

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY**NOTIFICATION**

New Delhi, the 14th August, 2000

Insurance Regulatory and Development Authority (Investment) Regulations, 2000

F. No. IRDA/Reg./8/2000.—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, namely :

1. Short title and commencement

- (1) These regulations may be called the Insurance Regulatory and Development Authority (Investment) Regulations, 2000.
- (2) 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) 'Accretion of funds' means investment income, gains on sale/ redemption of existing investment and operating surplus.
- c) 'Authority' means the Insurance Regulatory and Development Authority established under sub-section (1) of Section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).
- d) 'Principal Officer' means any person connected with the management of an insurer or any other person upon whom the Authority has served notice of its intention of treating him as the principal officer thereof.
- e) All words and expressions used herein and not defined but defined in the Insurance Act, 1938 (4 of 1938), or in the Insurance Regulatory and Development Act, 1999 (41 of 1999), or in any Rules or Regulations made thereunder, shall have the meanings respectively assigned to them in those Acts or Rules or Regulations.

3. Regulation of Investments

- (1) **Life Business:** 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 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/ Prudential Norms specified in Regulation 5	Not exceeding 20%
iv)	Other than in Approved Investments to be governed by Exposure/ Prudential Norms specified in Regulation 5	Not exceeding 15%

- (2) **Pension and General Annuity Business:** Every insurer shall invest and at all times keep invested assets of Pension Business, General Annuity Business and Group Business in the following manner:-

S.No	Type of Investment	Percentage
i)	Government securities, being not less than	20%
ii)	Government Securities or other approved securities inclusive of (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.
- All investments shall be made in graded securities and the grading shall not be less than of 'very strong' rating by a reputed and independent rating agency (e.g. AA of Standard and Poor).
- Every insurer shall invest assets in securities which are actively traded in any Stock Exchange in India and which are attributable to segregated funds, in respect of linked business.

4. Regulation of Investments

(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	5%
iv)	Investments in Approved Investments as specified in Schedule II	
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 10%
b)	Others to be governed by Exposure/ Prudential Norms specified in Regulation 5	Not exceeding 30%
v)	Other than in Approved Investments to be governed by Exposure/ Prudential Norms specified in Regulation 5	Not exceeding 25%

Note:

All investments shall be made in graded securities and the grading shall not be less than of 'very strong' rating by a reputed and independent rating agency (e.g. AA of Standard and Poor).

(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.

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:

A) 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) Equity/ Preference Shares/ Convertible portion of Debentures at face value.	(i) As on any date Not exceeding 20% of the total capital employed*.	(i) As on any date Not exceeding 15% of the total capital employed* of the group companies.	Not exceeding 15% of the total capital employed* in all such companies.
(b) Debentures - (face value) including private placed NCD and Non convertible portion of Convertible Debentures.			
(c) Short/ Medium/ Long Term Loans and any other direct financial assistance.	(ii) During the year Not exceeding 5% of estimated annual accretion of funds.	(ii) During the year Not exceeding 10% of estimated annual accretion of funds.	

* Total capital employed means total of equity shares, preference shares, debentures, long/ medium/ short term loans (excluding public deposits), free reserves but excluding revaluation reserves, of the investee company as shown in its last audited balance sheet.

B) Exposure Norms for Investment in Public Financial Institutions

Equity Share and Preference Shares (at their face value).	Not exceeding 15% in general of the paid up equity/ preference capital of the institution or the existing holding % level, if higher.
Investment in Equity Capital, Bonds, Debentures, Term Loans.	Not exceeding 10% of the capital employed by an institution as per the last audited Balance Sheet.
Total Investment vis-à-vis Net Worth of the Company.	Not exceeding 60% of Net Worth of the institution.
Total Investment in a Financial Year.	7.5% of annual accretions.
Total Investments in all the Financial Institutions.	Annual aggregate financial assistance to all Development Financial Institutions put together in a single year shall not exceed 20% of the estimated annual accretions for the year.

C) Prudential Norms

The prudential norms for various instruments shall be as under:

i) Debentures:**Norms for Fully Convertible Debentures and Partly Convertible Debentures:**

Investment decisions are related to attractiveness of equity shares to be received as a result of conversion. Due consideration is also given to the factors, viz

- a) rate of interest at the time of subscription to said debentures,
- b) appreciation and
- c) dividend income likely to be received from the equity shares.

