

# Technical Guide on Internal / Concurrent Audit of Investment Functions of Insurance Companies



Celebrating the 60<sup>th</sup> Year of Excellence



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

**TECHNICAL GUIDE ON  
INTERNAL/CONCURRENT  
AUDIT OF INVESTMENT  
FUNCTIONS OF INSURANCE  
COMPANIES**



**COMMITTEE ON INSURANCE & PENSION  
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA  
NEW DELHI**

© THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA, NEW DELHI

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, or otherwise, without permission, in writing, from the publisher.

First Edition : June 2009

Department/  
Committee : Committee on Insurance and Pension

E-mail : [insurance@icai.org](mailto:insurance@icai.org)

Websites : [www.icai.org](http://www.icai.org)  
: [www.insuranceicai.org](http://www.insuranceicai.org)

Price : Rs. 150/- (with CD)

ISBN : 978-81-8441-243-7

Published by : The Publication Department on behalf of The Institute of Chartered Accountants of India, 'ICAI Bhawan', Post Box No. 7100, Indraprastha Marg, New Delhi-110 002.

Printed at : Sahitya Bhawan Publications, Hospital Road, Agra-280 003  
June / 2009 / 1,500 Copies

## Foreword

The investment department of Insurance companies manages investments of the company, comprising of both Shareholders' and Policyholders' funds. It is essential that a periodic review is carried out through Internal Audit (or) Concurrent Audit in order to ensure the safety of the funds and a good quality Investment portfolio that could support the solvency requirements.

The audit is essentially a management process integral to the establishment of sound internal accounting functions and effective controls. Such audit should prove as the review mechanism to make sure that the transactions / decisions are within the policy parameters laid down by the Investment Committee formed by the Board, and are in compliance with the terms and conditions for exercise of delegated authority and do not violate the applicable guidelines of IRDA and the Insurance Legislations . Moreover the Audit is expected to cover all the transactions without any exception recorded during the period covered in the Audit Report.

I am happy to know that the Committee on Insurance and Pension of the Institute has brought out this 'Technical Guide on Internal / Concurrent Audit of Investment Functions of Insurance Companies' providing detailed guidance on the manner of the Internal/ Concurrent audit of the Investment Functions of insurance companies. I am also happy to note that the regulatory requirements of Insurance Regulatory and Development Authority of India have been taken care of in this Technical Guide with due coordination and involvement of the senior officials of the IRDA in preparing and finalizing the Guide.

I believe that the present publication is a laudable effort and a necessary step in the right direction as it attempts to provide guidance on critical issues to the members of the Institute as well

as the various stakeholders. I am confident that this Guide would be received well by the profession and the industry and like the ratchet wheel, will provide forward motion and prevent slipping back.

I would like to thank the Chairman IRDA and his dynamic team for reposing faith in the profession by making the Internal / Concurrent Audit of Investment Functions of Insurance Companies mandatory. I would also like to compliment the Chairman of the Committee on Insurance and Pension CA. V. Murali and his team for seeing to it that this Technical Guide is brought out in time.

New Delhi  
June 15, 2009

**CA. Uttam Prakash Agarwal**  
President, ICAI

## Preface

Concurrent Audit is an examination, which is contemporaneous with the occurrence of transactions or carried out as near as there to as possible. It attempts to shorten the interval between a transaction and its examination by an independent person not involved in its documentation. There is emphasis on substantive checking in key areas rather than on test checking.

This audit is essentially a management process integral to the establishment of sound internal accounting functions and effective controls and setting the tone for a vigilance internal audit to preclude the incidence of serious errors and fraudulent manipulations. The Audit is expected to cover all the transactions, without any exception, recorded during the period covered in the Audit Report.

In the context of the insurance sector in India, it becomes imperative to introduce good systems and processes that should not only address the problems related to internal control, financial transparency and equity but also bring effective governance so as to serve the interests of the management, stakeholders, consumers and the society, at large. The independent authority, namely, the Insurance Regulatory and Development Authority was formed in 1999 to regulate and supervise the insurance industry in India for establishment of sound and stable financial system, protection of insurance consumers, market efficiency, privatization and opening of markets, etc. The Institute of Chartered Accountants of India (ICAI) has always been working very closely with IRDA and has tried to complement the initiatives taken by them.

In this competitive environment, one needs a special cutting edge, a little something extra beyond the qualification to stand head and shoulders above the rest. The publication seeks to provide a comprehensive guide to Internal/ Concurrent Audit of Investment Functions of Insurance Companies. This Technical Guide covers various aspects viz. Framework of Concurrent Audit for Insurance Companies, Concurrent Audit scope on Investment Functions of

Insurer, Industry wise Investment functions of Insurance companies, etc. This publication also provides the Format of Concurrent Auditor's Certificate.

While every attempt has been made to cover the latest issues on the subject, it is advisable for the members, on account of the ever changing scenario, to keep a constant watch on the latest developments in the insurance sector and update themselves. We are confident that the members will find this Technical Guide user-friendly and a good companion on the subject. A savant had said "Three things can never be taken back:- A spent Arrow, a spoken word and a missed opportunity." There is no security on this earth, only opportunity. This book is a reference guide, to assist you to seize the opportunity for a trail blazing and fulfilling career.

I place on record my sincere gratitude to CA. S. N. Jayasimhan, Deputy Director (Investments), IRDA, Mr. A. V. Rao, Deputy Director (Actuarial), IRDA, CA. Vengai Manickam, ED (M&A), LIC of India, Mr. A.R. Sekar, GM, New India Assurance Co. Ltd., Mr. K. S. Gopalakrishnan, Mr. Saroj Kumar Pati, CA. Abhiranjan Gupta, CA. Prodeep Mahapatro, CA. D. Subramanian, CA. Venkatakrisnan. N., CA. Ashutosh Pednekar, CA. Viraj Londhe, CA. Rakesh Jain, CA. Viren Mehta, Mr. T.V. Rao, Mr. Nirakar Pradhan and CA. Sanjay Agarwal for their contributions in preparing the basic draft of this publication. I am also thankful to other members and Special Invitees of the Expert Study Group of the Committee on Insurance and Pension of the Institute for their valuable contribution in finalizing the Guide. I am also happy to acknowledge the guidance provided by the various insurance companies, by way of comments, on the exposure draft of this Technical Guide.

I am thankful to the President of ICAI, CA. Uttam Prakash Agarwal and Vice President of ICAI, CA. Amarjit Chopra and other members and special invitees to the Committee for their valuable guidance and cooperation in bringing out this publication. I appreciate the efforts put in by the officials of Secretariat of the Committee on Insurance and Pension in making timely release of this Technical Guide possible.

Place : Chennai

Date : June 22, 2009

**CA. V. Murali**

*Chairman,*

Committee on Insurance and Pension of ICAI

# CONTENTS

<i>Foreword</i>	<i>iii</i>
<i>Preface</i>	<i>v</i>
1. Framework of Internal/Concurrent Audit for Insurance Companies	1
2. Investment Functions of Insurer – Internal/ Concurrent Audit Scope	8
3. Insurance Companies' Investment Functions Internal / Concurrent Audit-Life Insurers	17
4. Insurance Companies' Investment Functions Internal / Concurrent Audit- General Insurers	39
5. Suggested Format of Internal/ Concurrent Audit Report	58
<b>ANNEXURES</b>	
'A' Standard Operating Procedure	67
'B' Permitted Types of Investments	73
'C' Pattern of Investments	78
'D' Investment Policy	84

'E'	Investment Deals Testing	85
'F'	Investment of Ulip	86
'G'	Project / Term Loans	88
'H'	Segregation of Duties (SOD) Front Office / Mid Office / Back Office	91
'I'	Exposure / Prudential Norms / Other Norms	100
'J'	NAV Process	105
'K'	Returns to be submitted by an Insurer	116

#### **APPENDIX**

'A'	Relevant portions of the Circulars of IRDA on Investment Functions of Insurance Companies	121
-----	--	-----

## **FRAMEWORK OF INTERNAL / CONCURRENT AUDIT FOR INSURANCE COMPANIES**

### **1. INTRODUCTION**

IRDA in the past had conducted inspection on Investment Operations of Insurance Companies. The inspection was not just focused on the Investment Operations but also on Systems and Process supporting such operations. As the investment department of insurance companies manages investments of the insurance companies, comprising of both “Shareholders” and “Policyholders” funds, it is essential that a periodic review be carried out through Internal Audit (or) Concurrent Audit with the aim of addressing ‘safety’ of Policyholders’ funds and supporting a good quality Investment portfolio towards ‘Solvency Margin’. Towards this end, IRDA notified on 22<sup>nd</sup> August, 2008 the IRDA (Investment) (4<sup>th</sup> Amendment) Regulations, 2008 which expects a holistic approach to cover:

1. Proactive and dynamic investment management
2. Synchronous and asynchronous interfaces with other domains (Accounting and Actuarial)
3. Real-time and integrated IT System Management, and Security Management

An effective management is a three stage process of Measurement, Monitoring and Management. Mere measurement will not amount to monitoring. Similarly, mere monitoring does not mean management. Hence, proactive and dynamic investment management system envisages monitoring the Investment Operations to assist management decision making and measurement to support monitoring. Thus, it is further two stages beyond measurement i.e. purposeful monitoring and effective management.

