Insurers allowed to invest in private equity, debt funds

The Insurance Regulatory and Development Authority (Irda) has allowed insurers to invest in Alternative Investment Funds in Category-I and Category-II. Earlier, this was restricted to Category-I. Now, insurers would be able to invest in private equity and debt funds. However, Irda said under Category II, at least 51 per cent of the funds of such AIF would be invested in infrastructure entities, small and medium enterprise (SME) entities, venture capital undertakings or social venture entities.

Category I AIFs include venture capital funds, SME funds, social venture funds, infrastructure funds and other such AIFs as might be specified. These funds would be close ended, would not engage in leverage and would follow investment restrictions as prescribed for each category. Category II AIFs include private equity funds, debt funds, fund of funds and such other funds.

In March 2013, Irda permitted insurers to invest in Category I AIF and clarified that such investments would be restricted to the infrastructure and SME sectors. Pursuant to the issue of this circular, it received several representations from various stakeholders including large insurance companies to expand the scope of the AIF and include Category II AIF also. This matter was referred to the expert committee on investment constituted by Irda and the expert committee was of the view that the insurance companies should be allowed to invest in Category II AIF also.

After taking a view of its expert committee on investment which said Category II AIF investment should be allowed, Irda has now said that insurers are permitted to invest in Category I & II AIFs under the extant Security exchange Board of India regulations. “The restrictions regarding investment of funds outside India, promoter group, combined exposure limits in venture capital funds and AIFs under the ‘other than approved’ category of investments would continue to apply,” said Irda. Insurers are also not permitted to invest in AIFs, which has the nature of funds of funds and leverage funds.

According to Irda rules, the overall exposure to venture funds and AIFs put together for life insurers is three per cent of the respective fund and for general insurers, it is five per cent of investment assets. In terms of exposure to single AIF/Venture Fund, it is 10 per cent of AIF/Venture Fund size or 20 per cent of overall exposure, whichever is lower, for both life and general insurers. However, the 10 per cent limit would be 20 per cent in case of an infrastructure fund.

Irda further said all fresh investments in AIFs/Venture Funds would comply with the above stated exposure limits and the insurers were permitted to continue to hold the existing investments in AIFs/Venture Funds which are not complying with the above exposure limits.

(Business Standard)