

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

NOTIFICATION

Hyderabad, the 17th December, 2015

Insurance Regulatory and Development Authority of India (Issuance of Capital by Indian Insurance Companies transacting Life Insurance Business) Regulations, 2015



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F. No. IRDAI/Reg/22/112/2015 .— In exercise of the powers conferred by Section 114A read with Section 6A of the Insurance Act, 1938 (4 of 1938), sections 14 and 26 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), the Insurance Regulatory and Development Authority of India, in consultation with the Insurance Advisory Committee, hereby makes the following Regulations in supersession of the Insurance Regulatory and Development Authority (Issuance of Capital by Life Insurance Companies) Regulations, 2011, namely:

1. Short title and commencement

- (1) These Regulations may be called the Insurance Regulatory and Development Authority of India (Issuance of Capital by Indian Insurance Companies transacting Life Insurance business) Regulations, 2015.
- (2) These Regulations shall come into force on the date of their publication in the Official Gazette.
- (3) These Regulations shall be applicable to Indian insurance companies granted certificate of registration to transact the business of life insurance.

Definitions

2. (1) In these Regulations, unless the context otherwise requires;
 - i. "Act" means the Insurance Act, 1938 (4 of 1938);
 - ii. "Applicant Company" means an Indian Insurance Company which has been granted certificate of registration to transact the business of Life Insurance in terms of Section 3 of the Act;
 - iii. "Application" means the application in Form "A" of these Regulations filed by the applicant company for obtaining prior approval of the Authority for issuance of capital under these Regulations;
 - iv. "Authority" means Insurance Regulatory and Development Authority of India established under section 3 of Insurance Regulatory and Development Authority Act, 1999;
 - v. "Corporate Governance Guidelines" means the guidelines issued by the Authority in this regard;

- vi. "ICDR Regulations" means the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 as amended from time to time;
 - vii. "Indian Insurance Company" means an "Indian Insurance Company" as defined in section 2 (7A) of the Insurance Act, 1938;
 - viii. "Investor" means an "investor" as defined in regulation 2 (f) of the Insurance Regulatory and Development Authority of India (Transfer of Equity Shares of Insurance Companies) Regulations, 2015;
 - ix. "Offer Document" means an "offer document" as defined under the ICDR Regulations;
 - x. "Promoter" of an applicant company means a "promoter" as defined in Section 2 (69) of the Companies Act, 2013 and includes "Indian Promoter" as defined in IRDA (Registration of Indian Insurance Companies) Regulations, 2000.

Provided that for the purpose of filing of the offer document with SEBI, the definition of "promoter" under SEBI (ICDR) Regulations, 2009 shall apply;
 - xi. "SEBI" means the Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992).
- (2) All words and expressions used herein and not defined in these regulations but defined in the Insurance Act, 1938 (4 of 1938) or in the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999) or in the Securities and Exchange Board of India Act, 1992 (15 of 1992), or in any Rules or Regulations made thereunder, shall have the same meaning as respectively assigned to them in those Acts, Rules or Regulations.

Prior Written Approval by the Authority

3. No Indian insurance company transacting Life insurance business shall approach SEBI for public issue of shares and for any subsequent issue, by whatsoever name called, under the ICDR Regulations without the specific previous approval of the Authority in writing under these Regulations.

Manner and Procedure

4. (1) These Regulations shall be applicable to the Applicant Company to raise funds under the ICDR Regulations through any of the following options
- i. Divestment of equity by one or more of the promoter or the investor through a public offer for sale; or
 - ii. Issue of Capital; or
 - iii. Both (i) and (ii)

Provided that any issue of capital other than as specified at (i), (ii) and (iii) above, including any transfer of shares beyond the specified limits as laid down under section

6A (4)(b)(ii) / (iii) of the Act, shall require the specific prior approval of the Authority. Such transfer of shares and approvals thereof shall be governed by the IRDAI (Transfer of Equity Shares of Insurance Companies) Regulations, 2015.