Synchronous and asynchronous interfacing of investment domain with other domains is essential not only for the present system but also flexible enough to incorporate future changes in regulation for both investment and other domains. Also real-time and integrated IT systems and security management are essential among others in view of the following:

**A. DATA INTEGRITY**

- Transfer of data from Front Office to Back Office should be electronic with no need for Manual intervention (Real time basis) i.e., for re-entering data at Back Office.
- The Insurer may have multiple Data Entry Systems, but all such Systems should be seamlessly integrated without manual intervention.

**B. AUDIT TRAIL AT DATA ENTRY POINTS**

The Audit trail should be available for all data entry points including at the Checker / Authorizer level.

**C. REVIEW, MONITORING AND REPORTING**

- System should automatically track and report all internal limit breaches. All such breaches should be audited by Internal / Concurrent Auditor.
- Implementation and Review of Asset & Liability Matching and other Investment Policy Guidelines.

**D. DYNAMIC DOWNGRADING/UPGRADING**

The System should have the ability to track changes in ratings over a period & generate appropriate alerts, along with the ability to classify investment between Approved and Other Investments.

**E. DEALING ROOM MANDATE**

The Dealing Room should have a Voice Recorder and

procedure for maintaining the recorded conversations and their disposal procedures like no mobile phone usage in dealing rooms, and other best practices

## **2. INTERNAL/CONCURRENT AUDIT**

- a. The audit is essentially a management process integral to the establishment of sound internal accounting functions and effective controls. Such audit should prove as the review mechanism of whether the transactions / decisions are within the policy parameters laid down by the “Investment Committee” formed by the Board, and are in compliance with the terms and conditions for exercise of delegated authority and do not violate the guidelines of IRDA and the Insurance Act. The Audit is expected to cover **all** the transactions, without any exception, recorded during the period covered in the Audit Report.
- b. The appointment of the auditor will be done by the **Audit Committee of the Board** [Ref. 9 (5) of Investment Regulation]. The scope of the audit is the minimum as per IRDA. As per IRDA guidelines, external auditor is required to be appointed **from the Quarter following the Quarter** where the AUM [both Shareholders’ and Policyholders’ funds taken together] exceeds Rs. 1000 Crores **for the first time. (An insurer who gets covered under AUM clause for the 1<sup>st</sup> time, for the purpose of applicability of Internal / Concurrent Audit, will continue to have the Investment functions concurrently audited, even if the AUM falls below Rs.1,000 Crores, subsequently).** Hence, the scope remains unchanged whether it is done through Internal Audit or through a Chartered Accountant firm. If the Audit of Investment Operations, as per the AUM criteria, fall under Internal Audit, and if the Internal Auditor, is an employee of the Insurer, the Internal Auditor shall be a Chartered Accountant.
- c. The Auditor appointed shall report to the **Audit Committee of the Board, taking into consideration the responses of the Investment Committee.**

- d. Compliance to “Implementation of Investment Risk Management Systems & Process”, as committed by the Insurers’ Board shall be confirmed by the Internal/ Concurrent Auditor for its implementation. Also, the Audit is expected to confirm that the Audit Committee Recommendations along with the implementation details, of the previous Quarter, were placed before the Insurer’s Board, and was a part of its Agenda.

### **3. SCOPE OF THE AUDIT**

The scope of this audit is envisaged on

- a. Confirming the implementation of Investment Risk Management Systems and Process, as committed by Insurers Board, listing the proof based on which such confirmation is made.
- b. Confirming the implementation of **Audit Committee of the Board’s** recommendation of Previous Quarter.
- c. Review of the Standard Operating Procedures & Systems supporting the investment process
- d. Review of investment related transactions and operations
- e. Audit Report & Certification

#### ***Review of the Standard Operating Procedures (SOP) and systems supporting the investment process***

The scope shall cover the investment policy and SOP of the insurer for compliance with IRDA guidelines

#### ***Review of investment related transactions and operations***

- a. The scope shall cover extensively the Front Office, Mid Office & Back Office functions, the Investment domain requirement and Systems and Process supporting the Investment transactions.

- b. The review shall include follow-up of all previous pending audit observations
- c. The review shall cover ALL categories of Investments permissible, falling under both Shareholders' and Policyholders' funds.
- d. The Audit shall cover **ALL** transactions/operations and have the same periodicity as that at which such transactions are recorded.

#### ***Audit Report***

The review of investment related systems and processes supporting shall be reported.

### **4. FREQUENCY OF AUDIT**

Daily / Weekly / Monthly as required by the level of transactions at the insurer's level. However a consolidated report shall be prepared once every quarter.

### **5. REPORTING**

The Audit report shall mandatorily be reported in the following manner:

- a. **Part A** Transactions recorded but **NOT** covered by **SOP**
- b. **Part B** Issues having **impact on Systems or Process** but **NOT** covered by SOP with **procedure for handling such issues in Front, Mid and Back Office**
- c. **Part C** Transactions which have **breached**
  - 1. Internal Norms
  - 2. Regulatory Norms (including Circulars & Guidelines issued from time to time)
  - 3. Act (Violations)

*Technical Guide*

- d. **Part D** Issues having **impact on the Systems or Process, COVERED** by SOP with **suggested amendment to the SOP** covering Front, Mid and Back Office
- e. **Part E** Issues **identified and resolved** having **NO** impact on Systems or Process
- f. **Part F** Transaction under a single Category (as per IRDA guidelines on Category of Investment), either falling under an individual fund or under different funds, having different Standard Operating Procedures.
- g. **Part G** Audit Confirmations on the following specific issues
  1. Whether the Insurer had classified various Risks for Investment impact reporting? Has the same been approved by Investment Committee?
  2. Have the Dealing Employee Guidelines properly implemented as required under the Guidelines?
  3. Whether the insurer had complied with commitment of implementing the Investment Systems and Process, as communicated to IRDA
  4. Split between Shareholders' and Policyholders' funds, in the case of Life Insurance Companies and earmarking of Securities between Life (Par & Non-Par), Pension & Group (Par & Non-Par), Unit Linked Fund(s)
  5. If Funds have been split between Shareholders' Funds and Funds Representing Solvency Margin, are the same identified at Custodian level, with earmarked securities?
  6. Reporting Matrix of CIO, CRO and CFO
  7. Compliance to Exposure Norms at individual fund level (particularly for ULIP funds)

*Framework of Internal/Concurrent Audit for Insurance Companies*

8. Is 'Units' in the case of ULIP business – reconciled through the System between Policy Admin System, Actuarial System and Investment System (without manual intervention)

**Note:** If there is no observation for any of the Parts mentioned above, the Auditor shall clearly report a 'NIL' Statement to that effect.

The Audit Report shall take into consideration the feedback of Investment Committee, before issuing the same to the **Audit Committee of the Board.**

A copy of this report, with all necessary revisions is required to be filed along with Form – 4 as prescribed under IRDA regulations. Form 4 shall be certified by the CEO/CIO/CFO of the company prior to its filing with the IRDA.

## **INVESTMENT FUNCTIONS OF INSURER- INTERNAL / CONCURRENT AUDIT SCOPE**

### **PREAMBLE**

Internal / Concurrent Audit is an examination, which is contemporaneous with the occurrence of transactions or carried out as near as there to as possible. It attempts to shorten the interval between a transaction and its examination by an independent person not involved in its documentation. There is an emphasis in substantive checking in key areas rather than test checking. This audit is essentially a management process integral to the establishment of sound internal accounting functions and effective controls and setting the tone for a vigilance internal audit to preclude the incidence of serious errors and fraudulent manipulations. The Audit is expected to cover all the transactions, without any exception, recorded during the period covered in the Audit Report.

An internal / concurrent auditor may not sit in judgment of the decision taken by authorized official. However, the auditor will necessarily have to see that the transactions or decisions are within the policy parameters laid down by the Board / Investment Committee, that they do not violate the instructions prescriptions of IRDA and Insurance Act, 1938 and that they are within the delegated authority and in compliance with the terms and conditions for exercise of delegated authority.

If the Auditor finds any deviation in the operation of the Investment department from the Board/IC approved policies, those deviations with their observation shall be brought into the notice of the Audit Committee of the Company. The Auditor shall also Report the serious observations instantly to the management to take immediate steps to prevent the recurrence of the incidents.

