lacs in any trading session during last 12 months."

5. For the existing regulation 5 the following shall be substituted:-

5. EXPOSURE/ PRUDENTIAL NORMS

Without prejudice to anything contained in sections 27A and 27B of the Act, every insurer shall limit his investments based on the following exposure norms:

Type of Investment	Limit for Investee Company	Limit for the entire group to which the Investee Company belongs	Limit for the Industry Sector to which the Investee Company belongs
(a) All investments in Equity / Preference Shares of the Company (b) Debentures (Convertible / partly convertible/non-convertible) (c) Short/ Medium/ Long term loans (d) Any other permitted investments as per the Act/Regulation	<p>In the case of Indian Insurance Companies: Exposure at any point of time not to exceed 10% of the subscribed share capital, free reserves and debentures/ bonds of the investee company or the 10% of the Insurer's total assets in case of non-life insurers and 10% of the Controlled funds in case of Life insurers, whichever is less.</p> <p><u>In the case of existing insurers:</u> The limits mentioned above as applicable to the Indian Insurance Companies, shall stand modified as under:- a) exposure at any point of time not to exceed 20% of the subscribed share capital, debentures/ bonds of the investee company or 5% of the Controlled funds of the life insurer or 10% of the general insurers total assets</p>	<p>Exposure at any point of time not to exceed 10% of the aggregate subscribed share capital, free reserves and debentures of all the group companies in which investments including investments under considerations, have been or proposed to be made by the insurer or the 10% of the total assets in case of Non-Life Insurers and 10% of the Controlled Funds in case of Life Insurers whichever is less.</p> <p>The percentage of 10% of the total assets in the case on Non-Life insurers and 10% of the Controlled Fund in case of Life insurers can be raised to 15% in each case subject to specific approval of IRDA.</p>	<p>Investment by the insurer in any industrial sector would not exceed 10% of its total investment exposure to the industrial sector as a whole. (Classification of Industrial sector to be done on the lines of classification in Industries done by CMIE (Centre for Monitoring Indian Economy)</p>

Notes

- Subject to exposure limits as per Insurance Act, 1938, investment in equity including preference shares, investment in equity convertible part of debentures should not exceed 50% of the above exposure norms as mentioned in the table. A similar 50% of exposure norms limit would also apply to investment in immovable property.
- Subject to exposure limits mentioned in the table above, an Insurer shall not have investments of more than 5% in aggregate of its Controlled funds in the case of a life insurer or 5% in aggregate of its assets in the case of non-life insurer in the companies belonging to the promoters' groups. For the purposes of this regulation "group" will have the same meaning as in the MRTF Act, 1969. All investments in this category would specifically be referred to the Authority.

6(a) In the existing regulation 6, after the entry at serial number 4 of the table, the following shall be inserted as serial number 5.

5	Form 3C	Exception Report on instruments not complying with "AA" or "AAA" grade - Compliance Report	Quarterly	Within 21 days of the end of each quarter	Principal Officer/Chief (Investment)
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(b) The existing entry in the table at serial number 5 shall be re-numbered as serial number 6.

7. For the existing regulation 8, the following shall be substituted:-

8. Duty to Report extraordinary events affecting the investment portfolio

Every insurer shall report to the Authority forthwith, the effect or the probable effect of any event coming to his knowledge, which could have material adverse impact on the investment portfolio and consequently on the security of policyholder benefits or expectations.

8. For the existing regulation 9, the following shall be substituted:-

“9. Constitution of Investment Committee

(1) Every insurer shall constitute an Investment Committee which shall consist of a minimum of two non-executive directors of the Insurer, the Principal Officer, Chiefs of Finance and Investment divisions, and wherever appointed actuary is employed, the Appointed Actuary. The decisions taken by the Investment Committee shall be properly recorded and be open to inspection by the officers of the Authority.

(2) Every insurer shall draw up annually an Investment Policy and place the same before its Board of Directors for its approval. In framing such a policy, the Board will be guided by

- i) issues relating to liquidity, prudential norms, exposure limits, stop loss limits in securities trading, management of all investment & market risks, management of assets liabilities mismatch, investment audits and investment statistics, etc. and the provisions of the Insurance Act, 1938 and Insurance Regulatory and Development Authority (Investment) Regulations, 2000.
- ii) ensuring an adequate return on Policyholders & Shareholders funds consistent with the protection, safety and liquidity of such funds.
- iii) the funds of the insurer shall be invested and continued to be invested in equity shares, preference shares and instruments which enjoy a rating referred to in note below regulation 4 and made by a national/international agency; in the absence of a rating for an asset, the Board shall lay down clearly the norms that will be followed by the investment committee which will ensure that the safety and liquidity of the policyholders' funds are assured.

