

**CONSULTATION PAPER ON PROPOSED
IFSCA (INVESTMENT BY IFSC INSURANCE OFFICE) REGULATIONS, 2022**

Objective:

The objective of this consultation paper is to seek comments / views/ suggestions from public on the proposed International Financial Services Authority (Investment by International Financial Service Centre Insurance Office) Regulations, 2022.

Background:

1. The International Financial Services Centres Authority (IFSCA) is the unified regulator for the development and regulation of financial products, financial services and financial institutions in the International Financial Services Centres (IFSCs) in India.
2. Considering the significance of investment income for insurers and reinsurers, IFSCA in accordance with Section 27 of the Insurance Act, 1938, proposes to enact a comprehensive regulatory framework on Investment by IFSC Insurance Office (IIO).
3. The proposed draft IFSCA (Investment by International Financial Service Centre Insurance Office) Regulations, 2022 *inter-alia* provides for manners and processes of investment of IIOs by the IIOs, in various global jurisdiction including in India. The proposed regulations also provide for various matrix, guidance, limitations on investments.
4. The draft regulations are placed on the website of the IFSCA at <https://ifsca.gov.in/PublicConsultation>. General public and stakeholders are requested to forward their comments / suggestions through e-mail to Insurance Dept. at insurance-dept@ifsca.gov.in with copy to Mr. Bhaskar Khadakhbavi at bhaskar.khadakhbavi@ifsca.gov.in and Rishi Kale at rishi.kale@ifsca.gov.in by 12th December, 2022 in the attached format. It is further requested to provide comments in MS Word or MS Excel format only.

INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

NOTIFICATION

Gandhinagar, the __/__, 2022

DRAFT - International Financial Services Centres Authority (Investment by International Financial Service Centre Insurance Office) Regulations, 2022

F. No. IFSCA/2022-23/GN/REG0xx. – In exercise of the powers conferred by Section 28 read with Sections 12 and 13 of the International Financial Services Centres Authority Act, 2019, and clause (i) of sub-section (2) of Section 114A read with Section 27 of the Insurance Act, 1938, read with Gazette notification number S.O. 3035(E) dated 04th July, 2022 issued by the Department of Financial Services, Ministry of Finance, Government of India, the International Financial Services Centres Authority hereby makes the following regulations namely:-

1. Short title and commencement -

- (1) These regulations may be called the International Financial Services Centres Authority (Investment by International Financial Service Centre Insurance Office) Regulations, 2022.
- (2) They shall come into force on the date of their publication in the Official Gazette.

2. Applicability:

- (1) An IIO incorporated in an IFSC shall undertake investment of assets in accordance with the provisions of these regulations;
- (2) An IIO not incorporated in an IFSC may either chose to follow norms related to investment of assets as applicable to its parent entity or as specified under these regulations; and
- (3) An IIO established as branch of Foreign insurer or Lloyd's India, registered by the Insurance Regulatory Development Authority of India (IRDAI), may either chose to follow norms related to investment of assets as applicable to its parent entity or as specified under these regulations.

Explanation: The choices referred to under sub-regulation (2) and (3) shall be exercised by-

- (a) by an IIO already registered with IFSCA-within one month of notification of these regulations;
- (b) by an Applicant seeking registration as an IIO, at the time of seeking registration.

3. **Objective –**

These regulations aim to put in place the regulatory framework and processes related to investment of assets by an IIO.

4. **Definitions -**

(1) In these regulations, unless the context otherwise requires -

(a) ‘**Act**’ means the International Financial Services Centres Authority Act, 2019 (50 of 2019);

(b) ‘**accounting standard**’ means–

(i) In respect of Indian Insurers/ Re-insurers, the applicable Accounting Standard or Indian Accounting Standard (Ind AS) notified by the Central Government under Section 133 of the Indian Companies Act, 2013, and regulations pertaining to Preparation of Financial Statements and Audit Report, as notified by the Authority, if any;

(ii) In respect of Foreign Insurers / Re-insurers, and any risk bearing entity other than those specified under clause (i) above, the applicable home country accounting standards;

(c) ‘**Authority**’ or ‘**IFSCA**’ means the International Financial Services Centres Authority established under sub-section (1) of Section 4 of the Act;

(d) ‘**board**’ means the board of directors of an IIO, or the Board of the Parent Entity of an IIO, in case the IIO is not incorporated in IFSC.