In view of the above, the minimum Internal / Concurrent Audit Scope of the Insurer, as per the requirements of Insurance Regulatory and Development Authority, shall include the following:

**1. Standard Operating Procedure (SOP)**

- a. To be approved by the Board (IC)
- b. Amendments if any to be approved by the board (IC)

**2. Investment Policy (IP)**

- a. Approval by Board of Directors
- b. In framing the policy, the Board will be guided by guidelines given in Regulation 9 (1) of IRDA (Investment) Regulations 2000. The main areas to be covered are:
  - i. Liquidity
  - ii. Prudential Norms – broadly separately covering norms for various industries say Manufacturing, Banking & Financial Institutions, Infrastructure, NBFCs etc.
  - iii. Exposure Limits
  - iv. Stop Loss Limits in securities trading
  - v. Management of all Investment and market risks
  - vi. Management of assets and liabilities mismatch
  - vii. Investment audits and Investment Statistics
  - viii. The provisions of Insurance Act, 1938 are also to be kept in view.
- c. Submitting to Investment Committee / Board , the status of Compliance / Operationalising of Investment Policy

**3. Investment Committee (IC)**

- a. Members
- b. Meetings
- c. Minutes
- d. Recommendations

(Whether IC includes representatives of Mid Office / Back Office in addition to CFO)

**4. Delegation of Authority**

- a. To be approved by the Board (IC)
- b. Amendments if any to be approved by Board (IC)

**5. Front Office – Mid Office – Back Office – segregation of duties**

(Including deployment of requisite skilled manpower, investment system and infrastructure to Mid office and Back Office commensurate to Front Office)

**6. Maintenance of voice recorder for transactions done**

**7. Custodian Controls**

- a. Arrangements
- b. Reconciliation
- c. Pendency
- d. Physical holding / custody

**8. Appointment of Brokers (by Back office)**

- a. Procedures / Criteria (as stipulated in Investment

*Investment Functions of Insurer- Internal/Concurrent Audit Scope*

Policy / SOP) for Broker appointment by Back Office, Dealing with Front Office and Review / monitoring by Mid-Office

- b. Business to be routed through them,
- c. Ceiling per broker (as stipulated in Investment Policy / SOP)
- d. Executing of Legal Agreement with Brokers for empanelment covering terms and conditions of brokerage business (in a standard format).

**9. *Exposure / Prudential / Other Norms – Company / Group / Sector/ Industry [both Regulatory (IRDA Regulations & Insurance Act) and Internal Norms (as per Investment Policy)].***

**10. *Non performing investments***

- a. Classification
- b. Income recognition
- c. Provisions

**11. *Categories of Investments***

- a. Approved
- b. Prescribed percentages
- c. Deviations
- d. Ongoing monitoring

**12. *Inter- fund transfers***

- a. Permitted areas
- b. Rates

**13. Controls & Compliance with Regulations for different types of Investments**

- a. Investments Equity Shares Through IPOs
- b. Investment in Mutual Fund, Investments in Asset Backed Securities, PTCs And SRs
- c. Investment in Perpetual Debt Instruments of Bank's Tier-I capital and Debt capital instruments of upper Tier-II capital
- d. Investments In Venture Fund
- e. Investment in ULIP

**14. Investment Deals Testing:**

- a. Daily transaction register
- b. Journal vouchers
- c. Investment ledgers
- d. Counter party confirmations
- e. Contract notes from brokers
- f. Deal tickets

**15. Sanction of Loans:**

- a. Scrutiny of request in the form of detailed proposal
- b. Promoter Assessment and Financial Assessment
- c. Repaying capacity – basically on promoter's strength
- d. Automatic re-classification of loans as 'Other Investments', which are not covered with adequate 'security', as required by Act.

*Investment Function of Insurer Internal/Concurrent Audit Scope*

- e. Whether the company has uniform policy to charge 'Up-front Fees / Processing Charges' – In case of waiver of such charges, whether necessary internal approvals has been sought.
- f. Where pre-commitment and pre-disbursement conditions has been stipulated, the same has been duly complied with
- g. Whether Financing Documents and Security Documents have been executed and the security clause as stipulated in Security document has been created in favour of the company along with registration of charge of it.
- h. Post Sanction review and monitoring – To verify whether the borrower is making the interest and principal obligations in time. Whether any visit / review of physical and financial progress is done on periodical basis, say, on quarterly basis etc and review report in standard format is submitted to IC.
- i. Whether Escrow and Trust & Retention Account (TRA) Agreement or equivalent arrangement is in place for tracking the cash-flows of the borrower company and working smoothly.

**16. Investment in Debt Instruments**

- a. Whether Debt Investment is supported by documents like Information Memorandum (IM)/ subscription Agreement, Term Sheet, Latest Credit Rating its rationale and taking into the account for which rating is given etc.
- b. Whether security stipulated under IM / Subscription agreement has been created in favour of lender. If not, whether any penal charges have been stipulated as per the policy of the Company.
- c. Whether hard copy and soft copy of IM /subscription

agreement and other documents are available for internal / concurrent audit and kept in safe custody

- d. Wherever Security Trustee has been appointed for ensuring the creation of security, whether necessary due diligence has been done and security is created.

**17. Investible Surplus:**

Determination of the Investible surplus (premium income minus expenses)

**18. Accounting:**

- a. Compliance with general accounting standards
- b. Adherence to accounting policy of the insurer

**19. Minimum Risk management System & Process :**

The minimum risk management systems and processes prescribed by the IRDA are to be complied with by the Insurer all the time.

**20. Segregation between shareholder and policy holder funds:**

- a. Bifurcation of Income
- b. Whether done at any entry level

**21. NAV:**

- a. Calculations
- b. System
- c. Outsourcing
- d. Process

**22. Employee dealing guidelines :  
(Guidelines drafted as per IRDA requirements as per Risk Management System & Processes)**

*Investment Functions of Insurer- Internal/Concurrent Audit Scope*

- a. Implementation
- b. Monitoring

**23. *Deposit U/s 7 of Insurance Act 1938:***

- a. Sufficiency
- b. Certification from banks in the prescribed format

**24. *Investment in promoter groups:***

- a. Identification of companies
- b. Maintenance and updation of list of promoter group companies
- c. Verification with company profiles in the system
- d. Whether within the prescribed limits

**25. *Investment returns to IRDA***

- a. Timely submission
- b. Accuracy of the data
- c. Procedure for generation of data

**26. *Amortisation of debt securities and valuation of investment portfolio at periodic intervals*** – Whether as per IRDA guidelines

**27. *Outsourcing of Investment functions:***

- a. Permissions from IRDA
- b. As per norms

**28. *Banking:***

- a. Tracking of transactions

*Technical Guide*

b. Reconciliations

**29. *Generation of exception reports and their scrutiny should be submitted to IC.***

**30. *Placement of IRDA circulars before Audit Committee Board / IC***

**31. *Inspection by IRDA:*** Follow up on the observations from the previous reports.

**32. *Follow up for recovery of overdue***

**33. *Follow up on Previous Internal/Concurrent Audit Report***

**INSURANCE COMPANIES' INVESTMENT  
FUNCTION INTERNAL / CONCURRENT  
AUDIT — LIFE INSURERS**

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
1	<b>DEALS/PROPOSALS</b>			
1.1	<b>INITIATION</b>			
1.1.1	Verify the various Standard Operating Procedures <b>ANNEXURE A</b> (The SOP for a particular Category of Investment [as per IRDA guidelines on Category of Investment] should be same across ALL funds and consistently followed)	<b>Medium</b>	<b>Quarterly</b>	
1.1.2	Investible Surplus 1. Determination of the Investible surplus 2. Verify the controls in place for accuracy and completeness	<b>Medium</b>	<b>Daily / At required periodicity</b>	
1.1.3	Verify that the Investments are Permitted type of Investments as per IRDA <b>ANNEXURE B</b>	<b>High</b>	<b>For every transaction</b>	
1.1.4	Verify that the Investments are within the Limits specified by IRDA <b>ANNEXURE C</b>	<b>High</b>	<b>For every transaction</b>	
1.1.5	Verify: 1. Whether the procedure for making EVERY Investment is covered by internal investment procedure issued by the Investment Committee	<b>Low</b>	<b>For every transaction</b>	





Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	exposure limits (both Internal and Regulatory exposure limits) <b>BEFORE</b> taking exposure.			
1.1.8	<p>Investment Policy Requirements <b>ANNEXURE D</b></p> <ol style="list-style-type: none"> <li>1. Obtain a copy of the investment policy duly authorized by the Board of Directors ('BoD') of the Company. Verify that this policy is in accordance with Insurance Regulatory and Development Authority ('IRDA') Investment regulations.</li> <li>2. Verify that the Investment Policy is half yearly reviewed and the objectives of the new funds created during the previous intervening period is being updated and approved.</li> <li>3. Verify that IC has intimated the Board about the status of Implementation of the IP and the performance of the fund quarterly</li> </ol>	<b>Low</b>	<b>Annually</b>	
1.1.9	<p>Audit Trail &amp; Records</p> <ol style="list-style-type: none"> <li>1. Is there a record of all deals that have been done</li> <li>2. Are all deal slips serially numbered and available? Check if there are any missing deal slips.</li> </ol>	<b>Low</b>	<b>For every transaction</b>	

