

# INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

## INVESTMENTS - MASTER CIRCULAR

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### IRDAI (INVESTMENT) REGULATIONS, 2016



**Version - 02**  
**May, 2017**

The Authority, to enforce IRDAI (Investment) Regulations, had issued various Circulars and Guidelines at different times. This Master Circular covers all Circulars, Guidelines which are effective to date, to serve as one stand point reference. While due care had been taken to prepare this Master Circular, users may point out inconsistencies, through Life Insurance Council or General Insurance Council, which will be addressed in subsequent versions

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# 1. INVESTMENT CATEGORIES

## 1.1 Equity

### a. Investment in Equity Shares through IPO<sup>1</sup>

Equity shares offered through IPO, including Offer for Sale, which satisfy **ALL** of the following criteria shall be part of “*Approved Investments*”

1. Equity Shares are being “listed” through IPO
2. The company issuing shares through IPO shall belong to a financially sound Group with good performance record, for which the Insurer’s Board shall lay down the criteria
3. Performance track record of the company including Earnings and Dividend record, Dividend Criteria is satisfied for at least two past years as “unlisted” company as IRDAI (Investment) Regulations, **Provided**, in the case of Investee Companies, formed out of ‘de-merger’ of a parent company, issuing shares through IPO, the performance track record would apply with reference to the parent company
4. The Investment in Equity Shares should comply with prudential and exposure norms as prescribed and in particular, Note 7 to Regulation 4 to 8 of IRDAI (Investment) Regulations, 2016 i.e., “actively traded” and “liquid instrument” conditions should be satisfied within 3 months from the date of listing
5. Any investment made in IPOs, which do not satisfy the above conditions, shall fall under ‘Other Investments’

### b. Limit for Investment in IPO

In the case of ‘Life’ Insurance Company, the maximum bid amount (and not Margin Money) to be invested in IPO shall be the **least** of the following

1. 10% of Subscribed Capital (Face Value) of the Investee Company (including the proposed Equity issue through IPO) or
2. 10% of the ‘Fund’ (Fund shall refer to all Investments under management taken together)

In the case of ‘General’ Insurance Company, the maximum amount (and not Margin Money) to be invested in IPO shall be the **least** of the following

1. 10% of Subscribed Capital (Face Value) of the Investee Company (including the proposed Equity issue through IPO) or
2. 10% on the Investment Assets.

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<sup>1</sup>IRDA /CIR/INV/020/2008-09 Dt. 22<sup>nd</sup> Aug 2008

**Note:** No investment shall be made in IPO if the size of the issue of Equity Shares through IPO, including offer for sale, is less than Rs.200 Crores

### **c. Securities Lending and Borrowing (SLB) framework<sup>2</sup>**

Insurers are permitted to participate in Securities Lending and Borrowing (SLB) scheme subject to the following

1. The SLB Framework should be governed by the SEBI cir no. MRD/DoP/SE/Dep/Cir – 14/2007 Dt. 20<sup>th</sup>Dec, 2007 as amended from time to time. Insurers are permitted to lend through SLB Framework in Equities **ONLY**
2. The Insurer has to adhere to the Client level and Participant level position limits prescribed by SEBI and stock exchange while undertaking SLB. Insurer can only lend securities to the extent of not more than 10% quantity of those “scrips” of that particular fund(s). These prescribed limits shall be adhered at the time of lending
3. Securities lent in SLB would not be treated as creating encumbrance, charge, hypothecation or lien on such securities

### **1.2 Reverse Repo in Government Securities and Corporate Bonds**

Insurers can undertake Repo transactions in Government Securities and Corporate Debt Securities subject to the provisions of Insurance Act, 1938 and the following conditions:

1. In case of Life Insurers, the exposure to **reverse repo** (Lending) transactions in Corporate Debt Securities at any point of time shall not exceed 10% of all funds taken together. Further, at individual Segregated Fund level [SFIN], the exposure should not exceed 10% of such fund size [SFIN]. Life Insurer **cannot** participate in repo transactions
2. In case of Non-Life Insurers, the exposure to Reverse Repo and Repo transactions in both Government Securities as well as Corporate Bond Securities (taken together) shall not exceed 10% of Investment Assets of the Insurer
3. Reverse Repo transaction in Govt. Securities will be treated at par with CBLO transactions and the 10% Investment limit, mentioned in points 1 and 2 above, shall not apply to Reverse Repo transaction in Govt. Securities.
4. The tenor of Repo transactions shall not exceed a period of six months. While entering into such repo transaction (borrowing), **prior** approval of the Investment Committee is mandatory
5. The underlying corporate debt security shall be listed and have a rating of not less than AA or equivalent

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<sup>2</sup>IRDA/F&I/CIR/INV/134/2013 Dt. 12<sup>th</sup> July 2013

6. **NO** Reverse Repo/Repo transactions in Corporate Debt Securities shall be made between the Insurer and entities belonging to its promoter group
7. The Securities held as collateral in a Reverse Repo, shall not form part of exposure calculations under Regulation 9 of IRDAI (Investment) Regulation, 2016. In Reverse Repo transaction, the exposure shall be on the counterparty.
8. At any point of time these transactions shall be in compliance with Regulation 4, 5, 6, 7 and 8 of the IRDAI (Investment) Regulation, 2016 as amended from time to time and comply with other Guidelines, Circulars issued there under

### **1.3 Mutual funds (incl. Exchange Traded Funds - ETFs)**

#### **a. Investment in Equity Exchange traded funds<sup>3</sup>**

Insurers can invest in Equity ETFs, as a part of Mutual Fund exposure, subject to the following conditions:

1. Only passively managed schemes of the Mutual Funds which are registered with SEBI and governed by SEBI (Mutual Funds) Regulations, 1996, as amended from time to time are eligible. These schemes should be benchmarked and be tracked based on a publicly available Index
2. The Overall Expense Ratio shall not exceed 0.50%
3. All Securities in the equity basket shall be compliant with respect to dividend distribution norms as per Regulation 3 (A)(5) of IRDAI (Investment) Regulations, 2016 to qualify as a part of 'Approved Investment'. Unless Scheme Information Document(SID) / updated SID has the clause that the constituents meet the minimum dividend criteria laid down in the IRDAI (Investment) Regulations, 2016 such investments cannot be classified as 'Approved Investments'. In any case, the compliance with the dividend criteria in the SID shall not be older than 1 year while classifying any ETF as 'Approved Investments' by the Insurers
4. Insurers are required to ensure compliance with the provisions of Sec. 27E of the Insurance Act, 1938 and shall invest only in ETFs which invest in domestic equities
5. These instruments shall be listed on at least one Stock Exchange which has nationwide connectivity terminals
6. In case, the dividend criteria mentioned under point no. 3 is not met by the ETF, such investment shall be automatically re-classified as 'Other Investment' category
7. These Investments shall be governed by the exposure norms applicable for Investment in Mutual Funds by Insurers

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<sup>3</sup>IRDA/F&I/CIR/INV/074/03/2014 Dt. 03<sup>rd</sup> Mar, 2014

8. Exposure to stocks through ETF shall not be reckoned for the overall exposure norms prescribed for Individual stocks vide Regulation 9 of IRDAI(Investment) Regulations, 2016 as amended from time to time

#### **b. Investment in GILT exchange traded funds (GILT-ETF) <sup>4</sup>**

Insurers can invest GILT-ETFs as part of “Approved Investments” which fulfil all the conditions prescribed for investment in Mutual Funds under Gilt/G Sec./Liquid categories and as a part of Mutual Fund exposure

1. The GILT-ETFs shall be issued and managed by the Mutual Funds registered under SEBI (Mutual Funds) Regulations, 1996, as amended from time to time
2. The object of the GILT-ETFs shall be to invest in a **basket of Govt. Securities Actively Traded** in the market or constituents of a publicly available index
3. The minimum investment by the Insurer shall not be less than Creation Unit Size and shall not be reduced, at any time below Creation Unit Size and value of Creation Unit Size. Such investment at the time of investment, shall not be more than Rs.50 lakhs
4. The Overall Expense Ratio shall not exceed 0.50%
5. Insurers are required to ensure compliance with the provisions of Sec. 27E of the Insurance Act, 1938 and shall ensure that the GILT-ETFs invest only in Domestic Govt. Securities
6. The GILT-ETFs shall be treated at par with GILT/G-SEC Mutual funds and shall adhere to exposure norms applicable to “Investment in Mutual Funds (MFs) by Insurers”

#### **c. Investment in Mutual fund<sup>5</sup>**

1. Investment in Gilt, G Sec and Liquid Mutual Funds would form part of ‘Approved Investments’ under IRDAI (Investment) Regulations, 2016 as per guidelines listed below. Hence any Investment made in Debt and Income Mutual Funds, including those which partly invest in Government Securities and Money Market instruments, will fall under ‘Other Investments’, which in turn shall be subject to the limits prescribed in the guidelines issued under IRDAI (Investment) Regulations, 2016, as amended from time to time, along with the norms mentioned below.
2. The investment shall be restricted to schemes of Mutual Funds comprising of Liquid Funds, Gilt, G Sec or Debt and the same shall be governed by the following norms:
3. The Mutual Fund should be registered with SEBI and be governed by SEBI (Mutual Funds) Regulations, 1996
4. Gilt / G Sec / Liquid MFs shall have the same meaning as under SEBI Regulations

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<sup>4</sup>IRDA/F&I/CIR/INV/156/08/2015 Dt 28<sup>th</sup> Aug, 2015

<sup>5</sup>IRDA/CIR/INV/020/2008-09 Dt 22nd Aug 2008



5. The insurer shall, as a part of Investment Policy, cover the required diversification among various Mutual Funds to minimize risk
6. Where, the schemes of mutual funds in which investment is made, is managed by an Investment Manager who is under the direct or indirect management or control of the Insurer or its promoter, the same shall not exceed, in the case of Life Insurer, 3% of Life Fund, Pension, Annuity & Group Funds and 5% of Unit Linked Fund or in the case of General Insurers, not more than 5% of Investment Assets
7. The investment in Gilt / G Sec / Liquid /Debt/ Income Mutual Funds (all taken together) **at any point of time**, shall be as under:

<b>“Investment Assets” as per Regulation 2(i) of IRDAI (Investment) Regulations, 2016</b>	<b>Life Insures</b>	<b>Non-Life Insurers</b>
Less than Rs.50,000 Cr	10%	
More than Rs. 50000 Crores and Less than Rs.250000 Crores	7%	
More than Rs. 250000 Crores	3%	5%

8. The above limits in the case of Life Insures, will apply to the overall level and at SFIN Level, the maximum exposure shall not exceed 15%

#### **1.4 Investment in Asset backed securities, PTCs and SRs<sup>6</sup>**

1. The investment in Asset Backed Securities (**ABS**) with underlying Housing and / or Infrastructure assets [as defined under Regulation 2(h) of IRDAI(Investment) Regulations, 2016, as amended from time to time] shall form part of “Approved Investments”.
2. No investment other than Pass Through Certificates (**PTCs**), and Security Receipts (SRs) (only with underlying Housing and / or Infrastructure assets) shall form part of “Other Investments” subject to following exposure and prudential norms:
3. ABS must be rated not less than AAA by a Credit Rating Agency, registered under SEBI (Credit Rating Agencies) Regulations, 1999
4. The investment in ABS with underlying Housing and / or Infrastructure assets shall at ‘all times’ not exceed 10% of respective fund(s) in the case of Life Insurers and not more than 5% of Investment Assets in the case of General Insurers
5. If the ABS with underlying Housing and / or Infrastructure assets are downgraded below AAA such investment shall be automatically be re-classified as “Other Investments”.
6. In case the cash-flows from such instrument are not received on due dates, the investment in such assets shall be automatically be re-classified as “Other Investments” from such date for reporting in FORM 3A (Part A) / FORM 3B of IRDAI (Investment) Regulations, 2016

<sup>6</sup>IRDA/CIR/INV/020/2008-09 Dt. 22<sup>nd</sup> Aug 2008

7. The investments in securitized assets, both under Approved and Other Investments, taken together shall not exceed 10% of respective fund size in the case of Life Insurers and not more than 5% of Investment Assets in the case of General Insurers.
8. The Insurer, as a part of risk management, shall split the investment in ABS, PTCs and SRs over different issuers and tenures
9. All guidelines of Classification, Income Recognition and Valuation of Assets issued by the Authority shall be applicable to these investments.

### 1.5 Investment in Alternative Investment Fund (AIF)<sup>7</sup>

1. Investments in Category I and II AIF (within SEBI Regulations) are permitted as a part of “Other Investments”. The Funds permitted under in Category I are Infrastructure Fund, SME Fund, Venture Capital Fund and Social Venture Fund as defined in SEBI AIF Regulations. In Category II of AIF, a minimum of 51% of the funds of such AIF are required to be invested in either of the Infrastructure entities or SME entities or Venture Capital undertakings or Social Venture entities.
2. All restrictions under Insurance Act, 1938 and IRDAI Investment (Regulations) 2016 regarding investing of funds outside India, promoter group, combined exposure limits in venture capital funds and AIFs under the Other than Approved category of investments will continue to apply.
3. No investment is permitted in AIFs, which are of Fund of Funds and Leverage Funds
4. Insurers should ensure that AIFs do not invest in securities of companies incorporated outside India to comply with the provisions of Section 27E of the Insurance Act, 1938
5. The sponsor of such Alternative Investment Fund should not be from the promoter group of the Insurer. The Fund shall not be managed by an Investment Manager who is either directly or indirectly controlled or managed by the Insurer or its promoters
6. The investments in **Category I AIF** shall be shown under category code ‘OAF A’ and Category II AIF shall be shown under category code ‘OAF B’
7. Investment in the AIF and investments in Venture Funds shall be subject to the following exposure norms:

<b>Type of Insurer</b>	<b>Overall Exposure to VFs &amp; AIFs (all taken together)</b>	<b>Exposure to single AIF/Venture Fund</b>
(a)	(b)	(c)
Life Insurer	3% of respective Fund	10% of AIF /VF size or

<sup>7</sup>IRDA/CIR/INV/020/2008-09 Dt. 22<sup>nd</sup> Aug 2008, F  
IRDA/F&I/Cir/INV/203/2011 Dt. 30<sup>th</sup> Aug, 2011,  
IRDA/F&I/INV/CIR/054/03/2013 Dt. Mar, 2013,  
IRDA/F&I/INV/CIR/172/08/2013 Dt. 23<sup>rd</sup> Aug, 2013

Type of Insurer	Overall Exposure to VFs & AIFs (all taken together)	Exposure to single AIF/Venture Fund
		20% of Overall Exposure as per (b), whichever is lower.  The above '10% Limit shall be read as '20%' in case of Infrastructure Fund
General Insurer	5% of Investment Assets	10% of AIF /VF size or 20% of Overall Exposure as per (b), whichever is lower.  The above '10%' Limit shall be read as '20%' in case of Infrastructure Fund

## 1.6 Debt Securities issued by Banks

### a. Investment in Perpetual Debt Instruments of Bank's Tier-I Capital and Debt instruments of Upper Tier-II capital<sup>8</sup>

The Reserve Bank of India [vide Master Circular DBOD.No.BP.BC.57/21.01.002/2005-2006 Dt. 25th Jan, 2006] has allowed banks to raise Capital through issue of Hybrid Instruments as under for augmenting Capital Adequacy Norms:

- a. Innovative Perpetual Debt Instruments for inclusion as Tier 1 Capital
- b. Debt Capital Instruments eligible for inclusion as Upper Tier 2 Capital
- c. Perpetual Non-Cumulative Preference Shares for inclusion as Tier 1 Capital; and
- d. Redeemable Cumulative Preference Shares eligible for inclusion as Tier 2 Capital

The above Instruments shall be part of 'Approved Investments' under IRDAI (Investment) Regulations, 2016, subject to the following conditions:

1. The Debt Instrument issued by Banks in Private Sector shall be rated not less than 'AAA' and those issued by Banks in Public Sector shall have rating not less than 'AA' by an independent Rating Agency, registered under SEBI
2. Preference shares issued by the Banks shall satisfy the conditions specified under Regulation 3 (a) of IRDAI (Investment) Regulations, 2016
3. All Exposure norms as specified in Regulation 9 of IRDAI (Investment) Regulations, 2016 shall apply to these Hybrid Debt Instruments / Preference Shares Issued by the Banks

<sup>8</sup>IRDA/CIR/INV/020/2008-09 Dt. 22<sup>nd</sup> Aug 2008

4. Where the Hybrid Debt Instrument is downgraded below 'AAA', in the case of Private Sector banks and (below AA in the case of Public Sector Banks) such investments shall be re-classified as 'Other Investments' and reported in FORM 2 of IRDAI (Investment) Regulations, 2016
5. In case the Interest on the Instrument is not serviced on due dates, the Investment in such Hybrid instruments shall be automatically re-classified as 'Other Investments' from such date and reported in FORM 3A (Part A) or FORM 3B (Part A) of IRDAI (Investment) Regulations, 2016 in respect of Life and General Insurers respectively
6. All guidelines for Classification, Income Recognition and Valuation of Assets issued by RBI shall be applicable for these Investments.