(3) The investment policy as approved by the Board will be implemented by the investment committee, which shall keep the Board informed periodically about its activities.

(4) The Board shall review its investment policy and its implementation on an half-yearly basis or at such short intervals as it may decide and make such modifications in its existing investment policy as are necessary to bring them in tune with the requirements of law and regulations – in regard to protection of policyholders' interest and pattern of investment laid down.

(5) The details of the Investment Policy or its review as periodically decided by the Board shall be submitted to the Authority within 30 days of its decision thereto. The Authority may call for further information from time to time from the insurer as it deems necessary and in the interest of policyholders issue such directions to the insurers as it thinks fit. “

9. For the existing regulation 10, the following shall be substituted:-

“10 Miscellaneous

(1) Valuation of Assets and Accounting of Investments shall be as per the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000.

(2) The Authority may, by any general or special order, modify or change the application of regulations (3), (4), (5) and (6) to any insurer either on its own or on an application made to it.”

10. For the existing Schedule I, the following shall be substituted:-

“

Schedule I

(See Regulation 3)

List of approved Investments for life business

‘Approved Investments’ for the purposes of section 27A of the Act shall be as follows:

- (a) all approved investments specified in section 27A of the Act except
 - (i) clause (b) of sub-section (1) of section 27A of the Act;
 - (ii) first mortgages on immovable property situated in other country as stated in clause (m) of sub-section (1) of section 27A of the Act;
 - (iii) immovable property situated in other country as stated in clause (n) of sub-section (1) of section 27A of the Act.
- (b) In addition the authority under powers given vide clause (s) of sub-section (1) of section 27A of the Act declares the following investments as approved investments:
 - (i) All secured loans, secured debentures, secured bonds, other secured debt instruments, shares and preference shares and debt instruments issued by all India Financial Institutions recognised as such by Reserve Bank of India – investments to be made in terms of investment policy guidelines, benchmarks and exposure norms/ limits approved by the Board of Directors of the insurer.
 - (ii) Subject to norms/ limits approved by the Board of Directors of the insurers deposits with banks (e.g. in Current account, call deposits, notice deposits, certificate of deposits etc.) included for the time being in the Second Schedule to Reserve Bank of India Act, 1934 (2 of 1934) and deposits with Primary Dealers duly recognised by Reserve Bank of India as such.
 - (iii) Commercial papers issued by a company or all India Financial Institution recognised as such by Reserve Bank of India having a rating by a reputed and independent rating agency under the category of ‘very strong’ or more;
 - (iv) Treasury Bills issued by RBI, Inter-Bank Repos of RBI and Bills Rediscounting.

Explanation –

1. Any investment in the short or medium or long-term loans or deposits with private limited companies shall not be treated as ‘approved investments’.
2. All conditions mentioned in the ‘note’ applicable to regulations 3 and 4 are to be complied with.”

For the existing schedule II, the following shall be substituted:-

Schedule II

(See Regulation 4)

List of approved investments for general business

‘Approved Investments’ for the purpose of section 27B of the Act shall be as follows:

- (a) All approved investments specified in section 27B of the Act except
 - (i) clause (b) of sub-section (1) of section 27A of the Act;
 - (ii) Immovable property situated in other country as stated in clause (n) of sub-section (1) of section 27A of the Act;
 - (iii) First mortgages on immovable property situated in other country as stated in clause (i) of sub-section (1) of section 27B of the Act.
- (b) In addition the authority under powers given vide clause (j) of sub-section (1) of section 27B of the Act declares the following investments as approved investments:
 - (i) All secured loans, secured debentures, secured bonds, other secured debt instruments, shares and preference shares and debt instruments issued by all India Financial Institutions recognised as such by Reserve Bank of India – investments to be made in terms of investment policy guidelines, benchmarks and exposure norms/ limits approved by the Board of Directors of an insurer.
 - (ii) Subject to norms/ limits approved by the Board of Directors of the insurers deposits with banks (e.g., in current account, call deposits, notice deposits, term deposits, certificate of deposits etc.) included for the time being in the Second Schedule to Reserve Bank of India Act, 1934 (2 of 1934) and deposits with Primary Dealers duly recognised by Reserve Bank of India as such.
 - (iii) Commercial papers issued by a company or all India Financial Institution recognised as such by Reserve Bank of India having a ‘very strong’ or more rating by a reputed and independent rating agency;