*Insurance Companies' Investment Function Internal.....Life Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	3. Is there a record of approvals and investment justifications for each deal?			
<b>1.2</b>	<b>EXECUTION</b>			
1.2.1	<b>Broker Appointment &amp; Controls</b> 1. Obtain the SOP of the insurer and verify that broker appointment norms are being adhered to. 2. In the case of securities, whether aggregating all deals done through broker and comparison thereof with the aggregate buy/sell deals on a real time basis (this is required to monitor transaction volume limits through each broker) is taking place. 3. Are brokerages paid within the internal guidelines of the insurer?	<b>Medium</b>	<b>Every Appointment</b>	
1.2.2	<b>Investment Deals Testing ANNEXURE E</b> 1. Verify that each deal has a deal slip with appropriate details viz., security name, quantity, amount, broker name etc. 2. Whether intimation for the trades sent to custodian is with proper documentation (such as amount, quantity, value, description etc.)	<b>Medium</b>	<b>Every Deal</b>	

Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<ol style="list-style-type: none"> <li>3. Whether Mid office does Credit Appraisal of proposal.</li> <li>4. Verify whether deals entered by the front office are backed by a broker note or entry into STP dump.</li> <li>5. Whether deals are authorized and match with the underlying documents such as counter-party confirmation etc.</li> <li>6. Evaluate the reason for trade failure if any, and action taken by the management to resolve the same</li> <li>7. Whether calculation of profit/loss is happening on trade upon deal entry</li> <li>8. Verify that all trades executed are classified correctly.</li> <li>9. Verify that there is adequate segregation of duties between people booking, confirming and accounting trade.</li> <li>10. Verify that the investment has been properly classified for reporting purpose to IRDA, as per the guidelines on Category of Investments.</li> </ol>			
1.2.3	<p>Controls for different types of Investments</p> <ol style="list-style-type: none"> <li>1. Investments In Equity Shares through IPOs</li> </ol>			

*Insurance Companies' Investment Function Internal.....Life Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	2. Investment In Mutual Fund 3. Investments In Mortgaged Backed Securities, PTCs And SRs 4. Investment in Perpetual Debt Instruments of Bank's Tier-I capital and Debt capital instruments of upper Tier-II capital 5. Investments In Venture Fund The Insurer is required to follow the Internal Norms specified in the Standard Operating Procedure, as approved by its Investment Committee. Also the Insurer is required to adhere to the Guidelines issued by IRDA for the above investments.	<b>High</b>	<b>Every Investment</b>	
1.2.4	ULIP Investments <b>ANNEXURE F.</b>	<b>High</b>	<b>Every Investment</b>	
1.2.5	Project / Term Loans a. Scrutiny of request in the form of detail proposal b. Promoter Assessment and Financial Assessment c. Repaying capacity – basically on promoter's strength d. Automatic re-classification of loans as 'Other Investments', which are not covered with adequate 'security', as required by Act.	<b>High</b>	<b>Every Loan</b>	

Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<p>e. Whether the company has uniform policy to charge 'Up-front Fees / Processing Charges' – In case of waiver of such charges, whether necessary internal approvals has been sought.</p> <p>f. Where pre-commitment and pre-disbursement conditions has been stipulated, whether the same has been duly complied with</p> <p>g. Whether Financing Documents and Security Documents have been executed and the security clause as stipulated in Security document has been created in favour of the company along with registration of charge of it.</p> <p>h. Post Sanction review and monitoring – To verify whether the borrower is meeting the interest and principal obligations in time. Whether any visit / review of physical and financial progress is done on periodical basis say on quarterly basis etc. and review report in standard format is submitted to IC.</p> <p>i. Whether Escrow and Trust &amp; Retention Account</p>			

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<p>(TRA) Agreement or equivalent arrangement is in place for tracking the cash-flows of the borrower company and whether it is working smoothly.</p> <p><b>Note:</b> With respect to Loans, the Insurer shall follow all requirements mentioned in <b>ANNEXURE G</b></p>			
<b>1.3</b>	<b>RECORDING OF INVESTMENT</b>			
1.3.1	<p>Segregation of Duty – Front Office / Mid Office / Back Office <b>ANNEXURE H</b></p> <p>1. Obtain an understanding of segregation of duties between the Front Office (FO) / Mid Office (MO) / Back Office (BO) in investment department and authorization matrix for investment transactions.</p> <p>2. Verify whether the structure of FO/MO/BO in the investment department represents the actual workflow or is designed just for regulatory compliance.</p>	<b>Medium</b>	<b>On going</b>	
1.3.2	<p>Accounting &amp; Settlement of Deals</p> <p>Obtain the procedure for accounting &amp; settlement of deals from SOP &amp; verify that the same is being adhered to:</p>			

Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<ol style="list-style-type: none"> <li>1. Verify whether the settlement date is tracked properly.</li> <li>2. Verify the exception report, if any &amp; evaluate the reasons for failure, of settlement, if any</li> <li>3. Whether management has taken corrective actions for the settlements failed.</li> <li>4. Verify that the funds are transferred as per the settlement date and trace the same in the bank statement.</li> <li>5. Verify entry into demat statement received on a daily basis from the custodian.</li> <li>6. Verify that settlement bank reconciliation statement is prepared on a daily basis and is signed by the preparer and reviewer.</li> <li>7. Review settlement bank reconciliation statement.</li> <li>8. Verify that custodian reconciliation is prepared on a daily basis and is signed by the preparer and reviewer.</li> <li>9. Verify custodian reconciling items and whether they are followed up on a timely basis.</li> <li>10. Verify that there is a four-</li> </ol>	<b>Medium</b>	<b>Every Deal</b>	

*Insurance Companies' Investment Function Internal.....Life Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<p>eye principle (maker checker concept) for the process. For example: Person settling the trade and person preparing reconciliation are different people.</p> <p>11. Verify accounting entries passed to record purchase / sale of investment.</p> <p>12. Verify whether the amount received against security sold is properly recorded.</p>			
1.3.3	<p>Reconciliation Between Holding &amp; Accounts.</p> <p>Refer IRDA guidelines for reconciliation between holding and accounts; Has the insurer adhered to these guidelines?</p>	<b>High</b>	<b>Daily / At required periodicity</b>	
<b>1.4</b>	<b>EXCEPTION HANDLING</b>			
1.4.1	<p>Approvals &amp; Delegation of Authority</p> <p>1. Check for approvals of transactions as per DOA of the insurer</p>	<b>High</b>	<b>For every transaction</b>	
<b>1.5</b>	<b>COMPLIANCE</b>			
1.5.1	<p>IRDA Compliance</p> <p>1. Check for returns and reports that are to be submitted to IRDA, and verify if these have been done within the due dates</p> <p>2. If there has been any change in investment</p>	<b>High</b>	<b>Quarterly</b>	

Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	limits during the period under review which is likely to result in non compliance check. and how they have been handled and reported			
1.5.2	<p>Investment Policy Compliance</p> <p>Check the investment policy of the insurer for compliance with regard to its contents for investment holding patterns and limits</p>	<b>Medium</b>	<b>Quarterly</b>	
<b>2</b>	<b>CUSTODIAN CONTROLS</b>			
<b>2.1</b>	<b>INITIATION</b>			
2.1.1	<p>Custodian Appointment &amp; Controls</p> <ol style="list-style-type: none"> <li>1. Check the applicable SOP for appointment of custodian and its approvals</li> <li>2. Check if there is a periodic audit of the custodian to ascertain that adequate controls are being adhered to.</li> </ol>	<b>Medium</b>	<b>Every Appointment</b>	
<b>2.2</b>	<b>RECORDING</b>			
2.2.1	<p>Controls Over Physical Instruments</p> <p>If any instruments are dealt with in physical form, check for controls with regard to storage and accounting of such instruments</p>	<b>Medium</b>	<b>Quarterly</b>	

*Insurance Companies' Investment Function Internal.....Life Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
<b>2.3</b>	<b>EXCEPTION HANDLING</b>			
2.3.1	Check for Escalation Matrix for resolving any discrepancies with the custodian	<b>Medium</b>	<b>Quarterly</b>	
<b>2.4</b>	<b>RECONCILIATION</b>			
2.4.1	Reconciliation between holding as per custodian & Internal Records	<b>Medium</b>	<b>Daily / At required periodicity</b>	
<b>3</b>	<b>ACCOUNTING FOR INTEREST &amp; INCOME</b>			
<b>3.1</b>	<b>INITIATION</b>			
3.1.1	Income Recognition Policy Is the policy of income recognition adopted by the insurer in line with accounting standards?	<b>Medium</b>	<b>Every investment</b>	
3.1.2	Accruals & Renewals 1. Has all interest and dividend income been accounted on accrual basis 2. Obtain a full list of corporate actions and check if income has been accrued correctly	<b>Medium</b>	<b>Quarterly</b>	
<b>3.2</b>	<b>RECORDING</b>			
3.2.1	Income Receipt Verify that the Income is accounted as per the Accounting Standards and other regulations specified by IRDA and the accounting policies of the insurer	<b>High</b>	<b>For Every investment</b>	

Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
3.2.2	Accounting Verify that the Investments are accounted and disclosed as per the Accounting Standards and other regulations as applicable and specified by IRDA	High	For Every investment	
3.2.3	Banking Controls 1. Is a BRS prepared on day-to-day basis? 2. Are entries reconciled with deals done by insurer?	Medium	Daily / At required periodicity	
<b>4</b>	<b>CORPORATE ACTIONS</b>			
<b>4.1</b>	<b>INITIATION</b>			
4.1.1	Intimation Controls 1. Are there controls to ensure that all Corporate actions are acknowledged and recorded? 2. Check for corporate actions during the audit period and verify that these have been correctly recorded and accounted.	Medium	Quarterly	
4.2.1	Voting Rights 1. Is there a procedure for exercise of voting rights and seeking representation on Board of companies? 2. Are these procedures and decisions taken by the insurance companies adhered to during the period under review?	Medium  Medium	Quarterly  Quarterly	

*Insurance Companies' Investment Function Internal.....Life Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
<b>5</b>	<b>MATURITY EVENTS</b>			
<b>5.1</b>	<b>INITIATION</b>			
5.1.1	<p>Is there a SOP for handling events such as</p> <ol style="list-style-type: none"> <li>1. Redemption</li> <li>2. Maturity</li> <li>3. Conversions</li> </ol> <p>Are the procedures listed therein adhered to?</p> <p><b>Note:</b> The IC should fix threshold limit in terms of 'Rupee value' to define 'High-value' and any 'High-Value' Redemption, Maturity or Conversion for its subsequent deployment, should be approved by the CEO or by a Committee formed for this purpose. The Auditor shall comment on <b>each</b> such transaction for adherence to procedure as laid down in the Standard Operating Procedure.</p>	<b>Medium</b>	<b>Quarterly</b>	
<b>6</b>	<b>ACCOUNTING CONTROLS</b>			
<b>6.1</b>	<b>ACCOUNTING POLICY</b>			
6.1.1	Is there adherence to the accounting policy of the insurer and general accounting standards?	<b>Medium</b>	<b>Quarterly</b>	
<b>6.2</b>	<b>EXPOSURE / PRUDENTIAL / OTHER NORMS</b>			
6.2.1	The audit team is required to understand from management, the procedures followed by management and	<b>High</b>	<b>Daily / At required periodicity</b>	

Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	system controls in place to monitor the investment norms at any point of time. <b>ANNEXURE I</b>			
<b>6.3</b>	<b>INVESTMENT VALUATION</b>			
6.3.1	NAV Computations 1. Understand and obtain investment valuation policy. 2. Verify investment valuation of various securities and check whether it is in accordance with IRDA regulations. 3. Check holding reconciliation 4. Check whether the Company uses appropriate sources for deriving market value / fair value of the investment.	<b>High</b>	<b>Daily / At required periodicity</b>	
6.3.2	NAV Process <b>ANNEXURE J</b>	<b>High</b>	<b>Daily / At required periodicity</b>	
6.3.3	NAV audit 1. Whether there is an internal process existing to ensure that units are daily reconciled as per the policy service system with Investment accounting system 2. Whether the Units created or redeemed bring in or take out correct money of			

*Insurance Companies' Investment Function Internal.....Life Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<p>the fund to ensure the interests of all the policyholders are protected. If there is any difference, the same shall be compensated</p> <p>3. Whether Investments are allocated to the different portfolios at the inception</p> <p>4. Inter scheme transfers are done within the market hour and to save the expenses It shall not be done to enrich one portfolio at the cost of the other.</p> <p>5. Whether the investments of the schemes strictly follow the pattern of investment, prudential norms and the limits mentioned in the product feature</p> <p>6. Whether the Valuations of the investments are adequate and as per the accounting policy. The deviation shall be disclosed and shall be more appropriate.</p> <p>7. Whether the NAVs declared are correct and tally with the system</p> <p>8. If there is change in NAV due to the error, the same shall be compensated to the policyholders or fund as per the IRDA guidelines.</p>	<p><b>High</b></p>	<p><b>Daily / At required periodicity</b></p>	

Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	9. IRDA returns 10. Whether the IRDA returns are prima-facie correct and prepared with due diligence. 11. Whether the Company maintains a record of the communication with the IRDA and the Company submits the data as required within the stipulated time.			
6.3.4	Investment Category Handling 1. Are procedures relating to classification and investment in the following investment categories adhered to a. Approved and Un approved b. Listed and unlisted The procedure followed for classifying the Investments between Approved to Other Investments ' <b>through the Systems</b> ' should be clearly mapped and the Auditor is required to confirm the same.	<b>High</b>	<b>Daily / At required periodicity</b>	
<b>6.4</b>	<b>EXCEPTION HANDLING</b>			
6.4.1	Accounting and recording for Investment Reclassification as 1. NPA 2. Downgrading Are dividends and interest income not received tracked for non receipt and suitable action initiated thereupon?	<b>Medium</b>	<b>Daily / At required periodicity</b>	

*Insurance Companies' Investment Function Internal.....Life Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
<b>6.5</b>	<b>COMPLIANCE</b>			
6.5.1	Reconciliation of holdings 1. Reconciliation between custodian, accounting and investment application should be done periodically 2. Verify that the norms specified in the Form 4 (Compliance Report) have been adhered to.	<b>High</b>	<b>Daily / At required periodicity</b>	
<b>7</b>	<b>REPORTING AND REVIEWING</b>			
<b>7.1</b>	<b>DAY END CHECKS &amp; CONTROLS</b>			
7.1.1	1. Are the list of day end reports generated as per SOP and verified by back office? 2. Are all the exceptions identified and appropriately handled ?	<b>Low</b>	<b>Daily / At required periodicity</b>	
<b>7.2</b>	<b>QUARTERLY/HALF YEARLY/YEAR END REPORTING</b>			
7.2.1	IRDA Returns <b>ANNEXURE K</b> Have the above reporting requirements been adhered to?	<b>High</b>	<b>Quarterly</b>	
<b>7.3</b>	<b>MINUTES OF BOARD MEETING &amp; INVESTMENT COMMITTEE MEETING</b>			
7.3.1	Review minutes of board and investment committee meetings and identify any exceptions.	<b>Medium</b>	<b>Quarterly</b>	

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
<b>7.4</b>	<b>PREVIOUS REPORTS</b>			
7.4.1	Identify any compliance requirements from <ol style="list-style-type: none"> <li>1. Report of reviews on systems and processes</li> <li>2. Report of Internal/ Concurrent Audit reports</li> <li>3. Directives of Board and Investment committee</li> <li>4. Directives of Audit committee of the Board</li> <li>5. IRDA directives / audit observations</li> <li>6. Any other</li> </ol>	<b>High</b>	<b>Quarterly</b>	
<b>7.5</b>	<b>Transaction Audit shall include the following in addition to the above</b>	<b>High</b>	<b>Daily / At required periodicity</b>	
7.5.1	<ol style="list-style-type: none"> <li>1. Whether the Insurer maintains the segregated funds as per the products features for Linked and Non Linked portfolios. For example, Participating, Non-participating, Guaranteed, Non Guaranteed etc</li> <li>2. Whether the Segregated portfolios mentioned above, have been correctly classified under the appropriate business funds such as Life Business Funds, Pension &amp; General Annuity Business fund and Unit Linked Insurance Business funds</li> </ol>			

*Insurance Companies' Investment Function Internal.....Life Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<p>3. Whether the Investments of the Insurer are allocated to the different portfolios correctly at the Inception</p> <p>4. Whether the Investments of the Insurer from the different portfolios are done as per their respective portfolio objectives</p> <p>5. Whether the Dealers have been strictly following the dealing guidelines during the investments.</p> <p>6. Whether the authority matrix of the investment has been strictly followed by the official of the investment department.</p> <p>7. Whether the deals are instantly put into the system for verification, confirmation and settlement by the Mid – Office and Back Office.</p> <p>8. Whether there is proper internal control is in place to ensure that the investments does not exceed the available cash position in the respective portfolios?</p> <p>9. Whether there is any internal control to ensure that no unauthorized transaction takes place in the Custodian account and the securities in the</p>			

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<p>holding statement are regularly reconciled.</p> <p>10. Whether the Insurer had provided for the adequate provision for the NPA as per the IRDA circular.</p> <p>11. Whether the Insurer has followed the provisions of the circular strictly for the transfer of the securities from one portfolio to other. It shall not be done to enrich one portfolio at the cost of the other.</p> <p>12. Whether the Mid office independently doing the Credit review of the Investments prior to and post Investments.</p> <p>13. Whether the ALCO of the regularly meet and discuss about the ALM of each portfolio along with the Liquidity management.</p> <p>14. Whether all the portfolios of the funds like Life. Pension &amp; General Annuity and ULIP follow the pattern of investment individually and collectively all the time.</p> <p>15. Whether the insurer follows the internal limits in additions to the IRDA limits all the time.</p>			

**Note :**

- (1) Both Internal and Concurrent Audit shall cover 100% of transactions.
- (2) In the case of concurrent Audit, the Audit shall be done on T, T + 1. or T + 2 for both life and Non-life insurers.