**b. Bank's Capital Instruments under Basel III – Investment by Insurance Companies<sup>9</sup>**

Insurers can invest in the following instruments, issued by Domestic Banks as Tier II Capital, prescribed under Basel III framework, as part of 'Approved Investments' under IRDAI (Investment) Regulations, 2016, subject to conditions mentioned below:

- a. Debt Capital Instruments (DCI)
  - b. Redeemable Non-Cumulative Preference Shares (RNCPS)
  - c. Redeemable Cumulative Preference Shares (RCPS)
1. The Debt Instruments issued by Banks shall be rated not less than 'AA' by an independent Rating Agency, registered under SEBI
  2. Where the Instruments are downgraded below 'AA', such investments shall be automatically re-classified as 'Other Investments'
  3. Preference shares issued by the Banks shall satisfy the conditions prescribed in Regulation 3(a)(5) of IRDAI (Investment) Regulations, 2016
  4. In case the Interest on the Instrument is not serviced on due date, the Investment in such instruments shall be automatically re-classified as 'Other Investments' from such date of reporting to the Authority
  5. All Exposure norms prescribed in Regulation 9 of IRDAI (Investment) Regulations, 2016 shall apply to these Instruments/Preference Shares Issued by Banks
  6. Investments in these instruments shall be classified under 'Financial and Insurance Activities' sector (BFSI)

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<sup>9</sup>IRDA/F&I/CIR/INV/063/02/2014 Dt. 13th Feb 2014

### **c. Long term Bonds by Banks – Financing of Infrastructure and Affordable Housing<sup>10</sup>**

Investment in Long Term Bonds issued by Banks, for financing “Infrastructure and Affordable Housing” shall be reckoned for Insurers mandatory investment in ‘Infrastructure & Housing sector’ subject to the following conditions:

1. These Investments will be part of exposure to BFSI
2. All Exposure norms i.e. Single Investee, Group and Industry exposures etc. as specified in Regulation 9 of IRDAI (Investment) Regulations, 2016 shall continue to apply
3. Minimum rating requirements to qualify as ‘Approved Investment’ shall be as per extant Investment Regulations

### **d. Investment in “Additional Tier 1 (Basel III Compliant) Perpetual Bonds” [AT1 Bonds]**

Insurers can invest in Additional Tier 1 (Basel III Compliant) Perpetual Bonds [AT1 Bonds], which conform to the following:

1. The rating of AT1 Bonds shall be not less than “AA”, at the time of investment
2. The Offer document, in the case of IPOs of AT1 Bonds, shall have a provision for listing in at least one of the Exchanges
3. The Insurer shall invest in not more than 10% of AT1 Bonds offered through IPO. Further, the aggregate value of AT1 Bonds held in a particular Bank, at any point of time, shall not exceed 10% of the total outstanding AT1 Bonds, of that particular Bank
4. The Common Equity Tier I Capital (CET) including Capital Conservation Buffer, of the issuer Bank shall be more than 1% the minimum CET prescribed by RBI, at the time of investment in AT1 Bonds of such Bank
5. Insurers can invest in AT1 Bonds, only where such Banks have declared dividend for the preceding 2 years
6. The AT1 Bonds shall be forming part of “Equity” in complying with IRDAI (Investment) Regulations, and Master Circular issued thereunder
7. No investment shall be done in AT1 Bonds, where the issuer Bank is either under the Promoter Group of Insurer or Corporate Agent of the Insurer

## **1.7 Other specific Bonds/ Non-Convertible Debentures (NCDs)**

### **a. Investment in 8.13% Oil Marketing Companies; GOI Special Bonds 2021<sup>11</sup>**

Governments of India, vide its Notification Dt. 16th October, 2006 had notified the issuance of “8.13 per cent Oil Marketing Companies’ Government of India Special Bonds 2021” (hereinafter briefly described as “Special Bonds”) for an aggregate amount of Rs. 5000 Cr. Insurers

<sup>10</sup>IRDA/F&I/CIR/INV/213/09/2014 Dt. 12th Sep 2014

<sup>11</sup>IRDA/INV/CIR/038/2006-07 Dt.20<sup>th</sup> Dec 2006

Investment in these Special Bonds will be part of 'Approved Securities' as per Section 2(3)(i) of Insurance Act, 1938 and for the purpose of pattern of Investment and reporting to the Authority, be shown under 'Other Approved Securities'

**b. Investment 8.15% GIO FCI Special Bonds, 2002 & 8.03% GOI FCI Special Bonds, 2024**

As these "Special Bonds" meet the requirement of "Approved Securities" as defined in Section 2(3) (i) of Insurance Act 1938, Insurers can invest in such "Special Bonds" and they shall be classified under "Other Approved Securities" for the purpose of pattern of Investments

**c. Investment in Oil Companies GOI Special Bonds**

1. Insurers investment into the following 'GOI Special Bonds' shall form part of 'Other Approved Securities', for pattern of Investments, as prescribed under IRDAI (Investment) Regulations, 2016
  - a. 7.75% Oil Companies GOI Special Bonds, 2021 (announced vide RBI Press release Dt. 28th Nov, 2006)
  - b. 8.01% Oil Companies GOI Special Bonds, 2023 (announced vide RBI Press release Dt. 15th Dec, 2006)

**d. Investment in IIFCL Taxable Bonds – Approved Securities<sup>12</sup>**

1. India Infrastructure Finance Company Limited has issued Taxable Bonds amounting to 2,100 Crores as mentioned below:

<b>No.</b>	<b>Date</b>	<b>Bond</b>	<b>Amount (Rs. Crore)</b>	<b>Date of Maturity</b>
1	04-09-2006	8.70% IIFCL2016	500.00	04-09-2016
2	18-12-2007	8.82%IIFCL2022	200.00	18-12-2022
3	17-11-2008	9.35%IIFCL2023	200.00	17-11-2023
4	18-12-2008	8.68%IIFCL2023	200.00	18-12-2023
5	08-04-2009	8.10%IIFCL2024	500.00	08-04-2024
6	28-04-2009	7.90%IIFCL2.24	500.00	28-04-2024

2. As the repayment of principal and interest of the above Bond (vide File No: 18/04/2009/IF-1 Dt. 27th July 2009) are guaranteed by Government of India, which fulfils the requirements of "Approved Securities" under Section 2 of Insurance Act, 1938 subscription to these bonds will not be subject to Regulation 9 of IRDAI (Investment) Regulations, 2016as amended from time to time.

<sup>12</sup>IRDA/F&I/CIR/INV/036/09/2009 Dt 17<sup>th</sup> Sep 2009

3. Also, the above bonds shall form part of “Infrastructure Investment” for the purpose of pattern of investment under IRDAI (Investment) Regulations, 2016

**e. Investment in IIFCL Tax free Bonds – Approved Securities<sup>13</sup>**

1. Tax Free Bonds issued by India Infrastructure Finance Company Limited (IIFCL) for Rs 1000 Crores, with unconditional and irrecoverable guarantee covering repayment of principal and interest by Government of India (vide file no. 18/24/Jan2008/IF-1 Dt. 15th, 2009) shall be part of ‘Approved Securities’ as defined under Section 2 of Insurance Act, 1938.
2. The above Bonds will not be subject to any exposure norms specified under IRDAI (Investment) Regulations, 2016 as amended from time to time. Further, investments in the said bonds, will qualify for mandatory ‘Infrastructure Investments’

**f. Investment in Indian Depository Receipts (IDR)<sup>14</sup>**

Investment in IDR by any insurer would amount to an indirect investment made outside the country and would not be in compliance with Section 27 of Insurance Act, 1938 (Prohibition for investment of funds outside India) that restricts the investment of policyholders’ funds directly or indirectly outside the country

**g. Investment in Infrastructure Debt Fund - NBFC<sup>15</sup>**

1. Investment in Infrastructure Debt Fund, backed by Central Government as approved by the Authority, on a case to case basis shall be reckoned for “investments in infrastructure”
2. Investment in Rs.500 Crores Non- Convertible Debentures of M/s India Infradebt Ltd will form part of Investments in Infra Sector by the Insurers
3. The exposure limits and Industrial classification of such investment will be as per Note 3 to Regulation 9 of IRDA (Investment) Regulations, 2016 and Circulars issued there under

**h. Investment in Infrastructure Debt Fund – Mutual Fund<sup>16</sup>**

1. Investment in Infrastructure Debt Fund (IDF), backed by Central Government, on a case to case basis shall be, approved by the Authority, to reckon for “investments in infrastructure”
2. Insurers investment in Asset Management Companies – IDF Mutual Fund Schemes, approved by IRDAI, shall be reckoned as part of “investment in Infrastructure”
3. Insurers investment in the following IDF-MF shall be reckoned as investment in Infrastructure sector subject to the following:

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<sup>13</sup>IRDA/INV/CIR/036/2008-09 Dt 06<sup>th</sup> Feb 2009

<sup>14</sup>IRDA/INV/CIR/015/June 09 Dt 04<sup>th</sup> June 2009

<sup>15</sup>IRDA/INV/CIR/193/09/2013 Dt 26<sup>th</sup> Sep 2013

<sup>16</sup>IRDA/INV/CIR/194/09/2013 Dt 26<sup>th</sup> Sep 2013



- a. Such investments shall be categorized as 'other investments'
- b. Insurer can invest up to 20% of the Assets Under Management (AUM) of the Schemes referred
- c. Such Investments are subject to overall exposure limits and other conditions applicable to Mutual Funds

No	Name of the AMC	Name of the Scheme
1	IL&FS Infra Asset Management Ltd.	IL&FS Infrastructure Debt Fund
2	SREI MF Asset Management Pvt. Ltd.	SREI Infrastructure Debt Fund – Series 1

**i. Investment in M/s L&T Infra debt fund – NBFC<sup>17</sup>**

1. Insurer's investment in Infrastructure Debt Fund, backed by Central Government, approved on a case to case basis, by IRDAI shall be reckoned for investments in infrastructure.
2. Insurer's investment into Rs. 500 Crores of Secured, Redeemable and Non- Convertible Debentures of M/s L&T Infra Debt Ltd, shall be reckoned as a part of "Investments in Infrastructure"
3. The investment shall be subject to all exposure norms under Note 3 to Regulation 9 of IRDAI (Investment) Regulations, 2016 along with Circulars and Guidelines issued there under.
4. The categorization of the above investments between "Approved Investments" or "Other Investments" shall be based on the rating of the instrument from time to time

**j. Investment in Onshore Rupee Bonds issued by Asian Development Bank (ADB) and International Finance Corporation(IFC) <sup>18</sup>**

1. The Central Government, in exercise of the powers conferred under clause (iia) of sub section (h) of Section 2 of SCRA, 1956 declared "Onshore Rupee Bonds" issued by multilateral institutions like the Asian Development Bank and the International Finance Corporation as "Securities" within the meaning of subsection (h) of Section 2 of the SCRA, 1956 vide Gazette notification Dt. 1<sup>st</sup> August, 2014
2. Insurers are permitted to invest in the proposed Onshore Rupee Bonds of International Finance Corporation(IFC) of \$ 5 Billion equivalent fund, as a part of "Approved Investments" *[in exercise of powers conferred by Insurance Act, 1938 under Section 27A(1)(s) for Life Insurers and under Section 27B(1)(j) for General Insurers]* over 10 year period, for utilizing

<sup>17</sup>IRDA/INV /CIR/008/01/2014 Dt. 07<sup>th</sup> January 2014

<sup>18</sup>IRDA/F&I/CIR/INV/196/08/2014 Dt. 14<sup>th</sup> Aug 2014



the bond proceeds to fund IFC's projects in India that require Rupee financing, subject to the following:

- a. The Bonds are governed by norms, if any, laid by Government of India,
- b. Public Issue of Bonds shall be duly approved by SEBI
- c. The proceeds of the issue shall mean for investment in India as per Section 27E of Insurance Act, 1938
- d. Bonds shall fulfill the rating criteria for "Approved Investments" under IRDAI (Investment) Regulations, 2016 as amended from time to time. Where SEBI exempts the rating requirement from the rating agencies registered with SEBI in view of the rating obtained from International rating agencies, then such equivalent rating, applicable for "Approved Investments" under IRDAI (Investment) Regulations, 2016, received from International rating agencies shall be considered
- e. Where most of the proceeds are invested in "Infrastructure", the investment shall qualify for "Infrastructure Investments", else the same shall be classified as a part of BFSI exposure.

**k. Investment in M/s India Infradebt Limited IDF– NBFC <sup>19</sup>**

1. Insurers Investment into M/s India Infradebt Ltd, additional Issue of Rs.500 Crores. Non-Convertible Debentures, as per IRDAI (Investment) Regulations, 2016, shall be reckoned as part of Investments in Infra Sector, along with the earlier approved Rs.500 Crores.
2. The exposure limits and Industrial classification of such investment in the above shall be subject to Note 3 to Regulation 9 of IRDA (Investment) Regulations, 2016 read with Circulars and Guidelines issued.
3. The categorization of the above investments between "Approved Investments" or "Other Investments" shall be based on the rating of the instrument from time to time.

**l. Investments in IDFC Infra Debt Fund Limited - NCD**

1. Insurers Investment into M/s IDFC Infra Debt Fund Limited, an additional issue of Rs.1000 Crores Non-Convertible Debentures, as per IRDAI (Investment) Regulations, 2016, shall be reckoned as part of Investments in Infra Sector, along with the earlier approved Rs.1500 Crores.
2. The exposure limits and Industrial classification of such investment in the above shall be subject to Note 3 to Regulation 9 of IRDA (Investment) Regulations, 2016 read with Circulars and Guidelines issued.
3. The categorization of the above investments between "Approved Investments" or "Other Investments" shall be based on the rating of the instrument from time to time.

