

Relaxation of Dividend criteria - Equity shares - Approved Investment

As per IRDAI (Investment) Regulations, 2016, the investments of an insurer in preference shares / equity shares will qualify as “Approved Investment” for (i) preference shares of any company which has paid dividends on its equity shares for at least two consecutive years immediately preceding; (ii) equity shares of any listed company on which not less than ten percent dividends have been paid for at least two consecutive years immediately preceding. Due to Covid-19 pandemic and economic disruptions, requests for relaxation in dividend criteria have been received from insurers.

In view of the directions of RBI to the banks and of IRDAI to the insurers in the wake of Covid-19 pandemic for conservation of capital and for restriction on payment of dividends for the year 2019-20, there would arise cases where companies with intrinsically sound fundamentals may not issue dividends for 2019-20. Since the definition of “Approved Investment” as per IRDAI (Investment) Regulations, 2016 requires payment of dividend in two consecutive years immediately preceding, to take care of this abnormal situation, there is a need for a relook at the definition of “Approved Investment”.

The Authority in its 109th meeting considered the above and approved substitution of the criteria of *“for at least 2 consecutive years immediately preceding”* required in Regulation 3 (a) (4) and 3 (a) (5) with *“for at least 2 years out of 3 consecutive years immediately preceding”* to classify Investments in Preference Shares and Equity Shares under “Approved Investment” with effect from 1st April, 2020 for a period of one year, i.e., till 31st March, 2021.

IRDAI vide Circular No: IRDAI/F&I/CIR/INV/216/08/2020 Dt. 21st Aug, 2020 permitted Insurers to classify investments in Preference Shares and Equity Shares as part of “Approved Investments” if such Shares have paid dividends “for at least 2 years out of 3 consecutive years immediately preceding” instead of “for at least 2 consecutive years immediately preceding” for the period from 1st Apr, 2020 to 31st Mar, 2021.

As the impact of non-declaration of dividend for FY 2019-20 was still affecting the classification of equity and preference shares as part of “Approved Investments”, IRDAI vide Circular No.: IRDAI/F&I/CIR/INV/065/03/2021 Dt. 31st Mar, 2021, IRDAI extended the applicability of above dividend criteria for the period from 1st Apr, 2020 to 30th Sep,

2021 and later on up to 31st Mar, 2022 vide Circular No.: IRDAI/F&I/CIR/INV/255/09/2021 Dt. 27th Sep, 2021.

SUBMISSION:

- a. Insurers shall consider the dividend history available on a particular date to classify investment in Equity as Approved Investment or otherwise.
- b. Due to the Covid-19 pandemic, many companies either skipped paying dividends or reduced the rates of dividends for FY 2019-20. RBI also advised banks not to declare dividend for FY 2019-20.
- c. Considering the above, IRDAI permitted Insurers to classify the investment in shares as Approved Investment if such shares have paid dividend “for at least 2 years out of 3 consecutive years immediately preceding”.
- d. Dividends are usually payable for a financial year after the final accounts are ready and the amount of distributable profits is available. Dividend for a financial year (which is called ‘final dividend’) is payable only if it is declared by the company at its Annual General Meeting (AGM) on the recommendation of the Board of Directors.
- e. The Companies Act, 2013 (Section 96) provides a time period of six months, from the date of closing of the financial year, within which the AGM of a company shall be held. Thus, for the FY 2021-22, as per the Companies Act, 2013, the companies have time till 30th Sep, 2022 to hold the AGM and decide on payment of dividends.
- f. For the insurers to classify investment in Equity as Approved Investment or otherwise, Insurers need details of dividends paid (if any) by the companies. The decision on dividends is taken by the companies in their AGMs. For the FY 2021-22, since the companies have time till 30th Sep, 2022 to hold AGMs, Insurers may not be in a position to comply with the requirement of dividend criteria prescribed vide IRDAI (Investment) Regulations, 2016 till holding of AGMs of corporates.

As the relaxation mentioned in IRDAI Circular Dt. 27th Sep, 2021 is up to 31st Mar, 2022, it needs to be extended till 30th Sep, 2022 to ensure compliance with the requirement of dividend criteria prescribed vide IRDAI (Investment) Regulations, 2016.

The same was approved by Chairman and necessary circular was issued on 24th March, 2022. It is submitted to the Authority for its ex post facto approval.