**INSURANCE COMPANIES' INVESTMENT  
FUNCTION INTERNAL / CONCURRENT  
AUDIT — GENERAL INSURERS**

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
1	<b>DEALS/PROPOSALS</b>			
1.1	<b>INITIATION</b>			
1.1.1	Verify the various Standard Operating Procedures <b>ANNEXURE A</b> (The SOP for a particular Category of Investment [as per IRDA guidelines on Category of Investment] should be the same across ALL funds and consistently followed)	<b>Medium</b>	<b>Quarterly</b>	
1.1.2	Investible Surplus 1. Determination of the Investible surplus 2. Verify the controls in place for accuracy and completeness	<b>Medium</b>	<b>Daily / At required periodicity</b>	
1.1.3	Verify that the Investments are Permitted type of Investments as per IRDA <b>ANNEXURE B</b>	<b>High</b>	<b>For every transaction</b>	
1.1.4	Verify that the Investments are within the Limits specified by IRDA <b>ANNEXURE C</b>	<b>High</b>	<b>For every transaction</b>	
1.1.5	Verify: 1. Whether the procedure for making EVERY Investment is covered by internal investment procedure issued by the Investment Committee through its Standard	<b>Low</b>	<b>For every transaction</b>	

Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<p>Operating Procedure covering the Front, Mid and Back Office.</p> <p>2. Whether the internal guidelines as per SOP, have been complied by Front, Mid and Back Office.</p>			
1.1.6	<p>Approvals &amp; Delegation of Authority</p> <p>1. Verify the Delegation of Authority as approved by the board/IC and its implementation as defined in the SOP of the Insurer</p> <p>2. Verify the transactions executed to ensure that the same is approved by the appropriate authority as defined in the SOP and that they are within the eligible limits of authorisation</p> <p>3. Verify the amendments if any to the delegations and whether the same are approved by the board / the investment committee as applicable</p>	<p><b>High</b></p> <p><b>High</b></p> <p><b>Low</b></p>	<p><b>For every transaction</b></p> <p><b>For every transaction</b></p> <p><b>Quarterly</b></p>	
1.1.7	<p>Exposure Compliance:</p> <p>1. With respect to each investment made, <b>prior</b> to taking Exposure, whether</p> <p>a. Investee Company</p> <p>b. Group (including Promoter Group)</p> <p>c. Industry Sector</p> <p>Exposure has been</p>	<p><b>High</b></p>	<p><b>For every transaction</b></p>	



Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<ol style="list-style-type: none"> <li>1. Obtain a copy of the investment policy duly authorized by the Board of Directors ('BoD') of the Company. Verify that this policy is in accordance with Insurance Regulatory and Development Authority ('IRDA') Investment regulations.</li> <li>2. Verify that the Investment Policy is half yearly reviewed and the objectives of the new funds created during the previous intervening period is being updated and approved.</li> <li>3. Verify that the IC has intimated the Board about the status of Implementation of the IP and the performance of the fund quarterly</li> </ol>	<b>Low</b>	<b>Annually</b>	
1.1.7	<b>Audit Trail &amp; Records</b> <ol style="list-style-type: none"> <li>1. Is there a record of all deals that have been done?</li> <li>2. Are all deal slips serially numbered and available? Check if there are any missing deal slips.</li> <li>3. Is there a record of approvals and investment justifications for each deal?</li> </ol>	<b>Low</b>	<b>For every transaction</b>	
<b>1.2</b>	<b>EXECUTION</b>			
1.2.1	Broker Appointment & Controls			

*Insurance Companies' Investment Function Internal.....General Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<ol style="list-style-type: none"> <li>1. Obtain the SOP of the insurer and verify that broker appointment norms are being adhered to.</li> <li>2. In the case of securities, whether aggregating all deals done through broker and comparison thereof with the aggregate buy/sell deals on a real time basis (this is required to monitor transaction volume limits through each broker) is taking place.</li> <li>3. Are brokerages paid within the internal guidelines of the insurer?</li> </ol>	<b>Medium</b>	<b>Every Appointment</b>	
1.2.2	<p><b>Investment Deals Testing</b> <b>ANNEXURE E</b></p> <ol style="list-style-type: none"> <li>1. Verify that each deal has a deal slip with appropriate details viz., security name, quantity, amount, broker name etc.</li> <li>2. Whether intimation for the trades sent to custodian is with proper documentation (such as amount, quantity, value, description etc.)</li> <li>3. Whether Mid office does Credit Appraisal of proposal.</li> <li>4. Verify whether deals entered by the front office are backed by a broker note or entry into STP dump.</li> </ol>	<b>Medium</b>	<b>Every Deal</b>	

Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	5. Whether deals are authorized and match with the underlying documents such as counter-party confirmation etc. 6. Evaluate the reason for trade failure if any, and action taken by the management to resolve the same 7. Whether calculation of profit/loss is happening on trade upon deal entry? 8. Verify that all trades executed are classified correctly. 9. Verify that there is adequate segregation of duties between people booking, confirming and accounting trade. 10. Verify that the investment has been properly classified for reporting purpose to IRDA, as per the guidelines on Category of Investments.			
1.2.3	Controls for different types of Investments 1. Investments In Equity Shares through IPOs 2. Investment In Mutual Fund 3. Investments In Mortgaged Backed Securities, PTCs And SRs	<b>High</b>	<b>Every Investment</b>	

*Insurance Companies' Investment Function Internal.....General Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<p>4. Investment in Perpetual Debt Instruments of Bank's Tier-I capital and Debt capital instruments of upper Tier-II capital</p> <p>5. Investments In Venture Fund The Insurer is required to follow the Internal Norms specified in the Standard Operating Procedure, as approved by its Investment Committee. Also the Insurer is required to adhere to the Guidelines issued by IRDA for the above investments.</p>			
1.2.4	<p>Project / Term Loans</p> <p>a. Scrutiny of request in the form of detail proposal</p> <p>b. Promoter Assessment and Financial Assessment</p> <p>c. Repaying capacity – basically on promoter's strength</p> <p>d. Automatic re-classification of loans as 'Other Investments', which are not covered with adequate 'security', as required by Act.</p> <p>e. Whether the company has uniform policy to charge 'Up-front Fees / Processing Charges' – In case of waiver of such charges, whether</p>	<b>High</b>	<b>Every Loan</b>	

Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<p>necessary internal approvals have been sought.</p> <p>f. Where pre-commitment and pre-disbursement conditions have been stipulated, have the same been duly complied with</p> <p>g. Whether Financing Documents and Security Documents have been executed and the security clause as stipulated in Security document has been created in favour of the company along with registration of charge of it.</p> <p>h. Post Sanction review and monitoring – To verify whether the borrower is meeting the interest and principal obligations in time. Whether any visit / review of physical and financial progress is done on periodical basis say on quarterly basis etc. and review report in standard format is submitted to IC.</p> <p>i. Whether Escrow and Trust &amp; Retention Account (TRA) Agreement or equivalent arrangement is in place for tracking the cash-flows of the borrower company and whether it is working smoothly.</p>			

*Insurance Companies' Investment Function Internal.....General Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<p><b>Note:</b> With respect to Loans, the Insurer shall follow all requirements mentioned in <b>ANNEXURE G</b></p>			
1.3	<b>RECORDING OF INVESTMENT</b>			
1.3.1	<p>Segregation of Duty – Front Office / Mid Office / Back Office <b>ANNEXURE H</b></p> <ol style="list-style-type: none"> <li>1. Obtain an understanding of segregation of duties between the Front Office (FO) / Mid Office (MO) / Back Office (BO) in investment department and authorization matrix for investment transactions.</li> <li>2. Verify whether the structure of FO/MO/BO in the investment department represents the actual workflow or is designed just for regulatory compliance.</li> </ol>	<b>Medium</b>	<b>On going</b>	
1.3.2	<p>Accounting &amp; Settlement of Deals</p> <p>Obtain the procedure for accounting &amp; settlement of deals from SOP &amp; verify that the same is being adhered to:</p> <ol style="list-style-type: none"> <li>1. Verify whether the settlement date is tracked properly.</li> <li>2. Verify the exception report, if any &amp; evaluate the reasons for failure, of settlement, if any</li> </ol>			

Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<p>3. Whether management has taken corrective actions for the settlements failed.</p> <p>4. Verify that the funds are transferred as per the settlement date and trace the same in the bank statement.</p> <p>5. Verify entry into demat statement received on a daily basis from the custodian.</p> <p>6. Verify that settlement bank reconciliation statement is prepared on a daily basis and is signed by the preparer and reviewer.</p> <p>7. Review settlement bank reconciliation statement.</p> <p>8. Verify that custodian reconciliation is prepared on a daily basis and is signed by the preparer and reviewer.</p> <p>9. Verify custodian reconciling items and whether they are followed up on a timely basis.</p> <p>10. Verify that there is a four-eye principle (maker checker concept) for the process. For example: Person settling the trade and person preparing reconciliation are different persons.</p>	<p><b>Medium</b></p>	<p><b>Every Deal</b></p>	