(e) ‘**financial assets**’ means the following types of assets -

(1) bonds, debentures (including convertible bonds and debentures) and other fixed income instruments;

(2) listed equities or similar investments including warrants and preference shares;

(3) debts, deposits and other rights including securitised debts which are in the form of asset backed securities (ABS);

(4) immovable properties including property rights such as mortgages, liens or pledges;

- (5) loans on policies of Life Insurance within their surrender values;
 - (6) units of Mutual Funds, Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs) and Alternative Investment Funds (AIF) [Category I and II only] as defined under International Financial Services Centres Authority IFSCA (Fund Management) Regulations, 2022;
 - (7) derivatives for the purpose of hedging;
 - (8) money market instruments (MMI); or
 - (9) any other instrument or asset as may be specified by the Authority as 'financial assets' from time to time.
- (f) **'financial derivative'** means an instrument whose value depends on (or is derived from) other assets, liabilities or indices (the "underlying asset") and is traded on a stock exchange or similar platform.
- (g) **'group'** for the purposes of these regulations, means a group that consists of a parent company or any other legal person exercising control over rest of the group, including its branches and/or subsidiaries that are subject to AML/CFT policies and procedures.

Explanation: Use of common brand names in conjunction with other parameters of significant influence and / or control, whether direct or indirect shall be reckoned for determination of its inclusion in the group or otherwise.

- (h) **'Infrastructure Assets'** shall mean investment in the sub-sectors listed in the 'Harmonised Master List of Infrastructure sub-sectors' as per Gazette Notification no. CG-DL-E-11102022-239561 dated October 11, 2022 of Department of Economic Affairs, Ministry of Finance, Government of India, as amended from time to time and shall also include the following:
- a. District heating; and
 - b. Financial Institutions including the market infrastructure institutions in IFSC.

Explanation:

- (1) The Infrastructure Assets shall not include any maintenance services and facilities for private use.

- (2) The investments in sub-sectors listed in the Gazette Notification stated above can be made in India as well as Overseas.
- (i) **‘International Financial Services Centre’** or **“IFSC”** shall have the same meaning as assigned to it under clause (g) of sub-section (1) of section 3 of the Act;
- (j) **‘International Financial Service Centre Insurance Office’** shall have the same meaning as assigned to it under clause (k) of sub-regulation (1) of regulation 3 of the International Financial Services Centres Authority (Registration of Insurance Business) Regulations, 2021;
- (k) **‘investment’** refers to deployment in financial assets or infrastructure assets, in accordance with these regulations, but shall not include:
- i. Any outflow of assets pursuant to an administrative or judicial order,
 - ii. Claims to money that arise solely from –
 - (a) Commercial contracts for sale of goods or services,
 - (b) The extension of credit in connection with such commercial contracts,
 - iii. Investment in an Asset backing a unit-linked or separate account insurance liabilities, when these insurance liabilities are valued using the Asset Replication Approach, or
 - iv. Investment in a Government bonds other than debt instruments issued or guaranteed by Central Governments (e.g. exposures to provinces, municipalities and public sector entities).
- (l) **‘Parent Entity’** or **‘Head Office’** shall have the same meaning as assigned to it under clause (q) of sub-regulation (1) of regulation 3 of the International Financial Services Centres Authority (Registration of Insurance Business) Regulations, 2021;
- (2) For the purposes of these regulations, the expressions **‘Controlled’**, **‘Liabilities’**, **‘Promoter’** and **‘Owned’** shall have the same meaning as assigned to them under Section 27 of the Insurance Act, 1938, as modified vide Notification number S.O. 3035(E) dated 04th July, 2022 by the Department of Financial Services, Ministry of Finance, Government of India;
- (3) Words and expressions used and not defined in these regulations but defined in the Act or Acts mentioned in the First Schedule to the Act or any rules, regulations or

notifications made thereunder, shall have the same meanings respectively assigned to them in those Acts, rules or regulations or any statutory modification or re-enactment thereto, as the case may be.