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<sup>19</sup>IRDA/INV/CIR/250/11/2014 Dt. 26<sup>th</sup> Nov 2014

## 1.8 Derivatives

### a. Exposure to Interest Rate Derivatives<sup>20</sup>

Financial Derivatives are permitted to “hedge” Interest Rate Risk of Forecasted Transactions; in accordance with the guidelines issued by the Authority vide Regulation 15 of IRDAI (Investment) Regulations, 2016. Accordingly, Insurers can enter Forward Rate Agreements (FRAs), Interest Rate Swaps (IRS), Exchange Traded Interest Rate Futures (IRF) to “hedge” Interest Rate risk on forecasted transactions, for Life, Pension & General Annuity Business and General Insurance Business. **Interest Rate Derivatives are not permitted for ULIP Business**

**A.** Insurers are allowed as **user** with following types of Rupee Interest Rate Derivatives to the extent permitted, and in accordance with these guidelines.

- i. Forward Rate Agreements (FRAs);
- ii. Interest Rate Swaps (IRS); and
- iii. Exchange Traded Interest Rate Futures (IRF).

Participants can undertake different types of plain vanilla FRAs/IRS. IRS having explicit/implicit **options** features are **prohibited**. It is to be noted that FRAs and IRS are Over-the-counter (OTC) contracts

### **B. RBI Circulars & Guidelines on Rupee Interest Rate Derivatives**

Insurers are required to adhere to the following RBI Circular / Guidelines, as amended from time to time, on Rupee Interest Rate Derivatives:

- i. IDMC:MSRD.4801/06.01.03/2002-03 Dt 3<sup>rd</sup>Jun, 2003
- ii. DBOD No. BP. BC. 86/21.04.157/2006-07 (RBI/2006-2007/333) Dt 20<sup>th</sup> Apr, 2007
- iii. DBOD.No.BP.BC. 27/21.04.157/2011-12 (RBI/2011-12/136) Dt 2<sup>nd</sup>Aug, 2011
- iv. DBOD.No.BP.BC. 44 /21.04.157/2011-12 (RBI/2011-12/243) Dt 2<sup>nd</sup>Nov, 2011

Also, Insurers shall comply with circulars issued and amended from time to time, by Securities and Exchange Board of India (SEBI) on Rupee Interest Rate Derivatives

### **C. Permitted Purpose for Exposure to Interest Rate Derivatives**

#### **Hedging for forecasted transactions**

- i. Reinvestment of maturity proceeds of existing fixed income investments;

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<sup>20</sup>IRDA/F&I/INV/CIR/138/06/2014 Dt. 11th June 2014

- ii. Investment of interest income receivable;
- iii. Expected policy premium income receivable on the Insurance Contracts which are already underwritten in Life and Pension & Annuity business in case of Life Insurers and General Insurance business in case of General Insurers.

The overriding principle of any use of the above listed derivatives is that they must be used only for **hedging** to reduce interest rate risk. The Insurer should have a system to clearly track the Interest rate risk.

To consider expected policy premium income for hedging, Insurers shall document and justify **persistence assumptions** as part of the hedge program development process. Assumption documentation and justification shall indicate the joint review and approval of both Appointed Actuary and CRO under the oversight of the Insurer's Board (for example, via the Asset Liability Management Committee)

#### **D. Regulatory Exposure and Prudential Limits**

- i. Counter parties shall necessarily be Commercial Banks and Primary Dealers (PDs) as permitted by RBI for FRAs and IRS.
- ii. Insurers dealing in FRAs and IRS have to arrive at the credit equivalent amount for the purposes of reckoning exposure to counter-party.

For the purpose of exposure norms, Insurance companies shall compute their credit exposures, arising on account of Interest rate derivative transactions using the Current Exposure Method (CEM) as detailed below:

- The Credit Equivalent Amount of a market related off-balance sheet transaction calculated using the current exposure method is the sum of current credit exposure and potential future credit exposure of these contracts.
- Current credit exposure is defined as the sum of the gross positive mark-to-market value of these contracts. The Current Exposure Method requires periodical (at agreed periodicity) calculation of the current credit exposure by marking these contracts to market, thus capturing the current credit exposure.
- Potential future credit exposure is determined by multiplying the notional principal amount of each of these contracts irrespective of whether the contract has a zero, positive or negative mark-to-market value by the relevant add-on factor indicated below according to the nature and residual maturity of the instrument.

## Credit Conversion Factors

Notional principal amount of each FRA/IRS shall be multiplied with the following conversion factor:

<b>Residual Maturity</b>	<b>Conversion Factor per year</b>
One year or less	0.5 per cent
Over One year to five year	1.0 per cent
Over five years	3.0 per cent

[**Eg:** If IRS of Rs. 10 crore with maturity of 4 years is entered into by the Insurance company with the counter party A, then the potential future credit exposure =  $10 \times 3.5\% = \text{Rs. } 0.35\text{crore}$  (i.e.  $3.5\% = 0.5\%$  for First year +  $1\%$  for next each year for 3 years as the duration is 4 years)]

- i. The Credit Equivalent Amount of the FRA/IRS shall be used for reckoning counter party credit exposure for the purposes of the IRDAI (Investment) Regulations, 2016 as amended from time to time
- ii. For exchange traded IRFs, the industry exposure limit is calculated against the Central Counter Party i.e. Clearing Corporation on the basis of above Credit Equivalent Amount.
- iii. Exposure limits pertaining to single Issuer, Group and Industry will be applicable for the exposure through FRA and IRS contracts. Counter party rating shall be considered for calculating pattern of investments. The limits shall be reported in the remarks column of the respective quarterly returns.
- iv. A Participant's dealing in Interest Rate derivatives under these guidelines shall in aggregate not exceed an outstanding notional principal amount equivalent to 100% of the book value of the fixed income investments of the Participant under the Policyholders Fund and the Shareholders Funds taken together. Life Insurers shall normally adhere to the 100% limits based on respective funds i.e. Life and P&A Fund. But where, in the case of Funds, the book value of the existing investments is lower than the expected premiums on the underwritten insurance contracts, the Insurer can utilize the exposure limit available in other funds within the overall 100% limit, provided the Board of the Insurer specifically approves, prior to entering into such derivative contract. The MTM gain/loss arising out of the effective hedge shall be borne by the respective fund only
- v. If reinvestment of maturity proceeds of the existing investments/ interest income receivable on investments is hedged, such investments shall be held till maturity. If unavoidable need arises to liquidate instrument to meet the ALM, the hedge on such instrument has to be unwound simultaneously after obtaining specific approval from Investment Committee. IC shall grant such approval after due recording of the reasons, provided the charges for unwinding the derivative contract is borne by the Shareholder

**E.** Insurers shall ensure all documentation requirements complete in all aspects as per RBI guidelines and documentation prescribed by ISDA (International Swaps and Derivative Association). Further, to settle the mark to market profits/losses and maintenance of collateral, two-way CSA (Credit Support Annex - an agreement between counterparties on the types of collateral and posting mechanism) agreements shall be **mandatory** to mitigate counterparty risk. **All derivative contracts shall be subject to conditions mentioned in Indian laws & Jurisdiction of Indian courts and shall be consistent with Regulations / Circulars / Guidelines issued in this regard.** Suitable clauses shall be incorporated to comply with the Insurance Act, 1938, IRDAI (Investment) Regulations, 2016, SEBI Regulations, RBI Guidelines applicable. Insurers shall necessarily have power to terminate the contract as and when desired.

**F.** Accounting of Interest Rate Derivatives shall be as per Accounting Standard as prescribed by ICAI and as amended from time to time. The presentation in the financial statements and disclosures shall be governed by Accounting Standards issued by ICAI. Further, the Insurer shall disclose the following in the Financial statements:

1. Description of Participant's financial risk management objective and policies, in particular its policy for hedging forecasted transactions.
2. Hedging strategy.
3. Accounting Policy for Derivatives.
4. Nature and terms of outstanding Interest Rate derivative contracts.
5. Quantification of the losses which would be incurred if counter-parties failed to fulfil their obligation under the outstanding Interest Rate derivative contracts.

**G. Internal Risk Management Policy & Processes, Exposure & Prudential Limits**

Each participant should, before taking exposure to Interest Rate derivatives, frame detailed pre-approved risk management policy by the Board of Insurer, which shall cover the following minimum:

- i. Insurer's overall appetite for taking risk and ensure that it is consistent with its strategic objectives, capital strength etc.
- ii. Define the approved derivatives products and the authorized derivatives activities.
- iii. provide for sufficient staff resources and other resources to enable the approved derivatives activities to be conducted in a prudent manner;
- iv. ensure appropriate structure and staffing for the key risk control functions;
- v. establish management responsibilities;
- vi. identify the various types of risk faced by the Insurer and establish a clear and comprehensive set of limits to control these;

- vii. establish risk measurement methodologies which are consistent with the nature and scale of the derivatives activities;
- viii. require stress testing of risk positions;
- ix. detail the type and frequency of reports which are to be made to the board (or committees of the board);
- x. Applicable VAR limits.
- xi. Circumstances for termination and closure of the contract.
- xii. accounting treatment of the proposed derivatives in the company, and
- xiii. Solvency / capital impact due to the use of derivatives.

The implementation of the policy shall be the responsibility of the Investment committee (IC) under the oversight of Insurer's Board. The Insurer shall intimate the Authority, prior to taking any derivative exposure, as per the Guidelines issued.

#### **H. Suitability and Appropriateness Policy**

The Board shall ensure that the Rupee Interest Rate Derivatives address the need of the portfolio handled by the Insurer and are clearly mapped to Products of the Insurer. The Board shall confirm the suitability and appropriateness as evaluated in terms of clause 8.3 of RBI [DBOD No.BP.BC.86/21.04.157/2006-07(RBI/2006-2007/333) Dt. April 20, 2007&DBOD.No.BP.BC. 27/21.04.157/2011-12 (RBI/2011-12/136) Dt 2<sup>nd</sup>Aug, 2011]Guidelines.

#### **I. Corporate Governance**

In taking exposure to potentially complex products the Board and the senior management of insurer should take note of the nature of the risk undertaken, complexities involved, stress levels etc. Insurance companies shall at least once in a Quarter, report their Derivative Positions / Transactions and Policy / Limits compliance to Risk Management Committees under the Board of the Insurer. At periodical intervals (at least once in an year), the Board of Directors shall review the contracts undertaken and satisfy themselves that adequate risk measurement, management policy and procedures for interest rate risk with fixed income derivative contracts permitted in these guidelines, have been established and are functional.

#### **J. Chief Risk Officer (CRO) Role & Responsibilities**

The CRO, shall be responsible for monitoring / reporting of all aspects of "each" derivative program and shall report compliance to the Asset Liability Management Committee / Risk Management Committee of the Board and also to the Board of the Insurer. Where any particular hedging program is not in compliance with the Circular / Guidelines issued in this regard, the CRO shall identify the same and shall be responsible to bring the program to compliance.

## **b. Exposure to Credit Default Swaps<sup>21</sup>**

1. The Reserve Bank of India, vide notification No. IDMD.PCD.No.5053/14.03.04/2010-11 Dt. May 23, 2011, has issued the '**Guidelines on Credit Default Swaps (CDS) on Corporate Bonds**' effective from October 24, 2011. The said guidelines inter alia, provide for participation as "Market maker" and "Users" by the Insurers subject to the approval of the IRDAI. IRDAI provides guidelines as follows:
  2. Insurers are allowed only as "Users" (protection buyers) of CDS subject to the following:
    - a. The CDS are permitted as a "hedge" to manage the Credit Risk covering the credit event. The category of the investment will not change pursuant to buying CDS on such underlying.
    - b. CDS will be allowed only on listed corporate bonds as reference obligations. CDS can also be bought on unlisted but rated bonds of Infrastructure companies. Besides, unlisted/unrated bonds issued by the SPVs set up by the infrastructure companies are also eligible as reference obligation as permitted in the RBI circular Dt. 23<sup>rd</sup> May, 2011.
    - c. On purchase of protection, the exposure with respect to reference entity shall shift to "Protection Seller" to the extent of "Protection Purchased" within Regulation 9 of the IRDAI (Investment) Regulations, 2016 and such exposure shall form part of BFSI Sector, under Industry Sector Exposure.
    - d. CDS shall not be purchased:
      - i. On Reference Asset belonging to the promoter group and **NO** CDS transaction shall be made between entities belonging to Promoter Group.
      - ii. On short term instruments with original maturity up to one year such as Commercial Papers, Certificate of Deposit, Non-Convertible debentures with original maturity of less than a year etc.
      - iii. On The obligations such as asset-backed securities/mortgage-backed securities, convertible bonds and bonds with call/put options, CLOs, CDOs or any other pool of assets/loans.
3. All other norms pertaining to the eligibility norms for the counter party to the User (Market-maker), Reference Obligation, requirement of underlying, conditions while exiting the CDS transactions by Users, Credit events, settlement methodologies, documentation, pricing/valuation methodologies, other requirements and Accounting norms etc. are as prescribed by RBI vide the aforesaid circular Dt. 23<sup>rd</sup> May, 2011.

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<sup>21</sup>IRDA/INV /CIR/247/11/2012 Dt 27<sup>th</sup> Nov 2012

4. CDS as per the valuation for the unexpired protection period are shown as part of respective category of underlying in the pattern of investments.

### **1.9 Investment in Units of “Real Estate Investment Trusts (REIT) &Infrastructure Investment Trusts (InvIT)”**

1. Insurers can invest in Units of REITs / InvITs which conform to the following:
  - i. The REIT /InvIT rated not less than “AA”shall form part of Approved Investments. REIT / InvIT rated less than AA shall form part of Other Investments.
  - ii. An Insurer can invest not more than 3% of respective fund size of the Insurer(or) not more than 5% of the Units issued by a single REIT / InvIT, whichever is lower.
  - iii. No investment shall be made in REIT /InvIT where the Sponsor is under the Promoter Group of the Insurer
  - iv. Investment in Units of InvIT will form part of “Infrastructure Investments”, for the purpose of Pattern of Investments under IRDAI (Investment) Regulations
  - v. Investment in Units of REIT will form part of “Investment property”as per Note 6 to the Regulation 9 of IRDAI (Investment) Regulations, 2016 read along with Master Circular – Investments

## **2. RISK MANAGEMENT AND CONCURRENT AUDIT**

### **2.1 Investment Risk Management Systems and Process**

#### **a. General**

##### **1. Front & Back Office Operations**

- i. Insurer with Assets under Management (AUM) in excess of Rs.500 Crores shall ensure separate personnel acting as fund manager and dealer.
- ii. The Investment System (Application Software) should have separate modules for Front, Mid and Back Office with separate login.
- iii. Data transfer from Front Office to Back Office should be through the System, on Real time basis.
- iv. The Insurer may have multiple Data Entry Systems, but all such Systems should be seamlessly integrated without manual intervention.
- v. The Front Office shall report through the Chief Investment Officer (CIO) to the Chief Executive Officer (CEO). The Mid Office and Back Office should report to CFO who shall independently report to the CEO. CIO and CFO shall be independent personnel with separate login. Further, CRO shall be responsible for framing the Risk policy and through CEO shall report to the Risk Committee of the Insurer’s



Board. The Investment Application should have clear segregation (at database level) between Front, Mid and Back Office

## **2. Employee Dealing Guidelines**

- i. The Standard Operating Procedure (SOP) followed by the Insurer shall clearly specify the Guidelines to be adhered by employees in the Front, Mid and Back Office for personal investments. The Internal / Concurrent Auditor shall report on compliance to adherence to this requirement.

## **3. Maker Checker Process**

- i. Insurer should have the procedure of Maker / Checker mapped in their Standard Operating Procedure / Operations Manual of Investment Operations. The Internal / Concurrent Auditor shall comment on such practice in his report.