- (2) An applicant company proposing to raise share capital through a public issue in terms of these Regulations may do so at any time from the date of grant of Certificate of Registration. Provided that promoters and/or investors shall abide by the lock in period, if any, specified by the Authority at the time of grant of Certificate of Registration.
- (3) The application for approval of the Authority shall be filed in Form 'A' of these Regulations.
- (4) The Applicant Company may issue shares as fully paid up or partly paid up shares. Where partly paid up shares have been issued, the Applicant Company shall not allow any period exceeding one year for payment of calls on shares.

Consideration of application

5. (1) The Authority shall consider the applicant company's overall financial position, its regulatory record, the application for issue / offer for sale, the capital structure post issue / offer for sale, and the purposes for which the share capital proposed to be raised, will be applied.
- (2) Without prejudice to the generality of (1) above, the Authority shall consider the following aspects for grant of approval:
 - i. The period for which the applicant company has been in life insurance business;
 - ii. The history of compliance with the regulatory requirements by the applicant company;
 - iii. The maintenance of the prescribed regulatory solvency margin as at the end of the preceding six quarters commencing from the quarter immediately prior to the date of filing the application;
 - iv. Compliance with the disclosure requirements mandated under IRDA Circular No. IRDA/F&I/CIR/F&A/012/01/2010 dated 28th January, 2010 as amended and modified from time to time;
 - v. Compliance with the Corporate Governance Guidelines;
 - vi. Compliance with the requirements of "Indian owned and controlled" as defined under section 2(7A) (b) of the Act read with the Indian Insurance Companies (Foreign Investment) Rules, 2015 and any guidelines issued by the Authority in this regard;
 - vii. The record of policyholder protection; and

- viii. The Embedded Value of the applicant company. The Embedded Value Report shall be prepared by an independent Actuary in the manner prescribed by the Actuarial Practice Standard issued by the Institute of Actuaries of India.

Provided that the Authority may allow the Applicant Company to file the report of the Independent Actuary at least 30 days before the date of issue of Prospectus/Drafted Red Herring Prospectus (DRHP).

Approval of the Authority

6. (1). While according its approval, the Authority may prescribe the following:
- i. The extent to which the promoters and the investors shall dilute their respective shareholding;
 - ii. The maximum subscription which may be allotted to any class of foreign investors;
 - iii. Minimum lock-in period for the promoters and the investors from the date of allotment of shares. The lock in period shall be without prejudice to the requirements which may be in place under the ICDR Regulations;
 - iv. Disclosures in the Prospectus / Offer document as indicated at Schedule 1 of these Regulations, in addition to such disclosures as may be prescribed by SEBI.
 - v. Modification in the Articles of Association of the Applicant company so as to explicitly provide that no transfer beyond the limit specified in Section 6A of the Act shall be registered without the prior approval of the Authority; and
 - vi. such other conditions as may be deemed fit by the Authority.
- (2) Any approval by the Authority under these Regulations shall not in any manner be deemed to be or serve as a validation of the representations by the applicant company in any offer document. This fact shall be disclosed in bold letters in the offer document.
- 7. The Authority shall not accord its approval if it is of the opinion that :**
- (a) The applicant company is not compliant with the regulatory framework; or
 - (b) Consequent upon the dilution of shareholding by the promoter(s) and/or Investor(s) or issue of fresh capital, the applicant company shall not be Indian owned and controlled; or
 - (c) The grant of approval may be detrimental to the interests of policyholders; or
 - (d) the grant of approval may not be in the interests of the insurance business in the country.

Timelines for approval of the Authority

8. The Authority shall process and grant approval on the application as expeditiously as possible, and the applicant company shall ensure prompt response to the queries and requests for information from the Authority for processing the application.

Validity of Approval

9. The approval granted by the Authority shall be valid for a period of one year from the date of issue of the approval letter, within which the applicant company shall file the Draft Red Herring Prospectus (DRHP) with SEBI under the ICDR Regulations subject to compliance of these Regulations.

Provided that the Authority may, on receipt of a written request from applicant company, extend the validity by a further period of six months.

Power to issue Direction

10. The Authority may direct an Indian Insurance Company transacting life insurance business to get listed on the stock exchange(s) if the circumstances so warrant. Such company shall, notwithstanding the lock-in period, within a period of one year from the date of such directions, comply with the directions issued by the Authority.

