
**INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY
(INVESTMENT) REGULATIONS, 2000**

CONTENTS

1. Short title and commencement
2. Definitions
3. Regulation of investments
4. Regulation of investments
5. Exposure/Prudential Norms
6. Returns to be submitted by the Insurer
7. Power to call for additional information
8. Duty to report extraordinary events affecting the investment portfolio
9. Constitution of Investment Committee
10. Miscellaneous

SCHEDULE 1 :-LIST OF APPROVED INVESTMENTS FOR LIFE BUSINESS

SCHEDULE 2 :-LIST OF APPROVED INVESTMENTS FOR GENERAL BUSINESS

SCHEDULE 3 :- 3

**INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY
(INVESTMENT) REGULATIONS, 2000**

F.No. IRDA/Reg./8/2000, dated the 14th August, 2000. In exercise of the powers conferred by Secs. 27-A, 27-B, 27-D and 114-A of the Insurance Act, 1938 (4 of 1938), the Authority in consultation with the Insurance Advisory Committee, hereby makes the following regulations, namely:-

1. Short title and commencement :-

(1) These regulations may be called the Insurance Regulatory and Development Authority (Investment) Regulations, 2000.

(2) They shall come into force on the date of their publication in the Official Gazette.

2. Definitions :-

In these regulations, unless the context otherwise requires,-

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

3. Regulation of investments :-

(1) Life Business.-Without prejudice to Sec. 27 or Sec. 27-A of the Act,-every insurer carrying on the business of life-insurance shall invest and at all times keep invested his controlled fund in the following manner:

S.No.	Type of Investment	Percentage
(i)	Government Securities	25%
(ii)	Government Securities or other approved securities (including (1) above)	Not less than 50%
(iii)	Approved Investments as specified In Schedule I	
(a)	Infrastructure and Social Sector	Not less than 15%
	Explanation.For the purpose of this requirement, Infrastructure and Social Sector shall have the meaning as given In regulation 2(h) of Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000 and as defined in the Insurance Regulatory and Development Authority (Obligations of Insurers to Rural and Social Sector) Regulations, 2000 respectively.	
(b)	Others to be governed by Exposure/Prudential Norms specified in Regulation 5.	Not exceeding 20%
(iv)	Other than In Approved Investments to be governed by	Not

(iv)	Other than approved investments to be governed by Exposure/Prudential Norms specified In Regulation 5.	Not exceeding 20%
------	--------------------------------------------------------------------------------------------------------	-------------------

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

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

Note: For the purposes of this sub-regulation: (a) No unapproved investments shall be made. (b) All investments shall be made in graded securities and the grading shall not be less than of 'very strong' rating by a reputed and independent rating agency (e.g. AA of Standard and Ploor). (c) Every insurer shall invest assets in securities which are actively traded in any Stock Exchange in India and which are attributable to segregated funds, in respect of linked business

4. Regulation of investments :-

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

Sl. No.	Type of Investment	Percentage
(i)	Central Government Securities being not less than	20%
(ii)	State Government securities and other Guaranteed securities Including (i) above being not less than	30%
(iii)	Housing and Loans to State Government for Housing and Fire Fighting equipment, being not less than	5%
(iv)	Investments In Approved Investments as specified In Sen. II	
(a)	Infrastructure and Social Sector Explanation.For the purpose of this	Not less

	requirement, Infrastructure and Social Sector shall have the meaning-as given in regulation 2(h) of Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000 and as defined In the Insurance Regulatory and Development Authority (Obligations of Insurers to Rural and Social Sector) Regulations, 2000 respectively.	than 10%
(b)	Others to be governed by Exposure/Prudential Norms specified In regulation 5.	Not exceeding 30%
(iv)	Other than In Approved Investments to be governed by Exposure/Prudential Norms specified in regulation 5.	Not exceeding 50%