## **4. Audit Trail at Data Entry Points**

- i. The Audit trail should be available at all data entry points including the Checker / Authorizer level.

## **5. Business Continuity Process (BCP)**

- i. To ensure Business continuity, the Insurer should have an Off-site Back-up of Data in a City falling under a different Seismic Zone, either on his own or through a Service Provider. Further, the Insurer / service provider (if outsourced) is required to have the necessary infrastructure for Mission Critical Systems to address at least the following:
  1. Calculation of daily NAV (Fund wise)
  2. Redemption processing.

## **b. Front Office**

### **1. Segregation of Fund Manager / Dealer**

- i. Investment Department should have documented the segregation of Fund Managers and Dealers through Authority Matrix as a part of its 'Standard Operating Procedure'.
- ii. The Insurer should have documented the Access Controls and Authorization process for Orders and Deal execution.
- iii. The Dealing Room should have a Voice Recorder and procedure for maintaining the recorded conversation and their disposal including procedure like no mobile phone usage in dealing rooms and other best practices.

## **2. Investment in Investee / Group Company / Industry Sector**

- i. System based checks should be in place for investments in an Investee Company, Group, Promoter Group and Industry Sector. The system should signal when the Internal / Regulatory limits are nearly reached **PRIOR** to taking such exposure and making actual investment.

## **3. Intra Fund Transfer**

- i. There can be no transfer of securities:
  - a. **Between** Life fund, Pension Fund and ULIP fund(s).
  - b. **Within** Life Fund and Pension fund, systems should not allow any transfer between Par and Non-Par funds.
  - c. **Within** Pension funds, the system should not permit any transfer between Individual and Group funds.
- ii. The Cut Off time shall be clearly specified in the SOP. Such cut off time shall remain consistent and cannot be changed without the prior approval of the Board of the Insurer.
- iii. The intra fund transfer should be like any other Market deal and the same needs to be carried out at the Market rate at the cut off time.

## **c. Mid Office**

### **1. Market Risk**

- i. The system should be capable of computing various portfolio returns.
- ii. Exposure limits monitoring and Exception Reporting shall be done by the Mid Office

### **2. Liquidity Risk**

- i. The Insurer should have a Cash Management System to provide the funds available for Investment considering the settlement obligations and subscription and redemption of units etc., to prevent any leveraged position or liquidity risk.
- ii. The System should be validated not to accept any commitment beyond availability of funds.

### **3. Credit Risk**

- i. The Investment System should capture Instrument Ratings to auto generate FORM 2 (Statement of Downgraded Investments)

- ii. System should automatically monitor various Regulatory limits of Instrument level, Group level, Promoter Group level and Industry Sector level exposure.
- iii. The System should have the ability to track changes in ratings over a period & generate appropriate alerts, along with ability to classify investment between Approved and Other Investments
- iv. The Insurer should conduct periodic credit reviews for all companies in the portfolio. The periodicity should be clearly mentioned in the Investment Policy which shall not be more than a year.
- v. The Insurer is required to keep a track of movement of Securities between Approved and Other Investments Status, as a part of Audit trail, at individual security level.

#### **4. Tracking of Regulatory Limits**

- i. The System should have key limits pre-set to ensure compliance for all Regulatory requirements and should be supported by workflow through the System, (Real time basis) for such approval, if Regulatory limit is close to be breached.
- ii. The System should have capability of generating Exception reports for Audit by Internal / Concurrent Auditor.

#### **5. Review, Monitoring and Reporting**

- i. System should automatically track and report all internal limits breaches. All such breaches should be audited by Internal / Concurrent Auditor.
- ii. Implementation and Review of & Liability Matching and other Investment Policy Guidelines.

#### **d. Back Office**

##### **1. Data Input Error**

- i. The system should be specifically validated such that, Deal can be REJECTED ONLY by Back Office and can NEVER BE EDITED. The System should generate a list of Deals that have not been settled / rejected as a part of Audit trail.

##### **2. Settlement Risk**

- i. The System should be validated to restrict Short Sales at the time of placing the order.

##### **3. Computation of 'NAV'**

i. The Insurer should maintain NAV history (Fund wise) in his Public Domain from the Start of the Fund to Current Date. Also, the NAV should be uploaded in the Life Council Website on a day to day basis.

ii. 'NAV' error – Computation & Compensation

1. All expenses and incomes accrued up to the Valuation date shall be considered for computation of NAV. For this purpose, while major expenses like management fees and other periodic expenses should be accrued on a day to day basis, other minor expenses and income can be accrued on a weekly basis, **provided the non-accrual does not affect the NAV calculations by more than 1%.**

2. Any changes in Securities and in the number of Units should be recorded in the books not later than the first valuation date following the date of transaction. If this is not possible, the recording may be delayed up to a period of seven days following the date of the transaction. Provided, **the non-recording does not affect the NAV calculations by more than 1%.**

3. In case the NAV of a Plan differs by more than 1% due to non - recording of the transactions or any other errors / mistakes, the investors or fund(s) as the case may be, shall be paid the difference in amount as follows: -

(i) If the investors are allotted units at a price higher than NAV or are given a price lower than NAV at the time of sale of their Units, they shall be paid the difference in amount by the plan.

(ii) If the investors are charged lower NAV at the time of purchase of their units or are given higher NAV at the time of sale of their units, the Insurer shall pay the difference in amount to the Plan and shall be compensated from Shareholders portfolio that does not support Solvency Margin.

(iii) The Internal / Concurrent Auditor shall look into the above issues and specifically report on it and comment on the Systems in place to take care of such issues on an ongoing basis.

(iv) A log of NAV errors shall be maintained in the System and be forwarded to Internal / Concurrent Auditors.

#### **4. Equity Deals to be put through STP gateway**

i. All Equity deals should be through STP gateway for all broker transactions.

## **5. Uploading of Valuation Price Files**

- i. The System shall have the provision take uploads of Corporate Actions such as Stock Splits, Dividend, Rights Issue, Buy Back, Bonus issues etc., for computing NAV / Portfolio valuation.

## **6. Reconciliation**

- i. Fund wise, in the case of Life Insurers, reconciliation with Investment Accounts, Bank, and Custodian records should be done on day-to-day basis for all types of products. In the case of ULIP products, Units reconciliation with Policy Admin Systems should be ensured on a **day to day** basis.
- ii. In the case of General Insurer / Re-insurer reconciliation with Investment Accounts, Bank and Custodian records should be done on a **day-to-day** basis.

## **2.2 Audit of Investment Risk Management Systems & Process, Internal / Concurrent Audit**

1. IRDAI (Investment) Regulations, 2016 under Regulation 13 (D) (1) mandates certification by a Chartered Accountant firm, for implementing Investment Risk Management Systems and Process, as per the procedure laid down in the "Guidance note on Review and Certification of Investment Risk Management Systems and Process of Insurance Companies". Further, Regulation 13 (E) (2) requires all investment transactions covering both Shareholders and Policyholders funds be audited through Internal or Concurrent Auditor.
2. Insurers having Assets under Management (AUM) not more than Rs.1000 Crores shall have its Investment functions audited on a Quarterly basis through Internal Audit (either through internal resources or through firms of Chartered Accountants) and Insurer with AUM of over Rs.1000 Crores (for the first time) shall appoint a firm of Chartered Accountants as Concurrent Auditor to have its Investment transactions and related Systems audited on a concurrent basis.

### **a. Audit of "Investment Risk Management Systems and Process"**

1. The Insurer, shall through a Chartered Accountants firm, who is not the Statutory or Internal or Concurrent Auditor of the concerned Insurer shall get certified the Investment Risk Management Systems and Processes as per the 'Guidance Note on Review and Certification of Investment Risk Management Systems and Process of Insurance Companies' issued by the Institute of Chartered Accountants of India (ICAI), in consultation with IRDAI

2. All companies seeking IRDAI registration shall file a report certified by a Chartered Accountant firm, on the preparedness of the applicant company to comply with the various Systems listed in the “Guidance Note on Review and Certification of Investment Risk Management Systems and Process of Insurance Companies”, when the company seeks R3 under IRDAI (Indian Insurance Companies Registration) Regulations, 2016 as amended from time to time. The report shall indicate further actions required to be taken by the company
3. The Investment Risk Management Systems and Process shall be reviewed once in two financial years or such shorter frequency as decided by the Board of the Insurer (the gap between two such audits should not be more than two years), by a Chartered Accountant firm and file the certificate issued by such Chartered Accountant, with the Authority along with the first quarter returns.

**b. Internal / Concurrent Audit of Transactions**

1. All Insurers, having Assets under Management (Shareholders and Policyholders funds taken together) of not more than Rs.1000 Crores shall have its transactions and related systems audited through its internal Audit Department, headed by a Chartered Accountant, at least on a Quarterly basis and where the AUM is equal or over Rs. 1000 Crores (for the first time) shall have the Investment transaction concurrently audited, by a Chartered Accountant firm, appointed as per the procedure listed below.
2. The ‘minimum’ Scope for both Internal Audit and Concurrent Audit shall be as per the “Guidance Note on Internal / Concurrent Audit of Investment Functions of Insurance Companies” issued by ICAI (in consultation with IRDAI) for both Life and Non-Life Insurers. The Insurer could include additional scope to suit their specific needs based on their control systems. The Internal / Concurrent Audit shall cover 100% of transactions of all fund(s) as per the periodicity prescribed.

**c. Appointment of Audit Firms for “Investment Risk Management Systems & Process”**

1. The Chartered Accountant firm shall be a firm, registered with the Institute of Chartered Accountants of India
2. The Audit firm should have experience, for at least four years, in conducting reviews of Risk Management Systems and Process of either Banks or Mutual Funds or Insurance Companies or have, on behalf of IRDAI conducted Investment Inspection of Insurance Companies
3. On the date of appointment as an Auditor for certifying Investment Risk Management Systems and Process, the Auditor must not hold more than two audits of Internal,

Concurrent and Risk Management Systems Audit, all taken together. Hence, the Audit firm, can at the maximum hold not more than three Audits (i.e., Investment Risk Management Systems and Process Audit, Internal Audit, Concurrent Audit – all taken together), apart from Statutory Audits at any point of time. For this purpose, at the time of appointment, the insurer shall obtain a declaration to this effect from the firm of Chartered Accountants. The Insurer shall, file with IRDAI, the confirmation obtained from the Chartered Accountant firm, within 7 days of such appointment.

4. The Auditor should not have been prohibited/debarred by any regulating agency including IRDAI, RBI, SEBI, ICAI etc.,
5. The Auditor appointed for certifying the Investment Risk Management Systems and Process, should not have conducted the following assignments for the same Insurer proposing to be appointed as Systems Auditor, for a period of two years immediately preceding his appointment.
  - a. Statutory Audit
  - b. Any Internal Audit
  - c. Any Concurrent Audit
  - d. Any consulting assignment, whether or not related to Audit functions

**d. Appointment of Audit Firm for Internal / Concurrent Audit of Transactions**

1. The Chartered Accountant firm complies with points c (1), (2), (3) and (4) above.
2. The Internal/Concurrent audit term shall be for the financial year and where the appointment is made during the course of the financial year, it shall be up to the end of that financial year.
3. The Internal / Concurrent Auditor shall be appointed by the Audit Committee of the Insurer's Board and the Auditor shall directly report to the Audit Committee of the Insurer's Board. Any change in Auditor during the middle of the term, shall be communicated to IRDAI with the reasons for such change. The new Auditor, only for the remaining term, shall be appointed only with the prior approval of IRDAI
4. The Internal / Concurrent Auditor shall not be eligible for re-appointment, with the same Insurer after serving three consecutive years or three years during the preceding five years.
5. The Internal / Concurrent Auditor appointed for the first time should NOT have conducted the following assignments for the same Insurer proposing to be appointed as Internal or Concurrent Auditor for Investment functions during a period of two years immediately preceding his appointment as Internal or Concurrent auditor.
  - a. Statutory Audit
  - b. Any Internal Audit
  - c. Any Concurrent Audit

- d. Any consulting assignment, whether or not related to Audit functions
  - e. Reviews or Certification of Investment Risk Management Systems and Process
6. Every Insurer, upon appointing the firm of Chartered Accountants as Internal or Concurrent or Risk Management Systems Auditor shall send a communication to IRDAI, within seven days of such appointment, confirming such appointment with the details as under:

**e. Information of Audit Firm for Internal / Concurrent Audit to be filed with IRDAI**

- 1. Name of the Chartered Accountant firm
- 2. Year of establishing the firm, Partners with contact details
- 3. Address of Head Office of the Audit Firm
- 4. Experience Details, (relevant for Insurer's Risk Management Systems Audit / Statutory Audit / Internal Audit / Concurrent Audit) as provided by the Firm
- 5. Name of the Partner along with contact details, responsible for signing Risk Management Audit Report / Internal Audit Report/ Concurrent Audit Report
- 6. All the above information shall be filed with IRDAI, within 7 days from the date of appointment

**2.3 Reverse Repo in Government securities and Corporate bonds**

- 1. All Insurers shall file a quarterly certificate issued by the Concurrent Auditor specifically on Repo transactions (borrowing) and the same shall form part of the certificate issued as per the Technical Guide on Internal / Concurrent Audit of Insurance Companies issued by ICAI.

**2.4 Investment in Equity Exchange traded funds<sup>22</sup>**

- 1. Concurrent Auditor shall comment on the compliance of the requirements prescribed for investments in ETFs during the audit period.

**2.5 Exposure to Credit Default Swaps<sup>23</sup>**

- 1. The concurrent Auditor shall confirm that the requirements prescribed for undertaking CDS transaction have been incorporated in the investment policy, before taking any exposure to CDS. Such Certificate of the Concurrent Auditor, shall be filed with the Authority
- 2. The Concurrent Auditor shall in his Quarterly certification confirm that all CDS transactions, complies with the norms prescribed by RBI and IRDAI

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<sup>22</sup>IRDA/F&I/CIR/INV/074/03/2014 Dt 03<sup>rd</sup> Mar, 2014

<sup>23</sup>IRDA/INV/CIR/247/11/2012 Dt 27<sup>th</sup> Nov 2012



## 2.6 Exposure to Interest Rate Derivatives <sup>24</sup>

1. Before taking any exposure to Interest Rate Derivatives, the Insurer shall file a Certificate issued by the Concurrent Auditor, and the Concurrent Auditor shall certify that the Insurer had implemented the minimum integrated automated Systems and Process, as required under the guidelines on Interest Rate Derivatives.

### 2. Systems Audit

Any Insurer to hedge the portfolio, within the Circulars / Guidelines issued by the Authority, shall carryout the Systems Audit, through the Auditor engaged as per the Guidance Note on “Investment Risk Management Systems and Process of Insurance Companies” of the Institute of Chartered Accountant of India, for Systems and Process to in place, as specifically listed for Derivatives in the Guidance Note on Investment Risk Management Systems and Process of Insurance Companies, before taking such exposure. **All insurers who have taken derivative positions, shall unwind the positions, where there Systems and Process mandated are yet to be implemented**

## 2.7 Investment in “Additional Tier 1 (Basel III Compliant) Perpetual Bonds” [AT1 Bonds]

The Concurrent Auditor in his Quarterly Report to the Audit Committee / Board of the Insurer shall confirm that all norms as per 1.6 of Master Circular is complied with.