Power to remove difficulties and issue clarifications:

11. In order to remove any doubts or the difficulties that may arise in the application or interpretation of any of the provisions of these regulations, the Chairperson of the Authority may issue appropriate clarifications or guidelines as deemed necessary.

T. S. VIJAYAN, Chairman
[ADVT.III/4/Exty./161/15]

FORM A

Application for approval in terms of IRDAI (Issuance of Capital by Indian Insurance Companies transacting Life insurance business) Regulations, 2015

(Please refer Regulation 4)

The Chairman
Insurance Regulatory and Development Authority of India
Parishram Bhavan
3rd Floor, Basheer Bagh
Hyderabad – 500 004
Sir,

In terms of the IRDAI (Issuance of Capital by Indian Insurance Companies transacting life insurance business) Regulations, 2015, M/s (Registration No. dated) which has completed years of operations, hereby applies to the Authority

seeking permission to raise funds through a public issue under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations).

2. The details of the various performance parameters referred to under regulation 5 are placed at Annexe along with the requisite enclosures as listed below:
 - (i)
 - (ii)
 - (iii)
3. The Embedded Value Report prepared by an Independent Actuary in compliance with the prescriptions laid down by the Actuarial Practice Standard issued by the Institute of Actuaries of India is annexed to the Application. (In case it is not submitted with the application, the Report has to be submitted at the earliest and at least 30 days before the date of issue of prospectus/ DRHP.)
4. On receipt of the approval from the Authority, the (insurance company)shall file an offer document with the Securities and Exchange Board of India (SEBI) under the ICDR Regulations within a period of one year and shall ensure compliance with the requirements under the said Regulations and such other conditions as the Authority may impose while granting approval.

Place: Yours faithfully

Date: (Signature of the Chief Executive Officer)

Designation

(Signature of the Chairman of the Board)

Designation

Annexure to the Application

(Please refer Form A under Regulation 4)

1. Name of the applicant Company:
2. Registration No. and Date of Registration:
3. Number of years from the date of commencement of operations:
4. Solvency Position for the last six quarters:

Sl. No.	Quarter Ended (Latest quarter first)	Solvency Position
1		
2		
3		

4		
5		
6		

5. Status of Compliance with the Expenses of Management requirements under the Insurance Act, 1938 and the Regulations made thereunder for the last five years:

Sl. No.	Financial Year (latest year first)	Allowable Expenditure (Rs. in Crore)	Actual Expenditure (Rs. in Crore)	Compliance Status
1.				
2.				
3.				
4.				
5.				

6. Details of net profit, paid up capital and net-worth of the insurer for the last five years:

Sl. No.	Financial Year (latest year first)	Net Profit/Loss (Rs. in Crore)	Paid-up Capital (Rs. in Crore)	Net-worth (Rs. In Crore)
1.				
2.				
3.				
4.				
5.				

7. Confirmation of Compliance with the Disclosure Requirements:

M/s. hereby confirms that it is compliant with the disclosure requirements as mandated in the IRDA Circular No. IRDA/ F&I/ CIR/ F&A/ 012 /01/ 2010 dated 28th January, 2010 as amended and modified from time to time.

(Details of deviations, if any should be brought out).

8. Confirmation of Compliance with the Corporate Governance Guidelines:

M/s hereby confirms that it is compliant with the Corporate Governance Guidelines issued by IRDAI.

(Details of deviations, if any should be brought out).

9. Details of regulatory action initiated by IRDAI against the insurer during the last five years are as under:

(Latest First):

13. Confirmation of compliance with Indian Owned and Controlled:

M/s. hereby confirms that it is compliant with the requirements of Indian owned and controlled as defined under section 2(7A) (b) of the Act read with Indian Insurance Companies (Foreign Investment) Rules, 2015 and guidelines issued by the Authority and shall continue to be compliant after the issue of capital in accordance with this application.

14. The requisite extracts of the Board meeting held on duly certified by the Company Secretary approving the issuance of capital/offer for sale as proposed by the applicant company are enclosed.

It is hereby confirmed that the information furnished in Form A and Annexure along with the attachments therewith is correct and complete to the best of my knowledge and belief and nothing has been concealed or suppressed.

