

Insurers Face Curbs on Bank Investments

As per the proposal, the regulator might bar insurance firms from investing any funds in fixed deposits of promoter banks

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Kolkata: The Insurance Regulatory & Development Authority of India (IRDAI) proposes to bar insurance companies from parking fixed deposits (FDs) or certificate of deposits (CDs) in promoter banks, and plans to limit fixed income investments in other banks at 3% for life insurance companies and 10% for general insurers.

The proposals, if cleared, would create trouble for insurance companies across the board as they would need to bring down investments in bank deposits drastically from 15-20% of investible fund at present.

This means SBI Life Insurance Company would not be allowed to invest in fixed deposits of State Bank of India; Universal Sampo General Insurance Company would be barred from parking

funds in its three promoter banks — Allahabad Bank, Indian Overseas Bank and Karnataka Bank.

IRDAI had tried to force such stringent clauses earlier as well but stepped back after hard lobbying by insurance companies. At present, life insurers are allowed to invest in deposits of promoter banks with a cap of 5% of investible fund.

It is not known what prompted the regulator to bring back the proposals, but independent industry observers feel that the rules would only increase the fund management and operation costs of the companies.

"No investment in deposits, including FDs and CDs, in financial institutions falling under promoter group shall be made," IRDAI said in a draft on investment regulations.

"Investment in FDs shall not exceed 3% of respective fund size (Life fund, pension & general annuity

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3% Limit that IRDAI proposes to set for fixed income investments in banks other than promoters for life insurers

10% Limit that IRDAI proposes to set for investments for general insurers

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IRDAI circulated the draft on Mon and invited comments from stakeholders by July 10



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ment asset instead of fixed asset. Unlike fixed assets, investment assets capture the change in real estate valuation and therefore, this would improve the valuation of the investment.

Chief risk officers (CRO) in all insurance companies may also enjoy more prominence henceforth, with IRDAI telling insurers to include CROs as permanent members in investment committees to improve compliance.

"It will be important to have a diversified view on investment as we are dealing with public money," said Reliance Life Insurance chief executive officer Anup Rau. "Chief investment officer has a conflicting role — at one hand he tries to improve return on investment and on the other hand, he tries to make investment compliant. CROs can bring a holistic view on investment and compliance," Rau said.

fund and unit-linked funds) in the case of life insurers and 10% of investment assets in the case of general insurer, health insurer," it said.

IRDAI circulated the draft on Monday and invited comments from stakeholders by July 10.

While the investment proposals related to bank deposits or CDs may create trouble for insurers, the regulator offered a breather by proposing to allow insurers to consider immovable property where they conduct business as invest-