## 3. VALUATION GUIDELINES

### 3.1 Investment in Equity Exchange Traded Funds<sup>25</sup>

1. The valuation of ETFs shall be in line with Annexure II of Master Circulars - Investments

### 3.2 Securities Lending and Borrowing (SLB) Framework<sup>26</sup>

1. Securities lent in SLB would be treated as if the Insurer owns such securities and all benefits arising on such securities shall be available to the Insurer i.e. the beneficial rights of the Insurer shall continue as per the SLB Frame work
2. The lending fee shall be accounted for on accrual basis in view of the risk of early repay/recall of securities

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<sup>24</sup>IRDA/F&I/INV/CIR/138/06/2014 Dt 11th Jun 2014

<sup>25</sup>IRDA/F&I/CIR/INV/074/03/2014 Dt. 03rd March, 2014

<sup>26</sup>IRDA/F&I/CIR/INV/134/2013 Dt. 12th July 2013

### **3.3 Investment in Mutual fund<sup>27</sup>**

1. The purchase and sale of Mutual Fund Units shall be calculated at Weighted Average Cost. Also, the insurer shall report the aggregate Market Value of such Mutual Funds in FORM 5 of IRDAI (Investment) Regulations, 2016
2. A separate Fair Value Change Account for Mutual Fund Investments shall be maintained
3. The unrealized gains / losses arising due to changes in fair value of the Mutual Funds shall be taken to 'Fair Value Change – Mutual Fund' account. The Profit / Loss on sale of Mutual Fund units, shall include accumulated changes in the Fair value previously recognized in Mutual Funds under the heading "Fair Value Change – Mutual Fund" in respect of a particular Mutual Fund and being recycled to Revenue / Profit and Loss Account on actual sale of Mutual Fund units.
4. The Insurer shall assess, on each Balance Sheet date, whether any diminution in the value has occurred to the Investment. A diminution in the value of investments shall be recognized as an expense in Revenue / Profit and Loss Account to the extent of the difference between the re-measured fair value of the Investment and its Cost as reduced by any previous diminution in value of investments is recognized as expenses in Revenue / Profit and Loss Account. Any reversal of diminution in value of investments earlier recognized in Revenue / Profit and Loss Account shall be recognized in Revenue / Profit and Loss Account.
5. In the case of Unit Linked Business, Mutual Fund units shall be valued at NAV.

### **3.4 Investment in Perpetual debt instruments of Bank's Tier-I Capital and Debt Capital Instruments of upper Tier-II Capital<sup>28</sup>**

1. The Call option mentioned in such bonds shall be taken for calculating the maturity period for the purpose of Valuation of the Instrument.

### **3.5 Investment in Onshore Rupee Bonds issued by Asian Development Bank (ADB) and International Finance Corporation (IFC)<sup>29</sup>**

1. The valuation of onshore rupee bonds shall be in line with the Corporate Bonds and Debentures.

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<sup>27</sup>IRDA/CIR/INV/020/2008-09 Dt. 22nd Aug 2008

<sup>28</sup>IRDA/CIR/INV/020/2008-09 Dt. 22nd Aug 2008

<sup>29</sup>IRDA/F&I/CIR/INV/196/08/2014 Dt. 14th August 2014

### 3.6 Exposure to Interest Rate Derivatives<sup>30</sup>

1. Accounting of Interest Rate Derivatives shall be as per Accounting Standard as prescribed by ICAI and amended from time to time. Initial Margin and Mark to Market Margin shall be accounted as part of Current Assets.

### 3.7 Income Recognition, Asset Classification, Provisioning and Other related matters

#### a. Assets classifications:

1. Every insurer shall make adequate provision for estimated loss arising on account of/under recovery of loans and advances (other than loans and advances granted against insurance policies issued by the insurer) outstanding at the balance sheet date. These guidelines are intended to provide the basis for determination of minimum provisions of loss on account of loans and advances
2. Insurers shall classify their loans/advances into four categories, viz., (i) Standard Assets, (ii) Sub-Standard Assets, (iii) Doubtful Assets and (iv) Loss Assets. Classification of assets into these categories shall be done taking into account ability of the borrower to repay and the extent of value and realizability of security.
3. **Standard Assets:** Standard Asset is one which does not disclose any problem and which does not carry more than normal risk attached to the Business. Such an asset is not an NPA. The insurer should make a general provision on Standard Assets of a minimum of 0.40 per cent of the value of the asset. In respect of loans extended directly by insurers to sick units taken over by borrowers falling under the "Standard" classification, the facilities of the transferee and merged units may continue to be classified separately, for a period not exceeding 24 months from the date of the takeover of the sick unit, after which the performance of the loans sanctioned to the borrower as a whole should determine their classification. In cases of reverse merger (i.e., take-over of a healthy unit by a sick unit) as well, the facilities of both the units may continue to be classified separately for a period of 24 months after which the combined performance may be taken for asset classification.
4. **Sub-Standard Asset:** Sub-standard asset is one which has been classified as NPA for a period not exceeding 12 months, e.g., an asset which has been treated as a NPA on 1<sup>st</sup> April, 2014, would be treated as a sub-standard asset only up to 31<sup>st</sup> March 2015. In case of time overrun for completion of project directly financed by insurers, the Boards of Insurers should decide based on valid grounds, whether the advance should be treated as standard asset. An asset where the terms of the loan agreement regarding interest and principal have

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<sup>30</sup>IRDA/F&I/INV/CIR/138/06/2014 Dt. 11th June 2014

been renegotiated or rescheduled after commencement of production, should be classified as sub-standard and should remain in this category for at least two years of continually satisfactory performance under the revised terms. The classification of an asset should not be upgraded merely as a result of rescheduling, unless there is satisfactory compliance of the above condition.

5. **Doubtful Assets:** A doubtful asset is one which has remained as NPA for a period exceeding 12 months, e.g., a loan facility to a borrower which is treated as NPA on 1<sup>st</sup> April 2014, would be treated as 'doubtful' from 1<sup>st</sup> April, 2015. A loan classified as doubtful has besides the weakness inherent in that classified as sub-standard, with the continuing default makes the recovery in full, to be improbable. Here too, as in the case of sub-standard assets, rescheduling does not lead to upgradation of the category of the asset automatically. Similarly a doubtful asset which is subject to rehabilitation and where the asset has been subsequently continually satisfactorily serviced for one year shall be graduated to a standard asset.
6. **Loss Assets:** A loss asset is one where loss has been identified by the insurer or its internal or statutory auditors or by IRDA, but the amount has not been written off wholly. In other words, such an asset is considered un-collectible and as such its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.
7. **Overdue Amounts Interest/Principal:** An amount, whether interest or principal is said to be overdue if it is not paid to the insurer on the specified date. An asset is classified as an NPA if the interest and/ or installment of principal remain overdue for more than 90 days (i.e., one quarter).
8. **Provisioning For Loans And Advances:**

Taking into account the time lag between an account becoming doubtful of recovery, its recognition as such, the realization of the security and the erosion in the value of security charged to the insurers, it is necessary that insurers make adequate provisions against sub-standard assets, doubtful assets and loss assets, as per the procedure outlined below:

- i. **Loss Assets:** The entire asset should be written off. If the assets are to remain in the books for any reason, 100 per cent of the outstanding should be provided for.
- ii. **Doubtful Assets:** a) 100 percent provision of the extent to which the asset is not covered by the realizable value of the security to which the insurer has a valid recourse and the realizable value is estimated on a realistic basis. b) Over and above item (a) above, depending upon the period for which the asset has remained doubtful,

20% to 100% provision of the secured portion (i.e., estimated realizable value of the outstanding) should be made on the following basis:

<b>Period for which the Asset has been considered as Doubtful</b>	<b>% of Provision</b>
Up to one year	20%
One to three years	30%
More than three years	100%

- iii. **Sub-Standard Assets:** A general provision of 10% of total value outstanding remaining substandard is required to be made including loans granted by the Central/State government. In case of nursing finance granted by an insurer, the additional loan facilities sanctioned under the rehabilitation programme may be treated as a separate account and the performance assessed separately. Asset classification and provisioning in respect of such loan facilities as per the prescribed guidelines may be made only if the interest /principal payments remain due beyond 90 days.
  - iv. **Default in Repayment of Principal:** On account of various reasons, such as delays in project implementation, getting adequate working capital facilities, etc., repayment of principal may be delayed beyond the stipulated one quarter. The asset may continue to be considered as standard if the installments of the principal amount are rescheduled with the approval of the Board of the concerned insurer. This is subject to the condition that there can be only a one time re-schedulement and that the interest continues to be paid regularly.
  - v. **Time Overrun:** In case of time overrun for completion of project directly financed by insurers, the Board of Insurer should decide based on valid grounds, whether the advance should be treated as standard asset.
  - vi. **One Time Settlement (OTS)**
9. In respect of loan facilities extended to sick units (under nursing programmes or otherwise) taken over by borrowers falling under the “standard” classification, the facilities of the transferee and the merged units may continue to be classified separately for a period not exceeding 2 years from the date of takeover of the sick unit, after which the performance of the loan facility sanctioned to the borrower as a whole should determine their classification.
10. Sometimes insurers enter into one time settlement (OTS) of their dues with a new owner. In cases where a sick unit has been merged with a healthy and strong unit and where payments are being made as per the OTS scheme, the asset in respect of the merged unit may be considered as standard without waiting for a period of 2 years for upgradation from

sub-standard to standard asset. However, such cases should be approved by the Board of the concerned insurer. It is clarified that the said relaxation is allowed only in OTS cases.

11. Units enjoying more than one loan facility: In case of borrowers who have been granted more than one loan facility by the insurer, all the dues from them will have to be treated as NPAs if 50 per cent of its total interest and/or principal dues from all loans extended to it remain overdue for more than one quarter.
12. **Government Guaranteed Loans:** Loans or other credit facilities backed by Central/State Government guarantees should be treated on par with other assets for income recognition and provisioning. However, in respect of loans backed by Central Government guarantee, such loans shall be treated as NPA only when the Government repudiates its guarantee when invoked.
13. **Income Recognition:** Income in respect of any asset classified as NPA shall not be recognized unless realized. However, any adjustment towards overdue interest against any fresh/additional loan shall not be considered as realized.
14. Insurers are permitted to participate in JLF, formed within RBI Guidelines for loan accounts which could turn into potential NPAs, and take up need based exposure with the **prior approval** of the Insurers Board, which could exceed exposure permitted under IRDAI (Investment) Regulations.
15. The Insurer shall follow the **latest RBI Circular / Guidelines** issued on the above points, where the provisions of Master Circular – Investments, are inconsistent with respect to Point 3.7 of this Master Circular on “**Income Recognition, Asset Classification, Provisioning and Other related items**”

### **3.8 Insurers Board to decide Primary / Secondary Exchange for valuation of Securities**

1. The Board of the insurer, only once, shall select NSE or BSE as the Primary and Secondary exchanges to take closing price for valuation of Equity Shares. Where the Share is not listed / not traded on the Primary Exchange, so selected, the closing price available on Secondary Exchange shall be used for valuation. The Concurrent Auditor shall certify that during the quarter, no change had been made in the exchange based on which the Equity Shares have been valued.

### **3.9 Investment in “Additional Tier 1 (Basel III Compliant) Perpetual Bonds” [AT1 Bonds]**

1. The Investment in AT1 Bonds shall be valued either as per FIMMDA or at applicable Market Yield Rates published by any Rating Agency registered with “SEBI”

### **3.10 Investment in Units of “Real Estate Investment Trusts (REIT) &Infrastructure Investment Trusts (InvIT)”**

1. The Investment in Units of REIT / InvITs shall be valued at Market Value (last Quoted price should not be later than 30 days). Where Market Quote is not available for the last 30 days, the Units shall be valued as per the latest NAV (not more than 6 months old) of the Units published by the trust

## **4. OPERATIONAL PROCEDURES**

### **4.1 Reverse Repo in Government Securities and Corporate Bonds**

1. All Repo transaction shall also be reported to the Investment Committee and Board at least on a Quarterly periodicity
2. Insurer shall enter into bilateral Reverse Repo/ Repo agreement as per the documentation finalized by FIMMDA. Such additional clauses may also be inserted in the standard agreement to suit the specific needs of the Insurance regulatory framework provided such clauses should be more stringent than the standard clauses provided by FIMMDA.
3. In all other matters such as Accounting Methodology, reporting of trades, settlement of trades, prohibition on sale of repo security, haircut, valuation etc. related to such Repo and Reverse Repo transactions, Insurers shall follow the Directions given in notification IDMD.DOD.05/11.08.38/2009-10 Dt. January 8, 2010, issued by RBI and as updated from time-to-time.
4. The Board of the Insurer shall issue necessary Guidelines in the Investment Policy covering the following:
  - i. Category of Counterparty
  - ii. Credit rating of the instruments issued by the Counterparty
  - iii. Exposure on the Counter party subject to the maximum limits prescribed in this circular
  - iv. Maximum exposure on the specific Corporate Debt Instrument and the Issuer of such Debt Instrument
  - v. Tenor of Collateral
  - vi. Applicable Haircuts
  - vii. The treatment of ‘downgrading of rating’ during the tenure of repo transaction

## **4.2 Securities Lending and Borrowing Framework<sup>31</sup>**

1. Lending securities through SLB in the Funds shall be made only after approval of the Investment Committee. While considering approval, the Investment Committee shall satisfy that lending securities through SLB will be in the interest of the Policyholders.
2. The Board of Insurer shall amend its Investment Policy and put in place adequate Risk Management framework on SLBs covering circumstances for an early recall & rollover, treatment of corporate actions such as dividend, split, bonus, rights, merger, demerger etc.

## **4.3 Investment in Equity Shares through IPO<sup>32</sup>**

1. The Board of the Insurers shall empower its Investment Committee to approve Investment in equities through IPOs, satisfying the above criteria.
2. Investment Policy of the insurer shall have a detailed policy in respect of investment in IPOs and the investment team can take decision on day-to-day basis subject to compliance with the Policy.
3. Such investments shall be subject to periodical review, particularly as to 'Approved' status.

## **4.4 Investment in Mutual fund<sup>33</sup>**

1. The Investment Committee of the Insurer shall lay down proper Guidelines for selection of Mutual Funds and schemes permissible including exposure Norms to a Single Mutual Fund and to each Scheme of Mutual Fund to avoid concentration.

## **4.5 Investment in Alternative Investment Fund<sup>34</sup>**

1. The Investment Policy of the insurer shall lay down the policy to invest in Venture funds or Asset management Company, and the internal norms for such investments shall be decided by the investment committee (IC) of the Insurer.

## **4.6 Exposure to Credit Default Swaps (CDS)<sup>35</sup>**

1. The Board of the Insurer shall amend its Investment Policy and put in place necessary Risk Management Framework covering, *interalia*, the following:
  - i. Types of Assets on which Protection can be bought

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<sup>31</sup>IRDA/F&I/CIR/INV/134/2013 Dt. 12th July 2013

<sup>32</sup>IRDA /CIR/INV/020/2008-09 Dt. 22nd Aug 2008

<sup>33</sup>IRDA/CIR/INV/020/2008-09 Dt. 22nd Aug 2008

<sup>34</sup>IRDA/CIR/INV/020/2008-09 Dt. 22nd Aug 2008,

IRDA/F&I/Cir/INV/203/2011 Dt. 30th August, 2011 &

IRDA/F&I/INV/CIR/054/03/2013 Dt. March 2013

<sup>35</sup>IRDA/INV /CIR/247/11/2012 Dt. 27th November 2012



- ii. Counterparties from whom CDS can be bought and limits on the counter parties
  - iii. Valuation norms
  - iv. Reporting and monitoring norms
  - v. Stress testing on the capability of the counterparty to meet the obligation at periodic intervals
  - vi. Margins applicable (Margins should be in cash or Govt. securities). Such margins collected should be not part of Investment Assets and Insurer should act as 'trustee' of such margins.
  - vii. Settlement of MTM obligations
  - viii. MIS, exception reporting
  - ix. Necessary systems and controls prescribed for User in line with risk management architecture provided in the aforesaid RBI circular
  - x. Review of the policy at periodic intervals in line with the Investment policy
2. Insurers shall enter into Master Agreement for CDS with counterparties as issued by FIMMDA. Such agreements may have additional clauses to suit the specific requirements of the Insurer provided such clauses are more stringent than the clauses prescribed by FIMMDA. The Investment Committee should review such additional clauses on continuous basis.
  3. All CDS transactions shall be reported to the Investment Committee, Audit Committee on a quarterly periodicity.