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

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

5. Exposure/Prudential Norms :-

Without prejudice to anything Contained in Section 27A and regulation 27B of the Act, every insurer shall limit his investments based on the following exposure norms: (A) Exposure Norms *Total capital employed means total of equity shares, preference shares, debentures, long/medium/short term loans (excluding public deposits), free reserves but excluding revaluation reserves, of the investee company as shown in its last audited balance sheet. (B) Exposure Norms for Investment in Public Financial Institutions (C) Prudential Norms The prudential norms for various instruments shall be as under: (i) Debentures: Norms for Fully Convertible Debentures and Partly Convertible Debentures: Investment decisions are related to attractiveness of equity shares to be received as a result of conversion. Due consideration is also given to the factors, viz. (a) rate of Interest at the time of subscription to said debentures, (b) appreciation, and (c) dividend income likely to be received from the equity shares. Similar considerations also apply for Non-Convertible (NC) Debentures with detachable warrants attached to it. Norms for Non-Convertible Debentures and Non-Convertible Debentures with warrants attached: Asset Cover (as specified in Sch. III): First pari passu charge on fixed assets of

the company offered as security with a minimum of 1.25 times including proposed borrowings (excluding revaluation of assets). Debt Equity Ratio (as specified in Sch. III): Not to exceed 2:1 including the proposed NC Debenture issue. However, in case of capital intensive project debentures, higher ratio upto 4:1 may be considered. Interest Cover (as specified in Sch. III): Not less than 2 times for the latest year or on the basis of the average of the immediately preceding three years after including the interest on the * proposed debentures at the applicable rate. Dividend Payout: Minimum dividend of 10% in each of the two years out of the Immediately preceding three years Including the latest year. (ii) Term Deposits and Loans with Non Banking Companies: The insurer need to place the deposits with a view to cater to working capital needs to the corporate sector. The placement of the deposit are to be decided after evaluating financial and non-financial aspects of the performance parameters of the companies. The analysis need to include study of financial position, track record and other features such as quality of management, future prospects and market potential for the company's products. Credit rating of borrower should be uniformly maintained at position which is indicative of a very strong financial position being not less than AA of Standard and Poor or equivalent rating of any other reputed and independent rating agency. The maximum amount of Short Term Deposit that may be placed with any company is restricted to Rs. 2 crores or 10% of net worth whichever is less. The various norms/parameters for the placement of terms loans are as under: (iii) Infrastructure and Social Sector: In the case of projects/works in the infrastructure and social sector undertaken by a person other than a company, the norms indicated in the table above shall have to be met to the extent applicable. (iv) Guidelines on subscription to Preference Shares: (a) Companies whose preference shares are selected for investment should have sound financial position and steady income earning capacity. (b) The dividend payable on the preference shares should be cumulative. (c) The preference shares shall be redeemable. (d) Preference capital after proposed issue shall not exceed 100% of equity capital. (e) Dividend should have been paid on equity shares for two years out of immediately preceding three years. (f) Preference dividend should have been paid for 3 years or 3 out of 4 or 5 years including latest 2 years if the preference shares are Issued earlier. (g) Non-dividend paying preference shares should not be considered for investment. (h) Dividend cover on the basis of average profit of last 3 to 5 years

should be 3 times.

6. Returns to be submitted by the Insurer :-

Every insurer shall submit to the Authority the following returns within such time, at such intervals and verified/certified in such manner as indicated there against. These returns shall be in addition to those prescribed in Insurance Rules, 1939. The Authority may, by any general or special order, modify or relax any requirement relating to the above.

7. Power to call for additional information :-

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

8. Duty to report extraordinary events affecting the investment portfolio :-

Every insurer shall report to the Authority forthwith, the effect or the probable effect of any event coming to his knowledge, which could have an adverse impact on the investment portfolio held by him.

9. Constitution of Investment Committee :-

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

10. Miscellaneous :-

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

(2) The Authority may, by any general or special order, modify or relax requirement relating to regulation 5.

SCHEDULE 1

LIST OF APPROVED INVESTMENTS FOR LIFE BUSINESS

'Approved Investments' for the purposes of Sec.27-A of the Act shall be as follows:- (a) All approved investments specified in Section 27A of the Act except- (i) Cl. (b) of sub-section (1) of Section 27A of the Act; (ii) first mortgages on immovable property situated in other country as stated in Cl.