Place (Signature of the Chief Executive Officer)

Designation

Date: (Signature of the Chairman of the Board)

Designation

Schedule 1

[Please refer regulation 6 (1) (iv)]

Disclosure Requirements for Insurance Companies:

The Securities and Exchange Board of India (SEBI) has laid down the framework for issue of capital and disclosure requirements in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR). Part 'A' of Schedule VIII of the ICDR lays down the disclosure requirements in the Red Herring Prospectus, Shelf Prospectus and Prospectus.

An applicant company seeking to issue capital/make an Offer for Sale under these Regulations shall make the following disclosures in the offer document. These disclosures shall be in addition to the prescriptions laid down by SEBI in the ICDR Regulations and shall not be seen in derogation from the requirements prescribed by SEBI:

- (a) Risk factors specific to the applicant company;
- (b) Overview of the insurance industry;
- (c) Disclosure of Financial Statements;
- (d) Glossary of terms used in the insurance sector;
- (e) Particulars of the Issue;

- (f) Particulars about the Issuer;
- (g) Legal and Other Information.

The details of disclosures are as indicated below:

(a) Risk factors specific to the applicant company

The Offer Document shall list out the risk factors specific to the insurance sector, to be broadly segregated into the following categories:

1. **Insurance Risk:** Risk arising because of inaccurate estimation of the best estimate or because of random fluctuations in the frequency and size of the claims and other cash flows including Impact of Lapse rates, Expenses Levels, Mortality / Morbidity Rates
2. **Market Risk:** Risk arising out of variations in the level or volatility of the market prices of assets, liabilities and financial instruments due to external market and economic factors.
3. **Credit Risk:** Risk of default of a counterparty or obligor, including the risk of default of risk mitigating contracts like reinsurance and financial derivatives.
4. **Operational Risk:** The risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events.
5. **Liquidity Risk :**
 - o Adverse impact on earnings due to differences in future actual claims resulting from the assumptions used in pricing and establishing reserves for insurance and annuity products
 - o Concentrated surrenders
6. **Catastrophic Losses Risk :** Material impact on profitability or cash flow due to catastrophic losses
7. **Reinsurance Risk**
 - o Failure to obtain reinsurance on timely basis.
 - o Default by one or more reinsurers
8. **Embedded Value Risk :** the embedded value information is based on several assumptions and may vary significantly as the underlying assumptions are changed.
9. **Regulatory Risks :**
 - o Material effects due to Regulatory changes

- o Regulatory investigations and the resulting sanctions or penalties may adversely affect the reputation, business, result of operations and financial conditions of the insurance company.

10. **Market Growth Risk** : the low / high rate of growth of insurance market.

11. **Distribution Risks** :

- o Over dependence on certain distribution channels.
- o Failure to develop various distribution channels
- o Difficulty in developing agency force

12. **Other risks**

- o Excessive dependence on select actuarial personnel.
- o Difficulty in understanding financial statements
- o Effects of unexpected claims and coverage issues
- o Concentration by region / type of policies of the insurance company
- o Cyclical nature of insurance industry
- o Difficulty in predicting benefits, claims and other costs or to manage such costs
At the minimum, the associated risks shall cover the illustrative list as prescribed by the Authority from time to time.

(b) Overview of the insurance industry

The overview of the insurance industry shall briefly cover the background of the insurance industry, the global and domestic insurance environment, industry outlook, analysis of trends, Investment of funds by the sector, FDI in Insurance Sector, Intermediaries, changes in Insurance Legislation, and compliance status with the applicable Corporate Governance Guidelines furnishing particulars on the following aspects:

1. **Introduction**
2. **Background about Insurance Industry**
 - 2.1. Overview of the Insurance Industry
 - 2.2. Insurance Regulatory and Development Authority of India
3. **Global Insurance Environment-** A brief on global and domestic scenario covering Insurance penetration, density, growth of Industry, etc.
 - 3.1. Global Insurance Environment
 - 3.2. Domestic Market Overview