5. Investments by IIO –

- (1) The IIO shall have a Board approved Investment Policy, which shall, *inter-alia*, provide for situations of breaches, action plans to address breaches, provisions for providing Economic Capital, if required.
- (2) IIOs shall value all of its assets and liabilities, and maintain solvency margin in accordance with the regulations issued by the Authority in this regard.
- (3) Every IIO, in order to meet its liabilities, shall earmark, invest and at all times keep earmarked and invested, assets of value not less than that of its liabilities;

Provided that an IIO established as place of business of Indian Insurer or Indian Re-insurer, shall not invest its assigned capital including additional assigned capital, if any, in the IFSC and the said assigned capital shall be invested and continued to be invested in accordance with the regulatory requirements applicable in its home country.

- (4) An IIO may invest not more than five *per cent.* of the assets referred to in sub-regulation (3) of regulation 4, by value, in a company or other body corporate which is owned or controlled by the promoters, subject to the conditions specified in these regulations.
- (5) An IIO, while dealing with any bank in relation to an investment, shall ensure that the bank:
 - (i) has operations in 5 or more countries;
 - (ii) enjoys rating levels 1 or 2 from the banking regulator of the home country under the CAMELS (capital adequacy, asset quality, management, earnings, liquidity, and sensitivity) Framework; and
 - (iii) has total assets of US\$ 100 billion.
- (6) Investment of the whole or any part of the assets referred to in sub-regulation (3) of regulation 4, shall be held free of any encumbrance, charge, hypothecation or lien and till such time, manner and subject to such other conditions as may be specified under these regulations.
- (7) An IIO may invest its Assets –

- (a) in the IFSC;

- (b) in India, through extant regulatory framework on Foreign Portfolio Investment, as specified by the Reserve Bank of India and the Securities and Exchange Board India;
 - (c) in the country where its Parent Entity is incorporated or domiciled, subject to compliance with the conditions as specified by its home country regulatory or supervisory authority; or
 - (d) in a country or jurisdiction which is not identified in the public statement of Financial Action Task Force (FATF) as a high-risk jurisdiction subject to call for action.
- (8) Where an IIO is relocating its branch or place of business from any other country or jurisdiction to the IFSC, it shall continue to follow the regulatory framework on Investments of Assets of said country or jurisdiction in respect of the premium sourced therefrom.

Provided that if the existing investment made by IIO in the erstwhile jurisdiction is not in conformity with Regulation 10, such investments would be ring-fenced and continue to be invested in the erstwhile jurisdiction, for a period up to six (6) months from the date of registration as IIO or for such period as may be mandated by its home country regulatory or supervisory authority, whichever is later,

Provided further that the investments made in erstwhile jurisdictions shall be accounted for and disclosed separately,

Provided also that if for any reason, the IIO is not able to comply with this sub-regulation, it shall submit detailed explanations to the Authority,

Provided also that investments in respect of risks assumed (premiums sourced) by the IIO under International Financial Services Centres Authority (Registration of Insurance Business) Regulations, 2021 are ring-fenced and accounted for separately, without being affected by the returns on the investments made in other regulatory jurisdictions.

6. **‘Investible Funds’ or ‘Investment Assets’** means investments made out of the following funds:

- (1) in case of IIO, transacting Life Insurance Business –
 - (a) Shareholders’ Funds, to the extent they represent:
 - (i) Solvency Margin,
 - (ii) Non-Unit Reserves of Unit Linked Insurance business,
 - (b) Policyholders’ Funds in respect of:

- (i) Participating and Non-Participating Funds of Policyholders,
- (ii) Funds of Variable Insurance Products including One Year Renewable Pure Group Term Assurance Business (OYRGTA) at their carrying value.
- (iii) Pension, Annuity and Group Superannuation business, including funds of Variable Insurance products at their carrying value as per guidelines issued under these regulations, from time to time.
- (c) Policyholders' Unit Reserves - in respect of Unit Linked Insurance business, including funds of Variable Insurance Products at their market value as per guidelines issued under these regulations, from time to time.
- (2) In case of IIO, transacting General, Health and / or Re-insurance business -
 - (a) funds maintained in its Parent Entity Account,
 - (b) shareholders' funds, representing solvency margin, and
 - (c) policyholders' funds at their carrying value as shown in its balance sheet prepared in accordance with the applicable regulations.