#### **4.7 Outsourcing of Investment function<sup>36</sup>**

1. IRDAI (Investment) Regulations, 2016 makes it mandatory that **NO** part of Investment Function can be outsourced, as the same is a core function of the Insurance Business.
2. Engaging a specialist (not an entity falling under the Insurer's Promoter Group) to provide reports on any class of investment or a specific investment in a purely advisory capacity will not be considered as outsourcing of a function of the Insurer, provided the Assets under Management (both Shareholders and Policyholders funds taken together) of the Insurer is not more than Rs.500 Crores or had not completed one year of operations from the date of Registration by issue of R3, whichever is earlier, subject to the following conditions:
  - i. The Investment decisions are made within the Company with proper documentation within the delegated power as provided in the Investment Policy
  - ii. Deal placement and execution are done by the Front Office personnel
  - iii. Periodic reports to Management and Authority are drawn by the Company (in-house)

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<sup>36</sup>IRDA/INV/CIR/020/2008-09 Dt. 22nd Aug 2008

iv. The Advisory fee to be paid to the Service provider is on a case-to-case basis and not on Net Asset Value

3. The Advisory fee shall:

- i. Not form part of NAV calculations in the case of ULIP business
- ii. Be paid out of Shareholders funds beyond Solvency Margin

However any such arrangement may only be made with the prior approval of the Authority, giving full details of the same including any Agreement to be entered into, in this connection.

#### 4.8 Transfer of Investment<sup>37</sup>

1. **Transfer from Shareholders' Account to Policyholders' Account:** Transfer of funds from the Shareholders' account to the policyholders' account to meet the Deficit in the Policyholders' account in a given financial year, made with the objective of meeting the deficit in the policyholders' account, as and when made, should be as per the conservative approach, i.e., at the cost price or market price, whichever is lower. In case of Debt securities, all transfers are to be carried out at the lower of the market price and the net amortized cost.
2. **Transfer between Policyholders' Funds:** No transfer of assets (investments) between different policyholders' funds (between Participating and Non-Participating funds) shall be allowed. Also, no funds can be transferred between (1) Life Fund excluding Shareholders Funds (2) Pension & General Annuity Fund and (3) Unit Linked Funds
3. **Purchase/sale transactions between Unit linked funds:** Insurers may like to consider sale/purchase transactions between unit linked funds as part of investment management strategy, to limit transactions cost and also arising out of options exercised by the policyholders to shift between different unit linked funds. The sale/purchase of investments under such circumstances would be based on the market price of the investments, which are being shifted between unit-linked schemes. **ALL** such transactions should be made at a price as specified below
  - a. In case of equity, preference shares, ETFs and Government Securities market price of the latest trade. Deal should be entered into the system within one hour of taking such quote or price
  - b. In case of securities mentioned in (a) if the trade has not taken place on the day of transfer and for all other securities not part of (a) previous day valuation price

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<sup>37</sup>IRDA/FA/02/10/2003-04 Dt. 29th Oct 2003  
IRDA/INC/CIR/006/2003-04 Dt. 15th Dec 2003  
IRDA/CIR/F&A/079/Feb-05 Dt. 25th Feb 2005

4. The Concurrent Auditor shall confirm that all transaction as said in point 3 above, have been done as per the time lines specified in point 3 above
5. **Funds of Non-linked business:** It is reiterated that no sale/purchase is permitted between the various policyholders' funds under the non-linked business

#### 4.9 Other Investments in Pension and Group Fund

1. Where a security, being part of 'Approved Investment', at the time of acquisition, subsequently, due to non-fulfilment of regulatory criteria for Approved Investments, becomes a part of 'Other Investments', the insurer, shall ensure such security is not continued to be part of the Pension and Group fund, within a period of 90 days. If the security continues to be 'Other Investments', after expiry of 90 days, the value of such security shall be made good by transfer to Shareholders funds, at amortized cost

#### 4.10 Transactions on Stock Markets to be on Cash Basis<sup>38</sup>

1. The Authority stipulates that all transactions entered into by insurers on the stock markets shall result in delivery. All insurers are required to place the contents of this Circular before their respective Boards and Investment Committees, and a copy of the duly certified resolution confirming the directive of the Authority is required to be filed with the Authority.
2. Further, all insurers are required to file a certificate of compliance to this effect on a quarterly basis. The Certificate is required to form part of FORM 5 of the Return on "Statement of Investment Reconciliation" filed by the insurers under the IRDA (Investment) Regulations, 2016. The Certificate of Compliance to be filed with the said Return now stands modified and shall henceforth read as under:
3. "**Certified that** all cash market transactions executed on the stock exchanges are only on delivery basis. **Further certified that** all information given herein is correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed."

#### 4.11 Negotiated dealing system – Order Matching (NDS – OM)<sup>39</sup>

1. The Insurance Act, 1938 requires a Life Insurer to invest his Controlled funds as per Section 27A and a General Insurer to invest his Total Assets as per Section 27B in 'Approved Investments'. The Act further requires a Life Insurer to hold not less than 50% and a

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<sup>38</sup>IRDA/CIR/INV/062/JAN/05 Dt. 17th Jan 2005

<sup>39</sup>IRDA/INV/CIR /029/2005-06 Dt. 21st Nov 2005

General Insurer to hold a minimum of 30% in Approved Securities, which includes investment in Government of India Securities.

2. We have been advised that to further improve the trading capabilities of the Negotiated Dealing System (NDS), the Reserve Bank of India, has operationalised Negotiated Dealing System – Order Matching (NDS-OM) Module from Aug, 2005 with the following broad features:
  - i. The system is purely order driven with all orders being matched based on strict price / time priority.
  - ii. The system is an anonymous order matching system wherein identify of parties is not revealed. The Clearing Corporation of India Limited (CCIL) will become the central counterparty to each trade done on the system.
  - iii. The system allows straight- through processing (STP) and trades executed will flow straight to CCIL in a ready for settlement stage.
  - iv. The system provides functionalities for order management (placing, modifying or cancelling orders), trade related queries, activity log, market information and analytics (YTM computation etc.)
  - v. The system, presently, supports dealing in all Central Government and State Government securities for T+1 settlement. The system will be further upgraded later to facilitate trading in discounted instruments like Treasury Bills.
3. This module co-exists with NDS system i.e. participants continue to have the option of either using the current reporting and settling platform of the NDS or the trading module of NDS-OM and RBI has extended this facility to all Insurance Companies. In view of the same and the statutory requirement on the investment of Insurance Companies, Insurers interested in the said facility, may contact Internal Debt Management Department of RBI, Central Office Mumbai, in order to complete the operational formalities that are required towards acquiring membership of NDS - OM.

#### **4.12 Reporting of OTC transactions in Certificates of Deposits (CDs) and Commercial Papers (CPs)<sup>40</sup>**

1. In order to ensure transparency in secondary market transactions and obtain information on actual trades in CDs and CPs, which are money market instruments, all insurers are advised to report their OTC trades in CDs and CPs on the FIMMDA reporting platform.
2. Accordingly, beginning 1st August 2010, all IRDAI regulated entities shall report their OTC transactions in CDs and CPs on the FIMMDA reporting platform within 15 minutes of the

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<sup>40</sup>IRDA/F&I/CIR/INV/115/07/2010 Dt. 21<sup>st</sup> July 2010

trade for online dissemination of market information. Detailed procedure in this regard would be advised by FIMMDA.

#### **4.13 Exposure to Interest Rate Derivatives<sup>41</sup>**

1. Insurers are advised to ensure documentation requirements complete in all aspects as per guidelines of RBI and documentation prescribed by ISDA (International Swaps and Derivative Association). Further, to settle the mark to market profits/losses and maintenance of collateral, suitable two-way CSA (Credit Support Annex) agreements shall be mandatory to mitigate the counterparty risk. CSA is an agreement between counterparties on the types of collateral and posting mechanism. Derivative contract shall be subject to conditions mentioned in Indian laws & Jurisdiction of Indian courts and shall be consistent with Regulations framed in this regard. Suitable clauses should be incorporated to suit the regulatory framework applicable to Insurers. Insurers shall necessarily have power to terminate the contract as and when desired.
  
2. Each participant should, before commencement of dealing in Interest Rate derivatives, frame detailed preapproved risk management policy by the Board of Directors. The policy shall cover:
  - i. Insurer's overall appetite for taking risk and ensure that it is consistent with its strategic objectives, capital strength etc.
  - ii. define the approved derivatives products and the authorized derivatives activities.
  - iii. provide for sufficient staff resources and other resources to enable the approved derivatives activities to be conducted in a prudent manner;
  - iv. ensure appropriate structure and staffing for the key risk control functions;
  - v. establish management responsibilities;
  - vi. identify the various types of risk faced by the Insurer and establish a clear and comprehensive set of limits to control these;
  - vii. establish risk measurement methodologies which are consistent with the nature and scale of the derivatives activities;
  - viii. require stress testing of risk positions;
  - ix. detail the type and frequency of reports which are to be made to the board (or committees of the board);
  - x. applicable VAR limits.
  - xi. circumstances for termination and closure of the contract.
  - xii. accounting treatment of the proposed derivatives in the company, and
  - xiii. solvency/capital impact due to the use of derivatives.

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<sup>41</sup>IRDA/F&I/INV/CIR/138/06/2014 Dt. 11th June 2014

3. The implementation of the policy is the responsibility of the Investment committee (IC) with an oversight by the Board of Directors. No prior approval of the Authority is needed as required in FORM 4 of IRDAI (Investment) Regulations, 2016
4. The Board shall ensure that the Rupee Interest Rate Derivatives are suitable for the portfolio handled by the Insurer and the liabilities undertaken by the Insurer. The Board shall supervise whether suitability and appropriateness was evaluated by the market maker in terms of clause 8.3 of guidelines issued by RBI [DBOD No. BP. BC. 86/21.04.157/2006-07 (RBI/2006-2007/333) Dt. April 20, 2007&DBOD.No.BP.BC. 27/21.04.157/2011-12 (RBI/2011-12/136) Dt. 2 August, 2011].
5. While dealing with such potentially complex products the Board and the senior management of insurer should understand the nature of the risk undertaken, complexities involved, stress levels etc. At periodical intervals (at least once in an year), the Board of Directors shall review the contracts undertaken and satisfy themselves that adequate risk measurement and management policy and procedures for measurement and management of interest rate risk with fixed income derivative contracts permitted in these guidelines, have been established and are functional.

#### **4.14 Issue of Long Term Bonds by Banks – Financing of Infrastructure and Affordable Housing<sup>42</sup>**

1. Investment Committee shall ensure to have robust mechanism on classification of such investment to qualify as Infrastructure or Housing Sector exposure considering predominant objectives of the offer.

#### **4.15 Reporting of transactions in Corporate Bonds, Commercial Papers, Certificate of Deposits & Securitised Debt<sup>43</sup>**

1. All Insurers to report their secondary market OTC trades in Corporate Bonds and Securitised Debt Instruments as per the reporting requirements on any of the stock exchanges (NSE, BSE and MCX-SX). These trades are to be cleared and settled through any of the clearing corporations (NSCCL, ICCL and MCX-SX CCL).
2. All Insurers to report their secondary market OTC trades in Commercial Papers and Certificate of Deposits as per the reporting requirements on FIMMDA (CBRICS)

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<sup>42</sup>IRDA/F&I/CIR/INV/213/09/2014 Dt. 12th Sep 2014

<sup>43</sup>IRDA/F&I/CIR/INV/099/03/2014 Dt. 28th Mar 2014

## 4.16 ULIP Fund Clearance procedure and NAV Process

### a. IRDAI ULIP Fund Clearance Procedure

1. All Life Insurers shall get their new 'Fund(s)' cleared by the Investment Department of IRDAI. For every new product filed with IRDAI, as a part of File & Use, the Life Insurer shall in "duplicate" file with IRDAI, the Certificate signed by the Appointed Actuary (AA), Chief Investment Officer (CIO) Chief Risk Officer (CRO) and Chief Financial Officer (CFO) along with the following:

- i. 'Investment Policy' of each segregated fund as part of file & use procedure, under Section 8.1 of Form IRDAI-Life-Linked-NP. The Appointed Actuary shall, as a part of the product filing, confirm that the Investment policy fully complies with IRDAI (Investment) Regulations, Circulars and Guidelines issued there under.
- ii. SFIN shall be derived following the procedure mentioned below:

No	Fund Category	Procedure for 'SFIN'
1	Unit <b>L</b> inked <b>I</b> ndividual <b>F</b> unds	<ULIF>+<001>+<dd/mm/yy>+<FundName>+<Reg.No>
2	Unit <b>L</b> inked <b>G</b> roup <b>F</b> unds	<ULGF>+<001>+<dd/mm/yy>+<Fund Name>+<Reg.No>

**Note:** Explanation to 'Procedure for SFIN'

- a. The 1st four Character of SFIN denote the Category to which the Fund belongs
  - b. 001 denote the 1st fund in the particular Category
  - c. dd/mm/yy refers to the date of launch of fund
  - d. Fund Name denotes the Name of the fund, which shall be abbreviated to 10 Characters
- iii. The insurer shall confirm that the SFIN is unique and has not been allotted to any other segregated fund.
  - iv. Reg. No is the Registration Number of the Insurer and other details as required in Format 1 for the new fund to be launched. If any "group of cat code head" as a permissible asset class is subsequently added / removed by the Authority, the insurer shall separately file the same for IRDAI's prior clearance, for 'each' fund where the "group of cat code head" would be offered.

- v. While filing the information mentioned in point # (1) (iii), above the **Appointed Actuary (AA)**, **Chief Investment Officer (CIO)**, **Chief Financial Officer (CFO)** and the **Chief Risk Officer (CRO)** shall **CERTIFY** the following:
1. The 'Segregated Fund', by whatever name called, would invest only in the '**exhaustive**' Categories of Investments permitted under guidelines issued under IRDAI (Investment) Regulations, 2016
  2. The Investments to be made as per the Investment Policy [as specified in Section 8.1 of Form IRDAI-Life-Linked-NP, of File & Use procedure] would be covered in the Standard Operating Procedure (SOP), approved by the Investment Committee of the Insurer and followed by the Investment Department of the Insurer, **before the launch of the fund**, if existing SOP does not cover the new asset class, if any. The 'Segregated fund' would have identifiable, individual 'Scrips', grouped as per guidelines issued by IRDAI and the same would be identifiable at custodian level, by a separate sub code, for such 'Segregated Fund'.
    - a. No individual security is earmarked between two or more 'segregated fund'
    - b. That the name of the Scheme / Fund is a NEW Scheme / Fund offered by the Insurer is **NOT** a minor modification of its existing Scheme / Fund
    - c. Each 'Segregated Fund' would have a 'single' NAV, declared on a 'day-to-day' basis and uploaded in the Insurer's Public Domain and in the Life Insurance Council Website
    - d. The insurer, through a portal, would enable the policyholder to know, through a secured login (i) the value of policy wise units held by him, as per FORM D02 and (ii) fund wise NAV (SFIN wise) on both the Insurer's website and life council website on the same day
    - e. The Insurer, **as a part of product brochure**, had included the disclosure mandated under FORM D02 and would provide the secured login details to Policyholders along with the Policy document
    - f. The 'Units' would be created on a '**day-to-day**' basis and would be backed by Investment assets, for the 'segregated fund'
    - g. The Investment Trial Balance, in respect of each 'Segregated Fund' [with clear link to SFIN] is generated **through the system.**
    - h. All prudential and Exposure norms as per Regulation 9 of IRDAI (Investment) Regulations, 2016 amended from time to time will be complied at each 'segregated' fund, **as well as** at Assets under Management (AUM) of ULIP.
    - i. Fund Management Charges (FMC) is identified with respect to each 'segregate fund' and **NOT** otherwise.