(m) of sub-section (1) of Section 27A of the Act. (iii) immovable property situated in other country as stated in Cl. (n) for sub-section (1) of Section 27A of the Act. In addition the Authority under powers given vide Cl. (s) of sub-section (1) Section 27A of the act declares the following investments as approved investments: (b) All secured loans, deposits, debentures, bonds, other debt instruments, shares and preference shares rated as 'very strong' or more by a reputed and independent rating agency (e.g. AA of Standard and Poor); (c) Deposits with banks (e.g. in current account, call deposits, notice deposits, term deposits, certificates of deposits, etc.) and with Primary Dealers recognised by RBI included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934); (d) Commercial papers issued by a company having a 'very strong' or more rating by a reputed and independent rating agency (e.g. AA of Standard and Poor); (e) Investments in Venture Capital Funds of such companies/organisations which have a proven track record and have been rated 'very strong' or more by a reputed and independent rating agency (e.g. AA of Standard and Poor). Explanation.-For this purpose any investment in the shares or debentures or short or medium or long term loans or deposits with private limited companies shall not be treated as 'approved investments'.

SCHEDULE 2

LIST OF APPROVED INVESTMENTS FOR GENERAL BUSINESS

'Approved Investments' for the purpose of Sec. 27-B of the Act shall be as follows:- (a). All approved investments specified in Section 27B of the Act except (i) Cl. (b) of sub-section (1) of Section 27A of the Act; (ii) immovable property situated in other country as stated in Cl. (n) of sub-section (1) of Sec. 27-A of the Act; (iii) first mortgages on immovable property situated in other country as stated in Cl. (i) of sub-section (1) of Section 27B of the Act; In addition the Authority under powers given vide Cl. (j) of sub- section (1) Section 27B of the Act declares the following investments as approved investments; (b). All secured loans, deposits, debentures, bonds, other debt instruments, shares and preference shares rated as 'very strong" or more by reputed and independent rating agency (e.g. AA of Standard and Poor); (c). Loans to State Government for Housing and Fire Fighting Equipment; (d) Deposits with banks (e.g. in current account, call deposits, notice deposits, term deposits, certificates of deposits, etc.) and with Primary Dealers recognised by RBI included for the time being in the Reserve Bank of India Act, 1934 (2 of 1934); (e) Commercial papers issued by a company leaving a "very strong' or more rating by a reputed and independent rating agency; (f) Treasury Bills issued by RBI, Inter Bank Report of RBI and Bills Re-discounting. (g) Investments in Venture Capital Funds of such companies/organisations which have a proven track record and have been rated 'very strong' or more by a reputed and Independent rating agency (e.g. AA of Standard and Poor). Explanation.-For this purpose any investment in the shares or debentures for short or medium or long term loans or deposits with private limited companies shall not be treated as 'approved investments'.

SCHEDULE 3

3

(See regulation 5) Asset Cover : Asset Cover shows the relationship between Fixed Assets and secured loans. It is to be calculated by dividing Fixed Assets by Secured Loans. Details of working are as under:

Fixed Assets

11

FIXED ASSETS	
Net Block of Fixed Assets	
Add: Revaluation Reserves	
Less: Goodwill	
Less: Assets not available viz. exclusively charged assets. Vehicles leased assets, etc.	
Total (A)	
Secured Loans	
First Charge debentures	
Secured Term Loans	
Deferred payment Guarantee (If assets are not exclusively charged)	
Proposed Borrowings	
Total (B)	
Asset Cover (A/B)	

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

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

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

Profit before Tax	
Add: Depreciation	
Add: Financial Charges	

Interest Financial Charges

Add: Non-Recurring Expenses		
Less: Non-Recurring Income		
PBDIT (A)		
Existing Financial Charges		
Add: Interest on proposed borrowings		
Financial Charges (B)		
Interest Cover (A/B)		

--	--	--