Similar considerations also apply for Non-Convertible (NC) Debentures with detachable warrants attached to it.

Norms for Non-Convertible Debentures and Non-Convertible Debentures with warrants attached:

1.	Eligibility Amount	
a)	Working Capital Debentures	20% of the current assets, loans and advance minus outstanding amount of existing working capital NC Debentures.
b)	Project Finance	As appraised by the Investment Committee
c)	Normal Capital Expenditure	As assessed by the Investment Committee

Asset Cover (as specified in Schedule III):

First *pari passu* charge on fixed assets of the company offered as security with a minimum of **1.25 times** including proposed borrowings (excluding revaluation of assets).

Debt Equity Ratio (as specified in Schedule III):

Not to exceed 2:1 including the proposed NC Debenture issue. However, in case of capital intensive project debentures, higher ratio upto 4:1 may be considered.

Interest Cover (as specified in Schedule III):

Not less than 2 times for the latest year or on the basis of the average of the immediately preceding three years after including the interest on the proposed debentures at the applicable rate.

Dividend Pay-out:

Minimum dividend of 10% in each of the two years out of the immediately preceding three years including the latest year.

ii) **Term Deposits and Loans with Non Banking Companies:**

The insurer need to place the deposits with a view to cater to working capital needs of the corporate sector. The placement of the deposit are to be decided after evaluating financial and non-financial aspects of the performance parameters of the companies. The analysis need to include study of financial position, track record and other features such as quality of management, future prospects and market potential for the company's products. Credit rating of borrower should be uniformly maintained at a position which is indicative of a very strong financial position being not less than AA of Standard and Poor or equivalent rating of any other reputed and independent rating agency.

The maximum amount of Short Term Deposit that may be placed with any company is restricted to Rs 2 crores or 10% of net worth whichever is less.

The various norms/ parameters for the placement of term loans are as under:

Particulars	Limits
Unsecured borrowing as a % of net worth.	Not to exceed 25% of net worth including the proposed loan, subject to networth of the borrowing company being not less than Rs. 15 crores.
Interest Cover.	Atleast 2.5 times including interest on proposed loans.
Debt/ Equity Ratio.	Not to exceed 2:1.
Current Ratio.	Not less than 1.33:1.
Dividend Record.	Atleast 10% for the last 5 years or 15% and above for 3 out of 5 years.
Listing	Equity shares of the Company shall be listed on any recognised stock exchange and the price should continuously been quoting above par atleast for 12 months prior to the date of sanction of loan.
Collateral Security	Cheques shall be obtained for principal and interest amount. Personal guarantee of promoters and pledge of shares may be taken.

iii) **Infrastructure and Social Sector:**

In the case of projects/ works in the infrastructure and social sector undertaken by a person other than a company, the norms indicated in the table above shall have to be met to the extent applicable.

iv) **Guidelines on subscription to Preference Shares:**

- Companies whose preference shares are selected for investment should have sound financial position and steady income earning capacity.
- The dividend payable on the preference shares should be cumulative.
- The preference shares shall be redeemable.
- Preference capital after proposed issue shall not exceed 100% of equity capital.
- Dividend should have been paid on equity shares for two years out of immediately preceding three years.
- Preference dividend should have been paid for 3 years or 3 out of 4 or 5 years including latest 2 years if the preference shares are issued earlier.
- Non-dividend paying preference shares should not be considered for investment.
- Dividend cover on the basis of average profit of last 3 to 5 years should be 3 times.

6. Returns to be submitted by the Insurer:

Every insurer shall submit to the Authority the following returns within such time, at such intervals and verified / certified in such manner as indicated there against. These returns shall be in addition to those prescribed in Insurance Rules, 1939:

S.No	Form No as annexed to these regulations	Short description	Periodicity of returns	Time limit for submission	Verified/ Certified by
1	Form 1	Statement of investment and income on investment	Yearly	Within 30 days from the date of Board approval of audited accounts.	Principal Officer/ Chief (Investment)
2	Form 2	Statement of down graded investments.	Quarterly	Within 21 days of the end of each quarter.	Principal Officer/ Chief (Investment)
3	Form 3 A	Statement of Investment of Controlled Fund (Life) - Compliance Report	Quarterly	Within 21 days of the end of each quarter.	Principal Officer/ Chief (Investment)
4	Form 3 B	Statement of Investment of Total Assets (General) - Compliance Report	Quarterly	Within 21 days of the end of each quarter.	Principal Officer/ Chief (Investment)
5	Form 4	Prudential Investment Norms - Compliance Report	Yearly	Within 30 days from the date of Board approval of audited accounts.	Principal Officer/ Chief (Investment)

The Authority may, by any general or special order, modify or relax any requirement relating to the above.