- j. Transfer of funds between ULIP funds shall be done as per the norms laid in point 4.8 (3) of the Master Circular. The Concurrent Auditor shall certify that the Insurer has the required automated System in place to ensure compliance of this requirement.
  - k. The **SFIN** would be quoted in all 'Fund' related filing / disclosure. Also SFIN would be mentioned in all documents and all fund-wise information provided to policyholders, other users (public, distribution channels and others) and on all returns or fund related correspondence with the Authority
  - l. The Insurer shall file a certificate issued by the Chartered Accountant appointed for certification of Systems and Process in place as per the Guidance Note issued in "Investment Risk Management Systems and Process of Insurance Companies" by The Institute of Chartered Accountants of India. The latest copy of such certificate shall be filed along with the product filed for approval, as a part of file & use.
3. All records in this regard shall be made available for the inspection by IRDAI at any point of time.

#### **b. NAV Process**

1. The NAV Process to be followed for new and existing funds and Systems and Process should be in place for calculation of NAV for 'each' Segregated Fund.
2. The objective of defining the '**Net Asset Value (NAV) Process**' for the ULIP Funds, is to standardise the process to be followed by all Life Insurers in arriving at the NAV per Unit. Every Insurer in computing and declaring the NAV shall follow the below mention procedure consistently
  - A. Methodology of operating 'Segregated Fund'
  - B. 'Units' creation / Redemption
  - C. Preparation of Daily cash flow statement
  - D. Security Master Creation
  - E. Primary Market deals / IPO
  - F. Secondary Market Debt / Equity deal authorization
  - G. Settlement Process
  - H. Banking Transaction
  - I. Corporate Actions
  - J. Valuation Process
  - K. Charges
  - L. NAV Computation
3. In this regard the Investment Committee of the insurer shall amend the Standard Operating Procedure (SOP) to include clear internal guidelines, process flow charts, procedures and

responsibilities to be followed by the insurer. The following are the minimum set of guidelines to be adhered in this regard:

#### **A. Methodology of Operating 'Segregated Fund'**

1. Clause 1(c) of Schedule II-A of Regulation 4 of IRDAI (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 defines 'Segregated Funds' as 'Funds earmarked in respect of Linked Business'.
2. To comply with the above requirements of 'Segregated Fund', the Insurer shall adopt the following procedure to ensure strict segregation of funds and computation of NAV:
  - a. The Insurer shall, shall open separate bank account and account with the Custodian for **each** "segregated fund".
  - b. The Bank shall be directed to allot an Account Number/Account Name with specific reference to the particular "Segregated Fund" so as to match the 10 digit fund name of the **SFIN**.
  - c. Every Purchase, Sale of Investment, Income on Investment (including Corporate Action) shall be identified with reference to the particular 'Segregated Fund' and accounted for.
  - d. Every 'Deal Slip' shall be identified with reference to the 'segregated fund' along with '**Segregated Fund Identification Number "SFIN"** for such Segregated Fund(s) and the **respective** 'sub-code' of Custodian and the respective Bank Account.
3. Passive breach of regulatory limits, under any fund [SFIN] on any day, if corrected within three business days, **ALL** such corrective actions taken shall be reported by the Concurrent Auditor to the Audit Committee

#### **B. Units Creation / Redemption**

Unit capital movement tracks the capital movement (subscription and redemption) in the funds and requires reconciliation with Policy Admin System (PAS), which requires

- a. Daily Report of 'Subscription & Redemptions' received from the Policy Admin System (PAS) to be uploaded [without manual intervention through process integration] in the Investment Accounting System
- b. Unit Report shall be reconciled with the Investment Accounting System's Creation / Redemption Report, after booking of unit capital entries
- c. Units created on a 'day-to-day' basis (including switches), shall be backed by 'segregated fund wise' Investment assets. In other words, the value / amount for which Units are created for the particular day (at the prevailing NAV, applicable for the day, of the respective fund), should be equivalent to the premium receipt (net of switches) less applicable charges and

other outflows such as benefits paid, surrenders and foreclosures in excluding applicable charges of the 'respective segregated fund'.

### **C. Preparation of Daily Cash Flow Statement**

The insurer shall prepare a cash flow statement for each 'Segregated Fund' on a day-to-day basis to ascertain the 'investible funds'. The preparation of the cash flow statement shall take into account the following:

1. Opening Bank balance at the Start of the Day (Closing Balance of the Previous Day)
2. Receipt on account of Sale of Investments
3. Receipt on account of Redemption of investment or Maturity of investments (Gross)
4. Receipt of Interest or Dividend etc.,
5. Payments on account of purchase of Security
6. Payments on account of Application Money
7. Premiums received net of charges and redemptions
8. Any other receipts or payments pertaining to investments

### **D. Security Master Creation**

#### **1. Equity Investments**

Based on the inputs from treasury the investment back-office shall create Security Masters in the system (linked via NSE/BSE codes) and the same shall be validated by the Mid-Office. The procedure includes documentation of supporting and supervisory sign off

#### **2. Debt Investments**

Security masters for debt Instruments are prepared on the basis of Information memorandum in case of primary and secondary market deals by the Back Office. The procedure includes documentation of supporting and supervisory sign off.

### **E. Primary Market Deals/IPO**

#### **1. Booking of Primary Market Deals - Debt**

Primary Market Deals shall be booked on the date of application and on the date of allotment the Securities will be reflected in the Investment Accounts

#### **2. Booking of Equity IPO**

Equity Investments shall be accounted on the date of application for IPO Issue as 'Application Money' at the segregate Fund Level and on the date of allotment the allotted Shares shall be reflected in the Investment accounts in the same proportion of application money.

## **F. Secondary Market Debt / Equity Deal Authorization**

### **1. Debt Deals**

All Debt securities as categorised in Guidelines on Categories of Investments, as amended from time to time, shall be executed with counterparties and reported on NSE / BSE / FIMMDA reporting platform and the same shall be confirmed with counterparties. The deals shall be authorised in the investment system and the trade files / information shall be sent to custodian / other online settlement systems as recognised by any financial regulator for settlement.

### **2. Equity Deals**

#### **a. STP (Straight Through Process) Reconciliation**

All Secondary Market equity deals shall be put through the STP module in the investment system. The dealer shall put through the deal in the investment system after concluding the transaction. The deal would then flow to the back office which would be compared with the input details and the STP file received from broker. If all details match, the transaction would be authorised in the system for settlement.

#### **b. Custodian /Broker settlement**

After STP reconciliation the equity trade files ISO files shall be sent to custodian and broker houses through STP.

1. All deals shall be recorded on trade date accounting basis.

## **G. Settlement Process**

1. Equity (Sale) - (as per Exchange Compliance Norms, Currently T+2)  
Bank settlement (trade receivables) entries shall be passed for trades settling on current day.
2. Equity (Purchase) - (as per Exchange Compliance Norms, Currently T+1)  
Bank settlement (trade payables) entries shall be passed for trades settling on current day. It may also be settled on T+2 basis, if the company had deposited margin money with the exchanges as required for equity settlement.
3. Debt (purchase/Sale) - (as per Exchange Compliance Norms, Currently T+1)  
Bank settlement (trade payables/receivables) entries shall be passed for trades settling on current day. Corporate Debt deals dealt on T+0 basis shall be settled on T+0 basis.
4. Money market transactions - (as per Exchange Compliance Norms, Currently T+1)

Bank settlement (trade payables/receivables) entries shall be passed for trades settling on current day. Money market transactions excluding treasury bills could also be dealt and settled on T+O basis.

5. Reverse Repo withdrawal

Reverse Repo maturities shall be posted in bank accounts

6. Brokerage Payments

Brokerage Payment shall be settled in Bank

## **H. Banking Transactions**

1. Coupon Payments for Debt Investments

Interest receipt entries shall be passed in Bank (Reconciled with Custodian Corporate Actions Report / other online settlement systems as recognised by any financial regulator)

2. Redemptions/Maturities for Debt Investments

Redemptions/Maturity receipt entries shall be passed in bank account (Reconciled with Custody Corporate Actions report).

3. Dividend Receipts for Equity Investments

Dividend receivables shall be received in bank on the receipt date (Reconciled with Corporate Action Report received from the Custodian or other online settlement systems as recognised by any financial regulator)

4. Management Fees

Payment entries pertaining to Management fee transfer to Non-Linked Funds shall be passed in Bank accounts on respective payment dates.

5. Booking of Application Money

Application Money shall be booked in current asset account on the date of payment of application money towards prospective investments.

## **I. Corporate Actions**

### **1. Equity**

The insurer shall obtain details of corporate action from exchange(s) on which the stock is listed or custodian or any service provider who disseminates such information. While the information pertaining to corporate actions may be obtained from any service provider, it may be noted that it is duty of the insurer to have adequate internal controls in place to ensure that all corporate actions are duly acted upon.

### **2. Debt**

The insurer shall configure their Investment System for details of interest receivable and redemption dates. Further, details of interest receivable and redemption can also be obtained from the custodian / other online settlement systems as recognised by any financial regulator.

3. Accounting of coupon payments, redemption / maturities for debt investments shall be automatically triggered by the system, based on the interest payment dates and maturity dates defined in the security masters created for 'each' security.

#### **J. Valuation Process**

1. Valuation of securities shall be in line with Annexure II of Master Circular – Investments
2. The Insurer shall close the Investment Front Office system for transactions at 6.00 PM. The Concurrent Auditor shall confirm the compliance of this requirement in their quarterly report to the Board of Directors

#### **K. Charges**

1. Fund Management Charges

Fund Management Charges (FMC) including service tax shall be 'accounted' for on a day-to-day basis in the investment accounting system. The actual transfer to "UL-Non-Unit Reserve or Non-Linked Funds" account of accumulated FMC shall be done at least monthly or at lesser frequency

2. FMC charged on the segregated fund [SFIN], where investment is made in Mutual funds and Exchange Traded Fund, permitted by IRDAI, shall be subject to:
  - a. The FMC levied shall be the FMC as per the F&U of the segregated fund (SFIN) reduced by FMC charged by the Mutual Fund / Exchange Traded Fund
  - b. Point (a) above, shall be permitted **provided**; the insurer has a fully Automated System to compute the differential FMC as detailed in point (a) above.
  - c. The Concurrent Auditor shall certify the Systems in place, to comply with the requirement of this provision, **before** the Insurer could avail this provision

3. Dealing costs

Dealing costs securities transaction tax and service tax shall be adjusted in the cost of investments

#### **L. NAV Computation**

1. NAV: The NAV of the Segregated FUND [SFIN] shall be computed as:

$$\frac{\text{Market Value of investment held by the fund} + \text{Value of Current Assets} - \text{Value of Current Liabilities \& Provisions, if any}}{\text{Number of Units existing on Valuation Date (before creation / redemption of Units)}}$$

2. The NAV computed as above, in respect of 'each' Segregated Fund, shall be Audited by the Concurrent Auditor on a day-to-day basis.

3. The NAV calculated as above, in respect of 'each' Segregated fund, shall be declared on the Insurer's Website and at the **Life Insurers Council** Website, as and when the same is ready. The following notes shall be considered for the computation of NAV
- a. Market value of investment, held by the fund shall be as explained above in the valuation of investments section and the same netted off for FMC
  - b. Value of Current Assets represents Accrued interest, Dividend Receivable, Bank Balance, Receivable for Sale of Investments and Other Current Assets (for Investments)
  - c. Value of current liabilities represents Payable for Investments
  - d. Number of units derived from the investment accounting system shall be reconciled on a day to day basis with the policy admin system
  - e. Provisions shall include expenses for brokerage and transaction cost, NPA, Fund Management Charges (FMC) and any other charges approved by the Authority

**4. Specifying SFIN in short message services (SMS), tele-callings, radio messages and ATM display**

It is clarified that, SFIN need not be displayed in fund related communication through SMS, tele-calling, radio messages and ATM display due to technology limitations. It would be full compliance of IRDAI's direction, if Insurers specify SFIN in all documents and all fund-wise information provided to policyholders and other users

**5. Segregated funds having multiple plans, with different FMCs attached to it or running 'funds of funds' structure**

As each 'Segregated Fund' is required to have a 'single' NAV, declared on a 'day-to-day' basis and FMC is required to be identified to each segregated fund, all Insurers are required to convert various plans offered below a fund or funds of funds structure, as individual segregated fund with a SFIN with identified 'scrips' representing the investments of such segregated funds. In doing so, the net asset value (NAV) of each plan shall be segregated from the underlying fund. The Internal / Concurrent Auditor shall certify that such segregation had not resulted in enrichment of one set of policyholders from others due to change in the units or the NAV. The implication, to the policyholder of such change, if any, shall be put on the insurer's website, along with the rationale of making such change. The concurrent Auditor shall confirm the Insurer's adherence to these requirements.

## **6. Assigning SFIN for 'new' funds launched**

The Authority had mandated to specify the date of launch for each **new** Segregated Fund in the File & Use procedure. In this connection it is clarified that the date refers to the date on which such product is filed with IRDAI.

## **7. Operating CSGL / CBLO Account**

As RBI do not permit Banks to open multiple CSGL / SGL accounts against single entity the Insurers are permitted to operate with a single CSGL /SGL Account and allocate the holdings in their books to each Segregated Fund [SFIN]. All insurers are required to reconcile their Government Securities holding across all segregated funds on a day to day basis.

Similarly as CCIL permits opening only one CBLO Account for every company, the Insurers are hereby permitted to have a common CBLO Account at company level, and reconcile their holdings in CBLO, segregated fund wise, on a day to day basis.

The Internal / Concurrent Auditor, in his Audit Report to the Audit Committee of the Insurer's Board shall confirm that the Insurer had done the reconciliation of G Sec and CBLO holding, segregated fund wise [SFIN] on a day-to-day basis.

## **8. Usage of valuation matrix published by FIMMDA**

The guiding principle shall be to follow, for all instruments, the day-to-day valuation matrix published by FIMMDA and where ever FIMMDA does not provide such valuation matrix on a day to day basis, the Insurer may adopt valuation matrix provided by any SEBI registered Rating Agency, till such time FIMMDA comes out with such valuation matrix and provides the same in the technology platform, as mandated by the Authority in eliminating manual intervention. The Concurrent Auditor shall certify in his Audit Report to the Board that the Insurer had consistently adopted the methodology prescribed above during the audit period.