(iv) Treasury Bills issued by RBI, Inter Bank Repos of RBI and Bills Rediscounting;

Explanation –

1. Any investment in the short or medium or long-term loans or deposits with private limited companies shall not be treated as 'approved investments'.
 2. All conditions mentioned in the 'note' applicable to regulations 3 and 4 are to be complied with."
11. The existing Schedule III shall be deleted.
12. (a) The existing Form 3A and Form 3B shall be substituted with the following:-

Form: 3 A

Company Name and Code:

Statement Date: As at

Statement of Investment of Controlled Funds other than funds relating to pension and general annuity business and unit linked life insurance business - Compliance Report to be submitted: Quarterly

Life Business

INVESTMENT OF CONTROLLED FUND					
S.No.	Type of Investment	Percentage	Amount Invested as per regulations	Actual %	Market Value or Realisable Value
i)	Government Securities	25%			
ii)	Government Securities or other approved securities (including (I) above)	Not less than 50%			
iii)	Approved Investments				
a)	Infrastructure and Social Sector i) Infrastructure Sector ii) Social Sector	Not less than 15%	i) ii)		
b)	i)Others to be governed by Exposure norms specified in regulation 5 ii)Out of the above 35%, percentage of investment in 'Other than Approved Investments' not to exceed 15%	Not exceeding 35%	i) ii)		
	Total Investments	100%			

Statement of Investment of Funds belonging to pension business and general annuity business - Compliance Report to be submitted Quarterly
Pension Business, General Annuity Business

INVESTMENT OF ASSETS					
S.No.	Type of Investment	Percentage	Amount Invested as per regulations	Actual %	Market Value or Realisable Value
i)	Government Securities being not less than	20%			
ii)	Government Securities or other approved securities (including (a) above) being not less than	40%			
iii)	Balance Investments to be invested in Approved Investments not exceeding	60%			
	Total Investments	100%			

Statement of Investment of "Unit Linked Life Insurance Business" - Compliance Report to be submitted Quarterly

Linked Life Insurance Business

		INVESTMENT OF ASSETS			
S.No.	Type of Investment	Percentage	Amount Invested as per regulations	Actual %	Market Value or Realisable Value
i)	Approved Investment	Not less than 75%			
ii)	Unapproved Investments	Not more than 25%			
	Total Investments	100%			

CERTIFICATION

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Date: _____

Signature: _____
Full Name & Designation

Form: 3 B

Company Name and Code:

Statement Date: As at

Statement of Investment of Total Assets - Compliance Report to be submitted Quarterly

General Business

		INVESTMENT OF TOTAL ASSETS			
S.No	Type of Investment	Percentage	Amount Invested as per regulations	Actual %	Market Value or Realisable Value
i)	Central Government Securities being not less than	20%			
ii)	State Government Securities and other Guaranteed securities including a) above being not less than	30%			
iii)	Housing and Loans to State Govt. for Housing and Fire Fighting Equipment being not less than	5%			
iv)	Approved Investments				
a)	Infrastructure and Social Sector	Not less than			
	i) Infrastructure Sector	10%	i)		
	ii) Social Sector		ii)		
b)	i)Others to be governed by Exposure Norms specified in regulation 5	Not exceeding	i)		
	ii)Out of the above 55%, investments in other than Approved Investments not to exceed 25%	55%	ii)		
	Total Investments	100%			

CERTIFICATION

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Date: _____

Signature: _____

Full Name & Designation

13. After the substituted Form 3B the following new Form 3C shall be inserted.

Form: 3 C

Company Name and Code:

Statement Date: As at

- I) Exception Report on Instruments capable of being rated and not complying with "AA" grade and in case of debt instruments issued by All India Financial Institutions not complying with "AAA" grade - Compliance Report to be submitted Quarterly

A) Life Business

S. No	Name of Instrument	Institution Rating the Instrument	Rating Grade of Instrument	Amount Invested in the instrument	Dt. of approval by the Investment Committee and the reasons thereof