7. Admissible Rating Categories of Investments:-

For the purpose of these regulations, including that of sub-regulation (1) to (4) of Reg. 17 of the International Financial Services Centres Authority (Registration of Insurance Business) Regulations, 2021, investments by IIO shall be made only in Assets rated as Investment Grade under Insurance Capital Standards – Rating Categories (ICS-RC) by international rating agencies recognized by the International Association of Insurance Supervisors (IAIS), unless otherwise specified by the Authority.

8. Admissible Sovereign Credit Rating: -

- (1) Investments in Government bonds / debt instruments issued at the Central Government level of a country shall be admissible only in respect of the countries having Investment Grade Sovereign Credit Ratings (SCR) from one of the international rating agencies recognized by the International Association of Insurance Supervisors (IAIS), unless otherwise specified by the Authority.

Explanation: Securities issued by entities lower than Central Governments, such as State Governments, regional, provincial, public sector entities or municipalities will not qualify as Sovereign bonds/ debt instruments, irrespective of satisfaction of rating requirement.

- (2) Where any country in which investments are subsisting is subsequently identified in the public statement of Financial Action Task Force (FATF) as high-risk jurisdictions

subject to call for action, IIO shall relocate such investments to other eligible countries in a time bound manner with due reporting to the Authority.

9. Admissible Pattern of Investment Assets:-

The investments by the IIO in various assets shall be in accordance with the following matrix:

Matrix 1: Investment Asset Exposure Pattern Matrix			
Sr. No.	Type of Investment Asset	Exposure (<i>per cent.</i>)	
		Maximum	Buffer
1	Listed/ to be listed Bonds, Debentures and equivalent fixed income instruments including Asset Backed Securities (ABS), Mortgage Backed Securities (MBS); and Debt Mutual Funds subject to Note 3.	80	20
3	Debts, Loans, Corporate and Bank Deposits and similar rights	30	10
4	Listed/ to be listed Equities and equity type instruments including Preference Shares; and Equity Mutual Funds	20	5
5	Alternative Investment Funds (AIF) - Category 1 and 2	5	5
6	Loans (other than policy loans in Life Insurance)	5	0
7	Immovable Property including Real Estate Investment Trusts (REITs)	5	0
8	Infrastructure including Infrastructure Investment Trusts (InvIT) and instruments for financing Infrastructure Assets	5	0
9	Money markets for short period, including in Liquid and Money Market Mutual Funds (for new funds pending deployment and payments on maturing policies)	100	0
10	Money markets for short period including in Liquid and Money Market Mutual Funds (for other than new funds)	15	0
<p>Note 1: The above percentage is applicable to the Total Investment Assets of the insurer.</p> <p>Note 2: Investment in Bond, Debt and Deposit (other than Mutual Funds) will be subject to the rating criteria given in Matrix 2 of these regulations.</p> <p>Note 3: Exposure in Debt Mutual Funds shall not be more than 10 <i>per cent.</i> of total Debt Investments and Exposure in MBS and ABS together shall not be more than 5 <i>per cent.</i> of the total Debt Investments.</p> <p>Note 4: Maximum Investment Exposure to different sovereign ratings are given in Matrix 3 and 4 of these regulations.</p> <p>Note 5: Maximum Exposure to Instrument, Entity, Industry and Group are given in Matrix 5 of these regulations.</p> <p>Note 6: Provided ULIP Investments would follow the pattern of investments offered to policyholders as per the plan offered and accepted, subject to exposure norms.</p> <p>Note 7: 'Invested' would mean 'Invested and kept invested'</p>			

10. Exposure in Bonds and other debt instruments rated in accordance with Insurance Capital Standards: The exposures of the IIO to Bonds, Debts, and Deposits shall be limited as per the following matrix, based on the ratings accorded to such instruments by any

international rating agency recognized by the International Association of Insurance Supervisors (IAIS), unless otherwise specified by the Authority .