7. Power to Call for additional information

The Authority may, by general or special order, require from the insurers such other information in such manner, intervals and time limit as may be specified therein.

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 an adverse impact on the investment portfolio held by him.

9. Constitution of Investment Committee

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 present, 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.

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 relax requirement relating to regulation 5.

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 subsection (1) of section 27A of the Act
 - iii) immovable property situated in other country as stated in clause (n) of subsection (1) of section 27A of the Act

In addition the Authority under powers given vide clause (s) of sub-section(1) section 27A of the Act declares the following investments as approved investments:

- b. All secured loans, deposits, debentures, bonds, other debt instruments, shares and preference shares rated as 'very strong' or more by a reputed and independent rating agency (e.g. AA of Standard and Poor);
- c. Deposits with banks (e.g. in current account, call deposits, notice deposits, term deposits, certificates of deposits, etc) and with Primary Dealers recognised by RBI included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934);
- d. Commercial papers issued by a company having a 'very strong' or more rating by a reputed and independent rating agency (e.g. AA of Standard and Poor);
- e. Investments in Venture Capital Funds of such companies/ organisations which have a proven track record and have been rated 'very strong' or more by a reputed and independent rating agency (e.g. AA of Standard and Poor).

Explanation: For this purpose any investment in the shares or debentures or short or medium or long term loans or deposits with private limited companies shall not be treated as 'approved investments'.

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 subsection (1) of section 27A of the Act

iii) first mortgages on immovable property situated in other country as stated in clause (i) of subsection (1) of section 27B of the Act

In addition the Authority under powers given vide clause (j) of sub-section(1) section 27B of the Act declares the following investments as approved investments:

- b. All secured loans, deposits, debentures, bonds, other debt instruments, shares and preference shares rated as 'very strong' or more by a reputed and independent rating agency (e.g. AA of Standard and Poor);
- c. Loans to State Government for Housing and Fire Fighting Equipment.
- d. Deposits with banks (e.g. in current account, call deposits, notice deposits, term deposits, certificates of deposits, etc) and with Primary Dealers recognised by RBI included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934);
- e. Commercial papers issued by a company having a 'very strong' or more rating by a reputed and independent rating agency;
- f. Treasury Bills issued by RBI, Inter Bank Repo of RBI and Bills Rediscounting.
- g. Investments in Venture Capital Funds of such companies/ organisations which have a proven track record and have been rated 'very strong' or more by a reputed and independent rating agency (e.g. AA of Standard and Poor).

Explanation: For this purpose any investment in the shares or debentures or short or medium or long term loans or deposits with private limited companies shall not be treated as 'approved investments'.

SCHEDULE III (See Regulation 5)

Asset Cover:

Asset Cover shows the relationship between Fixed Assets and secured loans. It is to be calculated by dividing Fixed Assets by Secured Loans. Details of working are as under:

FIXED ASSETS	
Net Block of the Fixed Assets	
Add: Capital Work in Progress	
Less: Revaluation Reserves	
Less: Goodwill	
Less: Assets not available viz exclusively charged assets. Vehicles, leased assets, etc.	
TOTAL (A)	
SECURED LOANS	
First Charge debentures	
Secured Term Loans	
Deferred Payment Guarantee (if assets are not exclusively charged)	
Proposed Borrowings	
TOTAL (B)	
Asset Cover (A/B)	

Debt Equity Ratio:

The relationship describing the lender's contribution against owner's contribution shall be debt equity ratio. It shall be calculated by dividing long term debt by Networth. Details of working are as under:

First Charge Debentures (Gross Block less Depreciation)	
Secured Term Loan	
Deferred Payment Guarantee	
Second Charge Debentures	
Non-convertible Part of Existing convertible debentures	
Non-convertible Part of proposed convertible debentures	
Unsecured Term Loans	
Proposed Borrowings	
DEBT (A)	
Equity Share Capital	
Preference Share Capital	
Free Reserves	
Convertible part of Existing Convertible Debentures	
Convertible part of Proposed Convertible Debentures	
Total	
Less: Miscellaneous Expenses	
NET WORTH (B)	
Debt Equity Ratio (A/B)	

Interest Cover:

Interest Cover shows the number of times the interest charges are covered by funds that are ordinarily available for payment. It shall be calculated by dividing Profit before depreciation, Interest and Tax (PBDIT) by Interest Charges. Details of working are as under:

Profit before Tax	
Add: Depreciation	
Add: Financial Charges	
Add: Non-Recurring Expenses	
Less: Non-Recurring Income	
PBDIT (A)	
Existing Financial Charges	
Add: Interest on proposed borrowings	
FINANCIAL CHARGES (B)	
Interest Cover (A/B)	

Form: 1

Company Name and Code:

Statement Date: As at

STATEMENT OF INVESTMENT AND INCOME ON INVESTMENT

Periodicity of Submission: Yearly

Category Of Investment	Current Year				Previous Year			
	Investment (Rs.)	Income on Investment(Rs.)	Gross Yield (%)	Net Yield (%)	Investment (Rs.)	Income on Investment(Rs.)	Gross Yield (%)	Net Yield (%)
Total								

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: 2
Company Name and Code:
Statement Date: As at

STATEMENT OF DOWN GRADED INVESTMENTS
Periodicity of Submission: Quarterly

S.No.	Particulars of Investment	Original investment Grade	Current Down Grade	Remarks

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 A

Company Name and Code:

Statement Date: As at

Statement of Investment of Controlled Funds - Compliance Report to be submitted Quarterly

Life Business

S.No.	Type of Investment	INVESTMENT OF CONTROLLED FUND			
		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	Not less than 15%			
b)	Others	Not exceeding 20%			
iv)	Other than Approved Investments	Not exceeding 15%			
	Total Investments	100%			

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

Pension Business, General Annuity Business and Group Business

S.No.	Type of Investment	INVESTMENT OF ASSETS			
		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%			

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**

S.No.	Type of Investment	INVESTMENT OF TOTAL ASSETS			
		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 10%			
b)	Others	Not exceeding 30%			
v)	Other Than Approved Investments	Not exceeding 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: 4
Company Name and Code
Statement Date: As at

Exposure/ Prudential Norms - Compliance Report to be submitted Yearly

S.No.	Exposure Norms	Norms as per regulations	Whether Exposure Norms have been observed or not	Remarks
I	Limit for Investor Company			
i)	As on date	Not exceeding 20% of the total capital employed		
ii)	During the Year	Not exceeding 5% of estimated annual accretion of funds		
II	Limit for the entire group to which the investee company belongs			
i)	As on date	Not exceeding 15% of the total capital employed of the group companies		
ii)	During the Year	Not exceeding 10% of estimated annual accretion of funds		
III	Limit for the industry sector in which the investee company belongs			
	Norms for Investment in Public, Financial Institutions	Not exceeding 15% of the total capital employed of the group companies		
	Equity Shares and preference shares (at their face value)	Not exceeding 15% in general of the paid up equity/preference capital of the institution		
	Investment in Equity Capital, Bonds, Debentures, Term Loans	Not exceeding 10% of the capital employed by an institution as per the last Balance Sheet		
	Total Investment vis-a-vis Net worth of the Company	Not exceeding 60% of net worth of the institution		
	Total Investment in a Financial Year	7.5% of annual accretions		
	Total Investment in all Financial Institutions	Annual aggregate financial assistance to all Development Financial Institutions put together in a single year shall not exceed 20% of the estimated annual accretions for the year		

S.No.	Prudential Norms Instruments	Whether Prudential Norms have been observed while making investments	Remarks
i)	Debentures		
a)	Norms for Fully Convertible Debentures and Partly Convertible Debentures		
b)	Norms for Non-Convertible Debentures and Non-Convertible Debentures with warrants attached		
ii)	Term Deposits and Loans with Non-Banking Companies		
iii)	Infrastructure and Social Sector		
iv)	Guidelines on subscription to Preference Shares		

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, Chairperson
[Adv./3/4/Exty/161/2000]