## **5. DISCLOSURES AND REPORTING NORMS**

### **5.1 Reverse Repo in Government securities and Corporate bonds**

The following disclosures should be made by the Insurers in the Notes on Annual Accounts to the balance sheet:



Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	Outstanding as on March 31
<b>Securities Sold under repo</b> 1. Government Securities 2. Corporate Debt Securities				
<b>Securities purchased under reverse repo</b> 1. Government Securities 2. Corporate Debt Securities				

## 5.2 Securities lending and borrowing framework<sup>44</sup>

1. The securities lent shall continue to be shown in Form 5 as they were shown prior to SLB transaction. Income earned on lending securities shall be shown in the CAT Code that is applicable as it appears in Form 1. The Securities which are lent through SLB and are not held in custody shall be shown in Form 6 under the column 'others' along with a reconciliation statement with the following details (to be part of FORM 6 and filed as a part of periodical returns):

- a. Name of the scrip
- b. No. of securities lent
- c. Name of the fund
- d. Maximum limit permissible in such fund based on the total quantity held
- e. Stock Exchange
- f. Date of expiry of the contract
- g. Value of the securities lent as on the date

## 5.3 Investment in Credit Default Swaps<sup>45</sup>

Insurer shall file quarterly report on the CDS transactions in the format prescribed below:

Name of the Insurer	
Quarter - Year	

1. Details of CDS, counter party wise

No	Name of the Counter Party	Tenor of CDS	FV of the underlying	Tenor of the underlying	Notional Amount	Spread (bps)	Net Position	Margin Held

<sup>44</sup>IRDA/F&I/CIR/INV/134/2013 Dt. 12<sup>th</sup> July 2013

<sup>45</sup>IRDA/INV /CIR/247/11/2012 Dt. 27<sup>th</sup> November 2012

## 2. Details of CDS, reference entity wise

No	Name of the reference entity	Tenor of CDS	FV of the underlying	Tenor of the underlying	Notional Amount	Spread (bps)	Net Position	Margin Held	Approved/ Other Inv.

## 3. Details of reference assets wherein credit event occurred and status of fulfillment of commitment by the Market Maker.

### 5.4 Exposure to Interest Rate derivatives<sup>46</sup>

1. The presentation in the financial statements and disclosures are governed by AS 31 and 32 issued by ICAI. In specific, the Insurer have to make the following disclosures in the Financial statements:
  - i. Description of Participant's financial risk management objective and policies, in particular its policy for hedging forecasted transactions.
  - ii. Hedging strategy.
  - iii. Accounting Policy for Derivatives.
  - iv. Nature and terms of outstanding Interest Rate derivative contracts.
  - v. Quantification of the losses which would be incurred if counter-parties failed to fulfil their obligation under the outstanding Interest Rate derivative contracts.
2. Quarterly report shall be submitted to the Authority as per **Annexure A**, if the Insurer undertakes any Interest Rate Derivatives

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<sup>46</sup>IRDA/F&I/INV/CIR/138/06/2014 Dt. 11th June 2014

## Annexure A

Name of the Insurer	
Quarter- Year	

### 1) Details of Rupee Interest Rate Derivatives, Counter party wise

No	Name of the Counter-party	Nature of the derivative contract (FRA/ IRS/ IRF)	Tenor of derivative contract	Notional Amount of the derivative contract	Mark to Market (Profit /loss)	Unsettled MTM (Profit /loss)	Nature of underlying	Tenor of the underlying	Face Value of the underlying, if applicable	Hedge Designation (Cash-flow / Reinvestment / interest income receivable)	PV01 of the Underlying being hedged (bps)	PV01 of the derivative (bps)

### 2) Counterparty-wise Credit Exposure to Derivative Transactions:

No.	Counterparty	Notional Value of Outstanding Derivative contracts	Current Credit Exposure	Potential Future Credit Exposure	Value of Collateral	CSA posting limit	Type of Collateral

### 3) Fund wise Notional Value of Outstanding derivative transactions and the Book Value of investments

Fund Name	Notional outstanding derivative transactions	Expected Cash Flows on underwritten Insurance Contracts	Book Value of investments	Percentage of Notional outstanding on the Book Value of Investments	Remarks
Total					

**4) Benchmark-wise derivative activity during the quarter :**

No.	Nature of the derivative contract	Benchmark	Notional Amount of derivative contracts Outstanding at the beginning of the quarter	Fresh derivative contracts/ positions taken during the quarter	Derivative contracts/ positions terminated/ matured/ expired during the quarter	Notional Amount of derivative contracts Outstanding at the end of the quarter
	FRA	MIBOR/ OIS				
	FRA	INBMK				
	IRS	MIBOR/ OIS				
	IRS	INBMK				
	IRF	GOI				

## 5.5 Issue of long term bonds by banks – Financing of Infrastructure and affordable housing<sup>47</sup>

1. While preparing Exposure to Industry sector i.e. Form 4A- Part D, the Investments under ILBI and IOLB shall be classified under 'Infrastructure - Long Term Bonds –BFSI' and HLBH and HOLB shall be classified under 'Housing – Long Term Bonds- BFSI'

## 5.6 ULIP Periodical Disclosure

1. Every life Insurer shall at least on a **monthly periodicity**, on or before the 5<sup>th</sup> of the succeeding month, make the following portfolio disclosures [SFIN wise]in the Insurers website:
  - a. Name of the fund
  - b. SFIN Number
  - c. Investment Objective of the Fund
  - d. NAV as on the last business day of the month
  - e. All NAV shall be upto 4 decimals
  - f. AUM of Equity and Debt as on the last business day of the month
  - g. Benchmark as approved by the Investment Committee
  - h. Name of the Fund Manager
  - i. Number of Funds managed by Fund Manager (in point 'g' above) along with details of Equity, Debt and Balanced Funds
  - j. Asset Allocation provided in Product document (as per file & use procedure) and percentage of Actual Asset Allocation at the end of the respective month
  - k. Rating Profile of Debt Instruments
  - l. Modified Duration of the Debt and Money Market Instruments
  - m. Exposure of SFIN (debt and equity) to top 10 industrial sectors as defined under National Industrial Classification 2008 and balance exposure to be shown under "others"
  - n. Performance of the fund over different period over 1 month, 6 months, 1 year, 2 year,3 year and since inception along with the performance against the Benchmark index for the corresponding period. Returns less than or upto 1 year, shall be based on absolute returns
  - o. The TOP 10 holdings under each Asset Category of G .Sec, Corporate Debt and Equity shall be disclosed. The exposure to the Money Market instruments to be disclosed as a consolidated amount and as percentage to AUM of the SFIN

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<sup>47</sup>IRDA/F&I/CIR/INV/213/09/2014 Dt. 12th Sep 2014

- p. The Debt and Equity holdings shall be disclosed as a percentage to the AUM of the SFIN in the statement of portfolio. The total percentage of holdings shall be totalled to 100% of the AUM of the SFIN
2. The Concurrent Auditor shall, in his Audit Report, confirm compliance to the above points.

### 5.7 Exposure to Companies participating in JLF

1. Insurers shall file, along with Quarterly Periodical Returns to IRDAI the information, as under. Also, Insurers shall make necessary disclosure in Notes to Accounts of Financial Statements.

No	Name of the Entity	Date of Insurers entry into JLF	Exposure as on the date of Insurers entry into JLF	Additional Exposure as decided in JLF	% of exposure in excess of IRDAI (Inv) Regulations	Date of Approval by the Insurers Board	Comments of Board on Additional Exposure permitted

## 6. FUND CLEARANCE FORMATS&INVESTMENT CATEGORY CODES

### A. Asset Categories Sheet:

- a. For “Existing” Segregated Funds – **FORMAT 1**
- b. For “New” Segregated Fund – **FORMAT 2**

### B. Exhaustive Asset Categories as per IRDAI (Investment) Regulations, 2016

- a. **Exhaustive** list of Category Codes are provided in **Annexure – 1**
- b. Valuation methodology for Investment Categories are provided in **Annexure - 2**

## 7. LIST OF CIRCULARS COVERED

<b>Circular reference</b>	<b>Description</b>
IRDA/F&I/CIR/INV/250/12/2012	Participation of insurers in Repo / Reverse repo transactions in Corporate Debts securities
IRDA/F&I/INV/CIR/064/04/2013	Regarding Investment limit of 10% for Reverse Repo transactions in Government Securities
IRDA/ F&I/CIR/INV/074/03/2014	Investment in Equity Exchange traded funds
IRDA/F&I/CIR/INV/156/08/2015	Investment in GILT exchange traded funds (GILT-ETF)
IRDA/F&I/CIR/INV/134/2013	Securities lending and borrowing framework
IRDA /CIR/INV/020/2008-09	Investment in equity shares through IPO
IRDA /CIR/INV/020/2008-09	Investment in Mutual fund
IRDA /CIR/INV/020/2008-09	Investment in Asset Backed Securities, PTCs and SRs
IRDA /CIR/INV/005/2008-09	Investment in Perpetual debt instruments of Bank's Tier-I Capital and debt capital instruments of upper Tier-II capital
IRDA /CIR/INV/020/2008-09 IRDA/F&I/Cir/INV/203/2011 IRDA/F&I/INV/CIR/054/03/2013 IRDA-F&I-CIR-INV-172-08-2013	Investment in Alternate Investment Fund
IRDA /INV/ CIR /038/2006-07	Investment in 8.13% OIL Marketing Companies, GOI Special Bonds, 2021
IRDA/INV-GLR-001-2007-08	Investment 8.15% GOI FCI Special Bonds, 2002 & 8.03% GOI FCI Special Bonds, 2024 – Other Approved Securities
IRDA /GLR/002/2007-08	Investment in oil companies GOI special bonds
IRDA/F&I /CIR/INV/036/09/2009	Investment in IFFCL Taxable Bonds – Approved Securities-reg.
IRDA/INV /CIR/036/2008-09	Investment in IFFCL Tax free Bonds – Approved Securities
IRDA/INV /CIR/015/June 09	Investment in Indian Depository Receipts (IDR)
IRDA/INV /CIR/193/09/2013	Investment in Infrastructure debt fund – NBFC
IRDA/INV /CIR/194/09/2013	Investment in Infrastructure debt fund – Mutual Fund
IRDA/INV /CIR/008/01/2014	Investment in M/s L&T Infra debt fund – NBFC
IRDA/INV /CIR/250/11/2014	Investment in M/s India Infradebt Limited IDF – NBFC
IRDA/INV /CIR/247/11/2012	Investment in Credit Default Swaps
IRDA/F&I/CIR/INV/196/08/2014	Investment in Onshore Rupee Bonds issued by Asian Development Bank (ADB) and International Finance Corporation(IFC)
IRDA/F&I/INV/CIR/138/06/2014	Investment in Interest rate derivatives
IRDA/F&I/CIR/INV/063/02/2014	Bank's capital instruments under Basel III – Investment by Insurance companies
IRDA/F&I/CIR/INV/213/09/2014	Issue of long term bonds by banks – Financing of Infrastructure and affordable housing
IRDA/INV/CIR/020/2008-09	Outsourcing of Investment function

<b>Circular reference</b>	<b>Description</b>
IRDA/FA /02/10/2003-04 IRDA/INC/CIR/006/2003-04 IRDA/CIR/F&A/079/Feb-05	Transfer of Investment
IRDA/CIR /INV/062/JAN/05	Transactions on Stock Market on “Cash Basis”
IRDA/INV/CIR /029/2005-06	Negotiated dealing system – Order Matching
IRDA/F&I/CIR/INV/115/07/2010	Reporting of OTC transactions in certificates of Deposits (CDs) and Commercial Papers (CPs) – reg.
IRDA-F&I-CIR-INV-034-02-2015	Transitory Investment Provisions - The Insurance Laws (Amendment) Ordinance, 2014
IRDA/F&I/CIR/INV/099/03/2014	Reporting of transactions in corporate bonds, commercial papers, certificate of deposits & securitised debt
IRDA/32/2/F&A/Circulars/169/Jan/2006-07	Prudential norms for Income Recognition, asset classification and provisioning and other related matters
IRDA-F&I-CIR-INV-053-03-2011	ULIP Fund Clearance
IRDA/F&I/CIR/INV/173/08/2011	ULIP - Fund Clearance procedure and NAV process
IRDA-F&I-CIR-INV-234-10-2011	Clarifications on Fund Approval Procedure and Guidelines on NAV Process



## 8. LIST OF CIRCULARS DISCONTINUED

Date	Circular reference	Short Description
08-11-04	INV-CIR-046-2004-05	Investment in Equity Share through IPO
04-08-09	INV/CIR/23/2009-10	Audit of Investment & Risk Management system & Process, Concurrent Audit
27-09-09	INV-CIR-077-2009-10	Settlement of OTC trades in corporate bonds on DvP - 1 Basis
17-08-11	IRDA/F&I/CIR/INV/187/08/2011	Fund Approval Procedure and Guidelines on NAV Process
30-10-13	IRDA/F&I/INV/CIR/213/10/2013	Clarifications on IRDA Investment Regulations, 2000 (Fifth Amendment)
	INV/GLN/004/2003-04	Mutual Fund Investments
	INV/CIR/007/2003-04	Investment In Venture Fund – Reg.
10-09-07	INV/CIR/035/2007-08	FIMMDA Reporting Platform for Corp Bond Transactions
	INV/GLN/008/2004-05	Fixed Income Derivatives
	GUIDELINES - INV/GLN/003/2003-04	Market Value – Basis for FORM-3A / FORM-3B
27-10-08	21/IRDA/ACTL/ULIP/OCT-08	Money Market Instruments in Unit Linked Products
17-10-03	IRDA/INV/005/2003-04	Operation of CSGL Account
11-11-08	INV/CIR/020/2008-09	IRDA (Investment) (Fourth Amendment) Regulations, 2008
05-10-09	INV-CIR-040-2009-10	Approving MCX Stock Exchange as Recognized Stock Exchange
04-04-13	IRDA/F&I/CIR/INV/067/04/2013	IRDA (Investment) (5th Amendment) Regulations, 2013
		Clarifications on IRDA (Investment) Regulations, 2000
	INV/GLN/006/2003-04	Certificate U/S 28(2A), 28(2B) / 28B (3) Of Insurance Act, 1938
	INV/CIR/031/2004-05	Outsourcing Of Investment Function
	INV/CIR/009/2003-04	Deposit Under Section 7 Of Insurance Act, 1934, Held In A Bank Belonging To “Promoter Group”
	Certification Of Section 7 Deposit	Certification Of Section 7 Deposit – Reg
26-03-12	IRDA/F&I/CIR/INV/69/03/2012	Declaration of NAV, website
		Guidance note on preparation of investment returns 2013
03-03-14	IRDA/F&I/INV/CIR/028/01/2014	BAP - Investment Module
11-02-08	IRDA/Reg/3/44/2008	Infrastructure investment definition
	INV/GLN/005/2003-04	Statement of Investment Reconciliation
	INV/GLN/007/2003-04	Explanation on Definition of “Group”

<b>Date</b>	<b>Circular reference</b>	<b>Short Description</b>
28-12-04	INV/CIR/058/2004-05	Outsourcing Of Investment Function - Life Insurance
27-07-09	IRDA/INV/GLR/LR/001/2009-10	Clarification on Investments in Central Government Securities
26-12-08	IRDA/INV/CIR/027/2008-09	Relaxation in Investment Parameters of Debt/ Equity Segment
30-04-15	IRDA/F&I/CIR/INV/093/04/2015	Withdrawal of Deposit under Section 7 of Insurance Act 1938
	8/RBI/05-06	Insurance sector's exposure to the Capital Market
04/24/2009	8-RBI-09-10	Insurance Sector's Exposure to Capital Markets
08/08/2013	IRDA-F&I-INV-CIR-155-08-2013	Exposure limits on the Investments in Housing Finance and Infrastructure Finance companies