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- 4. Industry Outlook - Life Insurance -Total premium underwritten**
 - 4.1. Market Share (% share)
 - 4.2. Growth of Business
 - 5. Analysis of Trends - Life Insurance**
 - 5.1. Enlarged Coverage
 - 5.2. Introduction of New Products
 - 5.3. Health Insurance Products
 - 5.4. Reinsurance supported Products
 - 6. Investment of Funds by the Insurance Industry**
 - 6.1. Investment Pattern
 - 7. FDI in Insurance Sector**
 - 8. Intermediaries**
 - 8.1. Commission Structure
 - 8.2. Life Insurance Industry
 - 9. Changes in Insurance Legislation**
 - 9.1. Change in Insurance Legislation
 - 9.2. Regulatory Issues and Changes
 - 9.3. Consumer Related Changes
 - 9.4. Removal of Redundant clauses
 - 9.5. Enhancement of Enforcement Powers of the IRDAI and levy of Penalties
 - 10. Corporate Governance Guidelines for Insurance Companies**
 - 11. Conclusion**

(c) Disclosure of Financial Statements

Disclosures specific to the insurance industry would broadly cover the following aspects:

- 1. Presentation of the financial statements:** The presentation of financial statements shall be made for the period as specified in the ICDR Regulations as per the formats prescribed by the Authority from time to time.
- 2. Significant accounting policies:** Disclosure of the significant accounting policies while recasting the financial statement shall also be made.

3. Additional disclosures shall be made to the financial statements:

- i. Awards given by Insurance Ombudsmen against the company during last three years;
 - ii. Gross premium- along with Geographic segmentation
 - iii. Cross selling
 - iv. Distribution network
 - v. Persistency
 - vi. Expenses of Management ratio
 - vii .Investment yield
 - viii. Investment in Equity and Bonds – yield, exposure to each industry and total investment and Investment of above 5% of total Funds in each sector through equity and bonds
 - ix. Reinsurance and Reinsurance Strategy
 - x. Interest rate sensitivity
 - xi. Liability for future policy benefits and policyholders account balances.
 - xii. Manner of arriving at unrealized gain/losses
 - xiii. Solvency ratio
 - xiv. Certification by the Appointed Actuary confirming the adequacy of Mathematical Reserves to meet the insurance company's future commitments under the contracts and the policyholders' reasonable expectations;
 - xv. Segment-wise lapsation of the policies for last three years and contribution of such lapses to the profitability of the company;
 - xvi. Embedded Value calculated by an Independent Actuary as per the Actuarial Practice Standard issued by the Institute of Actuaries of India.
 - xvii. Accounting and other ratios: The ratios with specific reference to the insurance industry as prescribed by the Authority from time to time
 - xviii. Agent Productivity
 - xix. Value of New Business
4. Legal and Other Information: Compliance with the regulatory requirements under the Insurance Act, 1938, IRDA Act, 1999 and the rules and regulations framed thereunder.

5. Details of the company's record of Policyholder Protection and the pendency of the policyholder complaints during the last five years, including but not limited to grievance redressal and ageing of claims.

(d) Glossary of terms used in the insurance sector:

At the minimum, the illustrative glossary of terms as prescribed by the Authority from time to time shall be included in the Offer Document giving details of the Issuer and industry related terms.

(e) Particulars of the Issue: The following disclosures shall be made about the objects of the Issue:

- a. to augment the solvency requirement;
- b. general corporate purposes; and/or
- c. any other purpose which has the specific approval of the Authority.

(f) Particulars about the Issuer: The following additional disclosures shall be made about the insurance company:

1. Corporate Governance:

- Disclosure to the effect that the insurer has complied with the requirements of Corporate Governance as laid down by the Authority in addition to those contained in the Listing Agreement.
- Details of all Committees set up by the issuer, including the names of committee members and a summary of the terms of reference under which the respective committee operates.

2. Key Management Persons

3. Investors

4. Promoters

(g) Legal and Other Information:

Disclaimer clause:

The declaration indicating that "Insurance Regulatory and Development Authority of India ("IRDAI") does not undertake any responsibility for the financial soundness of the insurance company or for the correctness of any of the statements made or opinions expressed in this connection."

T.S. VIJAYAN, Chairman
[ADVT.III/4/Exty./161/15(294)]