B) Pension and General Annuity Business

S. No	Name of Instrument	Institution Rating the Instrument	Rating Grade of Instrument	Amount Invested in the instrument	Dt. of approval by the Investment Committee and the reasons thereof

C) Unit Linked Life Insurance Business

S. No	Name of Instrument	Institution Rating the Instrument	Rating Grade of Instrument	Amount Invested in the instrument	Dt. of approval by the Investment Committee and the reasons thereof

D) General Business

S. No	Name of Instrument	Institution Rating the Instrument	Rating Grade of Instrument	Amount Invested in the instrument	Dt. of approval by the Investment Committee and the reasons thereof

CERTIFICATION

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Date: _____

Signature: _____

Full Name & Designation

”

14. For the existing Form 4, the following shall be substituted :-

“

Form: 4

Company Name and Code:

Statement Date: As at

Exposure Norms - Compliance Report to be submitted Yearly

Type of Investment includes:

- All investments in Equity / Preference Shares of the Company
- Debentures (Convertible / partly convertible/non-convertible)
- Short/ Medium/ Long term loans
- Any other permitted investments as per the Act/Regulation

Exposure Norms

S. No		Norms as per regulations	Whether Exposure Norms have been observed or not	Remarks
I	Limit for Investee Company	<p><u>In the case of Indian Insurance Companies:</u> Exposure at any point of time not to exceed 10% of the subscribed share capital, free reserves and debentures/bonds of the investee company or the 10% of the Insurer's total assets in case of non-life insurers and 10% of the Controlled funds in case of Life insurers, whichever is less.</p> <p><u>In the case of existing insurers:</u> Exposure at any point of time not to exceed 20% of the subscribed share capital, debentures/ bonds of the investee company or 5% of the Controlled funds of the life insurer or 10% of the general insurers total assets.</p> <p>Subject to exposure limits as per Insurance Act, 1938, investment in equity including preference shares, investment in equity convertible part of debentures should not exceed 50% of the above exposure norms. A similar 50% of exposure norms limit would also apply to investment in immovable property.</p> <p>Subject to exposure limits mentioned in the table above, an Insurer shall not have investments of more than 5% in aggregate of its Controlled funds in the case of a life insurer or 5% in aggregate of its assets in the case of non-life insurer in the companies belonging to the promoters' groups. For the purposes of this regulation "group" will have the same meaning as in the MRTP Act, 1969. All investments in this category would specifically be referred to the Authority.</p>		
II	Limit for the entire group to which the investee company belongs	<p>Exposure at any point of time not to exceed 10% of the aggregate subscribed share capital, free reserves and debentures of all the group companies in which investments including investments under considerations, have been or proposed to be made by the insurer or the 10% of the total assets in case of Non-Life Insurers and 10% of the Controlled Funds in case of Life Insurers whichever is less. The percentage of 10% of the total assets in the case on Non-Life insurers and 10% of the Controlled Fund in case of Life insurers can be raised to 15% in each case subject to specific approval of IRDA. The clause "whichever is less" will continue to apply.</p> <p>Subject to exposure limits as per Insurance Act, 1938, investment in equity including preference shares, investment in equity convertible part of debentures should not exceed 50% of the above exposure norms. A similar 50% of exposure norms limit would also apply to investment in immovable property.</p> <p>Subject to exposure limits mentioned in the table above, an Insurer shall not have investments of more than 5% in aggregate of its Controlled funds in the case of a life insurer or 5% in aggregate of its assets in the case of non-life insurer in the companies belonging to the promoters' groups. For the purposes of this regulation "group" will have the same meaning as in the MRTP Act, 1969. All investments in this category would specifically be referred to the Authority.</p>		

III	Limit for the industry sector to which the investee company belongs	Investment by the insurer in any industrial sector would not exceed 10% of its total investment exposure to the industrial sector as a whole. (Classification of Industrial sector to be done on the lines of classification in Industries done by CMIE (Centre for Monitoring Indian Economy))		
		Subject to exposure limits as per Insurance Act, 1938, investment in equity including preference shares, investment in equity convertible part of debentures should not exceed 50% of the above exposure norms. A similar 50% of exposure norms limit would also apply to investment in immovable property.		

CERTIFICATION

Certified that the information given herein are correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Date: _____

Signature: _____

Full Name & Designation

N. RANGACHARY, Chairman
[No. ADVT-3/4/Exty/161/2001]