Matrix 2: Bond, Debt and Deposit Exposure Matrix by Insurance Capital Standards			
Type of Investment Asset	Insurance Capital Standards - Rating Category - (ICS-RC)		
	ICS-RC	Maximum (per cent.)	Buffer (per cent.)
1. Bonds and other fixed income instruments;	ICS-RC 1	100	0
	ICS-RC 2 & 3	50	10
2. Debts, Corporate and Bank Deposits and similar rights.	ICS-RC 4	20	0
	India including IFSC	100	0

Note: The above percentage is applicable to the Total Investment Assets of the IIO.

11. **Bond Exposures by Sovereign Credit Ratings:** The exposures of the IIO to Bonds, Debts and Deposits shall be limited as per the following matrix, based on the ratings given in accordance with the ‘Sovereign Credit Rating’ to the countries from where such instruments are offered, by an internationally reputed rating agency,:-

Matrix 3: Bond, Debt and Deposit Exposure Matrix based on Sovereign Credit Rating			
Type of Investment Asset	Sovereign Credit Rating - Rating Category (SCR-RC)		
	SCR-RC	Maximum (per cent.)	Buffer (per cent.)
1. Bonds and other fixed income instruments including Debt Mutual Funds	SCR-RC 1	100	0
	SCR-RC 2 and 3	50	10
	SCR-RC 4, 5 and 6	20	0
2. Debts, Loans, Corporate and Bank Deposits and similar rights	SCR-RC – 7 and lower within Investible Grade	10	0
	India including IFSC	100	0

12. **Equity Exposures by Sovereign Credit Ratings:** The exposures of the IIO to Equities and similar instruments listed below shall be limited as per the following matrix, based on the top Investment Grade ratings given by internationally reputed rating agencies to the countries where such instruments are offered and investments made:-

Matrix 4: Equity Exposure Matrix by Sovereign Credit Rating			
Type of Investment Asset	Sovereign Credit Rating - Rating Category (SCR-RC)		
	SCR-RC	Maximum (per cent.)	Buffer (per cent.)
1. Listed Equities and equity type instruments—including Equity Mutual Funds	SCR-RC 1	100	0
	SCR-RC 2 & 3	50	10
	SCR-RC 4, 5 & 6	20	5
2. Preference Shares	SCR-RC – 7 and lower, within Investible Grade	10	0

3. Alternative Investment Funds (AIF) Category 1 and 2 only	India including IFSC	100	0
4. Derivatives			

13. **Property and Infrastructure Exposures by Sovereign Credit Ratings:** The exposures of the IIO to Immovable Property and Infrastructure Assets shall be limited as per the following matrix, based on the top Investment Grade ratings given by internationally reputed rating agencies to the countries where such instruments are offered and investments made -

Matrix 5: Property and Infrastructure Exposure Matrix by Sovereign Credit Rating			
Type of Investment Asset	Sovereign Credit Rating - Rating Category (SCR-RC)		
	SCR-RC	Maximum (per cent.)	Buffer (per cent.)
1. Immovable Property 2. Infrastructure	SCR-RC 1	100	0
	SCR-RC 2 & 3	50	10
	SCR-RC 4, 5 & 6	30	5
	SCR-RC 7 and lower, within Investible Grade	10	0
	India including IFSC	100	0

14. **Exposures to Entities, Groups and Industry:** The exposures of the IIO shall be limited on the basis of the nature of investee– single entity or a group or a particular industry. These exposures shall conform to the following matrix, subject to caps on the exposures to such Investee Entities also -

Matrix 6: Investment Asset Exposure Matrix to Entity, Group and Industry <i>[Exposures mentioned in this matrix apply to the total Investment Assets of the insurer]</i>		
Type of Investment Asset	Overall Exposure by an Insurer	Maximum Investment by an Insurer as a percentage of the total Investment Assets
1. Bonds and other fixed income instruments including Debt Mutual Funds	A Single Entity (Investee). (Subject to Notes 1 & 2)	10
	Within the IIO's Own Group	5
	To any other Group	15
2. Debts, Corporate and Bank Deposits and similar rights	To a particular Industrial Sector	15
3. Listed Equities and equity type instruments including Equity Mutual Funds	Note 1: The sum total of all investments in equity shares, preference shares, convertible debentures and other equity related instruments shall not be more than 10 per cent. of the total paid-up equity share capital of the <u>Investee</u> .	
4. Preference Shares	Note 2: Any investment in bonds, debentures including commercial papers (C.P.), loans and other debt instruments shall not be more than 10 per cent. of the paid up share capital and free reserves (excluding revaluation reserve) and debentures, bonds (incl. C.P.s) of the <u>Investee</u> .	
5. Alternative Investment Funds (AIF) Category 1 & 2 only		
6. Property		
7. Infrastructure		