*Insurance Companies' Investment Function Internal.....General Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	11. Verify accounting entries passed to record purchase / sale of investment. 12. Verify amount received against security sold is properly recorded.			
1.3.3	Reconciliation Between Holding & Accounts. Refer IRDA guidelines for reconciliation between holding and accounts; Has the insurer adhered to these guidelines?	<b>High</b>	<b>Daily / At required periodicity</b>	
<b>1.4</b>	<b>EXCEPTION HANDLING</b>			
1.4.1	Approvals & Delegation of Authority Check for approvals of transactions as per Delegation of Authority of the insurer	<b>High</b>	<b>For every transaction</b>	
<b>1.5</b>	<b>COMPLIANCE</b>			
1.5.1	IRDA Compliance 1. Check for returns and reports that are to be submitted to IRDA, and verify if this has been done within the due dates 2. if there has been any change in investment limits during the period under review which is likely to result in non compliance check. and how they have been handled and reported	<b>High</b>	<b>Quarterly</b>	

Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
1.5.2	Investment Policy Compliance Check the investment policy of the insurer for compliance with regard to its contents for investment holding patterns and limits	Medium	Quarterly	
<b>2</b>	<b>CUSTODIAN CONTROLS</b>			
<b>2.1</b>	<b>INITIATION</b>			
2.1.1	Custodian Appointment & Controls 1. Check the applicable SOP for appointment of custodian and its approvals 2. Check if there is a periodic audit of the custodian to ascertain that adequate controls are being adhered to.	Medium	Every Appointment	
<b>2.2</b>	<b>RECORDING</b>			
2.2.1	Controls Over Physical Instruments If any instruments are dealt with in physical form, check for controls with regard to storage and accounting of such instruments	Medium	Quarterly	
<b>2.3</b>	<b>EXCEPTION HANDLING</b>			
2.3.1	Check for Escalation Matrix for resolving any discrepancies with the custodian	Medium	Quarterly	

*Insurance Companies' Investment Function Internal.....General Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
<b>2.4</b>	<b>RECONCILIATION</b>			
2.4.1	Reconciliation between holding as per custodian & Internal Records	<b>Medium</b>	<b>Daily / At required periodicity</b>	
<b>3</b>	<b>ACCOUNTING FOR INTEREST &amp; INCOME</b>			
<b>3.1</b>	<b>INITIATION</b>			
3.1.1	Income Recognition Policy Is the policy of income recognition adopted by the insurer in line with accounting standards?	<b>Medium</b>	<b>Every investment</b>	
3.1.2	Accruals & Renewals 1. Has all interest and dividend income been accounted on accrual basis 2. Obtain a full list of corporate actions and check if income has been accrued correctly	<b>Medium</b>	<b>Quarterly</b>	
<b>3.2</b>	<b>RECORDING</b>			
3.2.1	Income Receipt Verify that the Income is accounted as per the Accounting Standards and other regulations specified by IRDA and the accounting policies of the insurer	<b>High</b>	<b>For Every investment</b>	
3.2.2	Accounting Verify that the Investments are accounted and disclosed as per the Accounting Standards and other regulations as	<b>High</b>	<b>For Every investment</b>	

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	applicable and specified by IRDA			
3.2.3	Banking Controls 1. Is a BRS prepared on day-to-day basis? 2. Are entries reconciled with deals done by insurer?	Medium	Daily / At required periodicity	
<b>4</b>	<b>CORPORATE ACTIONS</b>			
<b>4.1</b>	<b>INITIATION</b>			
4.1.1	Intimation Controls 1. Are there controls to ensure that all Corporate actions are acknowledged and recorded? 2. Check for corporate actions during the audit period and verify that these have been correctly recorded and accounted.	Medium	Quarterly	
4.2.1	Voting Rights 1. Is there a procedure for exercise of voting rights and seeking representation on Board of companies? 2. Are these procedures and decisions taken by the insurance companies adhered to during the period under review?	Medium  Medium	Quarterly  Quarterly	
<b>5</b>	<b>MATURITY EVENTS</b>			
<b>5.1</b>	<b>INITIATION</b>			
5.1.1	Is there a SOP for handling events such as			

*Insurance Companies' Investment Function Internal.....General Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	1.Redemption 2.Maturity 3.Conversions Are the procedures listed therein adhered to? <b>Note:</b> The IC should fix threshold limit in terms of 'Rupee value' to define 'High-value' and any 'High-Value' Redemption, Maturity or Conversion for its subsequent deployment, should be approved by the CEO or by a Committee formed for this purpose. The Auditor shall comment on each such transaction for adherence to procedure as laid down in the Standard Operating Procedure.	<b>Medium</b>	<b>Quarterly</b>	
<b>6</b>	<b>ACCOUNTING CONTROLS</b>			
<b>6.1</b>	<b>ACCOUNTING POLICY</b>			
6.1.1	Is there adherence to the accounting policy of the insurer and general accounting standards?	<b>Medium</b>	<b>Quarterly</b>	
<b>6.2</b>	<b>EXPOSURE / PRUDENTIAL / OTHER NORMS</b>			
6.2.1	The audit team is required to understand from management, the procedures followed by management and system controls in place to monitor the investment norms at any point of time. <b>ANNEXURE I</b>	<b>High</b>	<b>Daily / At required periodicity</b>	

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
<b>6.3</b>	<b>INVESTMENT CLASSIFICATION</b>			
6.3.1	Investment Category Handling 1. Are procedures relating to classification and investment in the following investment categories adhered to a. Approved and Un approved b. Listed and unlisted The procedure followed for classifying the Investments between Approved to Other Investments ' <b>through the Systems</b> ' has to be clearly mapped and the Auditor is required to confirm the same.	<b>High</b>	<b>Daily / At required periodicity</b>	
<b>6.4</b>	<b>EXCEPTION HANDLING</b>			
6.4.1	Accounting and recording for Investment Reclassification as 1. NPA 2. Downgrading Are dividends and interest income not received tracked for non receipt and suitable action initiated thereupon?	<b>Medium</b>	<b>Daily / At required periodicity</b>	
<b>6.5</b>	<b>COMPLIANCE</b>			
6.5.1	Reconciliation of holdings 1. Reconciliation between custodian, accounting and investment application should be done periodically 2. Verify that the norms specified in Form 4 (Compliance Report) have been adhered to.	<b>High</b>	<b>Daily / At required periodicity</b>	

*Insurance Companies' Investment Function Internal.....General Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
<b>7</b>	<b>REPORTING AND REVIEWING</b>			
<b>7.1</b>	<b>DAY END CHECKS &amp; CONTROLS</b>			
7.1.1	1. Are the list of day end reports generated as per SOP and verified by back office? 2. Are all the exceptions identified and appropriately handled ?	<b>Low</b>	<b>Daily / At required periodicity</b>	
<b>7.2</b>	<b>QUARTERLY/HALF YEARLY/YEAR END REPORTING</b>			
7.2.1	IRDA Returns <b>ANNEXURE K</b> Have the above reporting requirements been adhered to?	<b>High</b>	<b>Quarterly</b>	
<b>7.3</b>	<b>MINUTES OF BOARD MEETING &amp; INVESTMENT COMMITTEE MEETING</b>			
7.3.1	Review minutes of board and investment committee meetings and identify any exceptions.	<b>Medium</b>	<b>Quarterly</b>	
<b>7.4</b>	<b>PREVIOUS REPORTS</b>			
7.4.1	Identify any compliance requirements from 1. Report of reviews on systems and processes 2. Report of Internal/ Concurrent Audit reports 3. Directives of Board and Investment committee 4. Directives of Audit Committee of the Board	<b>High</b>	<b>Quarterly</b>	

Technical Guide

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	5. IRDA directives / audit observations 6. Any other			
7.5	<b>Transaction Audit shall include the following in addition to the above</b>	<b>High</b>	<b>Daily / At required periodicity</b>	
7.5.1	1. Whether the Dealers have been strictly following the dealing guidelines during the investments. 2. Whether the authority matrix of the investment has been strictly followed by the official of the investment department. 3. Whether the deals are instantly put into the system for verification, confirmation and settlement by the Mid – Office and Back Office. 4. Whether there is proper internal control in place to ensure that the investments do not exceed the available cash position in the respective portfolios 5. Whether there is any internal control existing to ensure that no unauthorized transaction taking place in the Custodian account and the securities in the holding statement are regularly reconciled.			

*Insurance Companies' Investment Function Internal.....General Insurers*

No.	Particulars	Suggested Business Impact	Periodicity of Verification	Auditor's Comments
	<p>6. Whether the Insurer had provided for the adequate provision for the NPA as per the IRDA circular.</p> <p>7. Whether Mid office independently doing the Credit reting verification for fixed income securities on periodic basis?</p> <p>8. Whether the insurer follows the internal limits in additions to the IRDA limits all the time.</p>			

**Note :**

- (1) Both Internal and Concurrent Audit shall cover 100% of transactions.
- (2) In the case of concurrent Audit, the Audit shall be done on T, T + 1. or T + 2 for both life and Non-life insurers.