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15. Governance:

- (1) The Board of IIO shall have its own prudential mechanisms to evaluate, monitor, measure, report, control and limit their investment exposure.
- (2) The IIOs shall conduct independent due diligence on proposed investments in addition to the rating given by Rating Agencies.
- (3) An IIO shall infuse such additional capital, as may be specified by the Authority in case:
 - (a) Exposure of investment exceeds the limit specified under regulation 8 to 13; or
 - (b) Rating downgrade of the Asset in which investment has been made, to below investment grade.
- (4) The IIOs shall continuously monitor the exposures of their investments to Market Risk, Interest Rate Risk, Currency Risk, Credit Risk, Other Market Risk, Liquidity Risk, Climate Change Risk etc. and take appropriate prudential measures to manage the same.

16. Management and Control

- (1) The entire investment process of an IIO shall be overseen by an Investment Management Committee comprising of persons with financial and actuarial background duly authorised by the Board of the IIO including persons with relevant knowledge, experience and understanding of the inherent risks in the insurance or reinsurance business.
- (2) The investments on behalf of an IIO shall be made by the persons duly authorised by the Parent Entity of the IIO, with adequate protocols for reporting and review.
- (3) The IIO shall have Internal Controls systems, including Internal Audits for Investment in addition to external audits.
- (4) The investments made outside the IFSC shall be freely transferable to the IFSC jurisdiction within specified timelines as and when directed by the Authority.
- (5) The investments shall be made in freely convertible foreign currencies except where the investments are made in India and the IIO shall ensure that Liquidity risk is minimized.

17. Reporting requirements:

- (1) Every IIO shall furnish information relating to its investments to the Authority in such manner, interval and in such forms as may be specified or sought by the Authority from time to time;
 - (2) Every financial reporting by an IIO to the Authority shall be in USD, unless otherwise specified by the Authority.
18. **Power to specify procedures etc.:** For the purpose of implementation, facilitation and regulation of investment by IIOs and matters incidental thereto, the Authority may specify norms, procedures, processes and manners for compliance by IIOs.
19. **Power to remove difficulties and relax strict enforcement of the regulations:**
- (1) In order to remove any difficulty in the application or interpretations of the provisions of these regulations, the Authority may issue clarifications through guidance notes or circulars.
 - (2) On an application, received along with the specified non-refundable processing fees, the Authority, may for the reasons to be recorded in writing, relax the strict enforcement of any of the provisions of these regulations.
20. **Repeals and saving:**
- (1) On and from the commencement of these regulations, the Insurance Regulatory and Development Authority of India (Investment) Regulations, 2016 and Master Circular/Guideline issued thereunder, as amended from time to time, shall cease to apply in an International Financial Services Centre.
 - (2) Notwithstanding anything in sub-regulation (1), any action taken or purported to have been taken under the regulations and master circular mentioned in sub-regulation (1) before the commencement of these regulations shall be deemed to have been taken under the corresponding provisions of these Regulations;
 - (3) An IIO operating in the IFSC prior to the commencement of these regulations, shall comply with additional requirements as stipulated in these regulations, within a period of six months from the date of commencement of these regulations or within such extended time as may be permitted by the Authority.

INJETI SRINIVAS, Chairperson
[ADVT. xxx/x/Exty./xxx/2022]

Format for providing comments / suggestions

Proposed International Financial Services Centres Authority (Investment by International Financial Service Centre Insurance Office) Regulations, 2022

Name, Designation of the person				
Contact No.				
Name of Organization				
Page No. of Draft Regu.	Reg. No.	Sub-Regu No. /Para No.	Comments / Suggestions / Suggested modifications	Rationale