**SUGGESTED FORMAT OF INTERNAL/  
CONCURRENT AUDIT REPORT**

**Dated:**

**To**

**The Board of Directors**

.....  
.....  
.....  
.....

We have conducted an internal/concurrent audit of the **investment management systems, processes and transactions** of M/s \_\_\_\_\_ (the 'Company') as stipulated in Annexure 3 of IRDA Circular Ref. IRDA/INV/CIR/008/2008-09 Dt 22<sup>nd</sup> Aug, 2008 on IRDA (Investment) (Fourth Amendment) Regulations,2008 (the 'Circular') issued by the Insurance Regulatory and Development Authority ('IRDA'), for the Quarter \_\_\_\_\_

The design and implementation of the investment risk management systems and processes in accordance with the IRDA Circulars and compliance thereto is the responsibility of the Company's management. Our responsibility is to examine the Investment Policy, Standard Operating Procedures (SOP), and implementations thereof, adopted by the Company for ensuring compliance with the Circular, Guidelines, and report our findings.

We conducted our audit in accordance with the technical guides issued by The Institute of Chartered Accountants of India. These guides require that we plan and perform the audit to obtain assurance about whether the

- 1. Investment Policy and SOP are framed to provide adequate control over investment operations of the company**

2. **Investment policy and SOP of the company are in compliance with the minimum requirements of IRDA issued from time to time and other applicable statutory requirements.**
3. **Transactions relating to the Investments are in line with the applicable IRDA regulations and guidelines; Investment policy approved by the Board of Directors of the company and ALL the transactions are covered by the Standard Operating Procedures approved by the Investment committee of the company.**

Also, we confirm that the Audit Committee Recommendations along with the implementation details, of the previous Quarter, were placed before the Insurer's Board, and were a part of its Agenda.

We have examined the relevant records and information systems of the Company and have obtained all information, explanations and representations from the **Chief Investment Officer, Chief Risk Officer & Chief Financial Officer, (reported to have been taken on record by the Board of Directors)** which to the best of our knowledge and belief were necessary for the purpose of our examination.

*[Further our procedures covered all the areas listed in the recommended Audit Checklist (Enclosed, duly signed by us under reference to this certificate) issued by the Institute of Chartered Accountants of India in this connection.]* We believe that our examination provides a reasonable basis for our certificate.

Based on our examination, in our opinion and to the best of our information and according to the explanations given to us, **subject to the following serious and very serious irregularities:**

1. \_\_\_\_\_
2. \_\_\_\_\_

**we certify that the Company**

1. **has complied with the applicable IRDA regulations, Investment Policy**

2. **ALL transactions have followed the procedure laid down in the Standard Operating Procedures approved by the Investment Committee, covering Front, Mid and Back Office.**
3. **has taken cognizance of, addressed and resolved all issues of non-compliance, reported in the Certificate issued by the Chartered Accountant appointed for reporting on status of implementation of Investment Risk Management Systems & Process Audit (based on proof of implementation either given by the Insurer or demonstrated to us) and the issues reported by the Internal/Concurrent audits in the previous periods, subject to (report if any unresolved issues remain).**

**The key areas of non-mitigated/residual risk resulting from deficient compliance with the above with a risk management implication identified by us during our examination are given in Annexure I appended herewith. We have also indicated in Annexure II the complete list of non-conformances / confirmations to the stated audit objectives with appropriate classification of the nature of non-conformance and our recommendations**

**I hereby state that the internal audit report is based on the IRDA Guidelines issued from time to time. Also, I am neither related to the officials of the company nor have any interest in the management of the company**

**This certificate is solely for the purpose of submission to the Audit Committee of the Board and is not to be used, referred to or distributed for any other purpose without our prior written consent.**

---

Chartered Accountants

Place:

Date:

## ANNEXURE I

Please include current audit findings and unresolved prior audit issues in the table below.

<i>Nature of Observation</i>	<i>Business Impact</i>	<i>Risk Weight</i>	<i>Overall Rating</i>	<i>Description of Risk Rating</i>
From report				

### A. INVESTMENT IMPACT IS RATED AS UNDER

**High Impact (Value 3)** – Any observation that is

1. Non-compliance with the provisions of the Insurance Act, IRDA Investment Regulations and guidelines & circulars issued thereunder
2. Any other issue that the Auditors may decide to be of high impact on business operations

**Medium Impact (Value 2)** - Any other issue that the Auditors may decide to be of Medium impact on business operations

#### *SAMPLE INSTANCES*

1. Non compliance to SOP / Investment Policies of the company
2. Non Compliance to any other statutory act other than IRDA and Insurance Act
3. Any other observation which an auditor is of the opinion causes medium impact on Business Operations

**Low Impact (Value 1)** - Any other issue that the Auditor's may decide to be of low impact on business operations

**SAMPLE INSTANCES**

1. Procedural level non compliance to SOP / Investment Policies of the company
2. Subject to internal ratifications and approvals ( and where such ratifications/approval has since been obtained)
3. Any observation that has been rectified during the audit and that does not involve an issue relating to a high or medium classification mentioned above

**B. RISK WEIGHT MATRIX**

<i>Procedure/ Control is available</i>	<i>Procedure/ Control is adhered to</i>	<i>Risk Weight</i>
Y	Y	1
N	Y	2
Y	N	3
N	N	4

**Overall Rating** = Investment Impact X Risk Weight

**C. DESCRIPTION OF RISK RATING**

<i>Overall Rating</i>	<i>Description</i>
1-3	No Need to Report
4-5	Procedural Non-Compliance
6-9	Serious Irregularity
10-12	Very Serious Irregularity

## **ANNEXURE – II**

### **AUDIT REPORT**

- a. Part A** Transactions recorded but **NOT** covered by **SOP**
- b. Part B** Issues having **impact on Systems or Process** but **NOT** covered by SOP with **procedure for handling such issues in Front, Mid and Back Office**
- c. Part C** Transactions which have breached
  - 1. Internal Norms
  - 2. Regulatory Norms (including Circulars & Guidelines issued from time to time)
  - 3. Act (Violations)
- d. Part D** Issues having **impact on the Systems or Process, COVERED** by SOP with **suggested amendment to the SOP** covering Front, Mid and Back Office
- e. Part E** Issues **identified and resolved** having **NO** impact on Systems or Process
- f. Part F** Transaction following different SOP, failing under a single Category (as per IRDA guidelines on Category of Investment), or under different funds (s).
- g. Part G** Audit Confirmations on the following specific issues
  - 1. Whether the Insurer had classified various Risks for Investment impact reporting. Have the same been approved by Investment Committee?
  - 2. Have the Dealing Employee Guidelines been properly implemented as required under the Guidelines?

*Technical Guide*

3. Whether the insurer had complied with commitment of implementing the Investment Systems and Process, as communicated to IRDA
4. Split between Shareholders and Policyholders funds, in the case of Life Insurance Companies and earmarking of Securities between Life (Par & Non-Par), Pension & Group (Par & Non-Par), Unit Linked Fund(s)
5. If Funds have been split between Shareholders' Funds and Funds Representing Solvency Margin, are the same identified at Custodian level with earmarked securities?
6. Reporting Matrix of CIO, CRO and CFO
7. Compliance to Exposure Norms at individual fund level (particularly for ULIP funds)
8. Is 'Units' in the case of ULIP business – reconciled through the System between Policy Admin System, Actuarial System and Investment System (without manual intervention)

**Note:** If there is no observation for any of the Parts mentioned above, the Auditor shall clearly report a 'NIL' Statement to that effect.

# **ANNEXURES**



## **ANNEXURE 'A'**

### **STANDARD OPERATING PROCEDURE**

*(The following are the minimum requirements to be adhered to as per IRDA directive)*

#### **(LIFE INSURERS)**

**(Periodicity of Verification - Quarterly)**

##### **A. GENERAL FRAME WORK**

1. Investment policy Governance framework
2. Delegation of Authority – at different levels
3. Accounting conventions and standards
4. Valuation and Unit pricing frameworks
5. Internal & Regulatory reporting
6. Risk management practices
7. Classification of Risks, for Investment Impact Reporting, between High, Medium and Low

##### **B. REGULATORY FRAMEWORK**

1. Insurance Act, 1938
2. IRDA Regulations, Circulars and Guidelines made thereunder.

##### **C. INTERNAL ADMINISTRATION**

1. Committees (s) shall be formed to monitor/manage the following key areas of Investment operation.
  - a. Asset Liability Management

*Technical Guide*

- b. Operational Risk Management
  - c. Market Risk Management
  - d. Credit Risk Management
  - e. Technology Management
2. Structure – Front, Mid and Back Office segregation of functions
  3. Counter Party Management
  4. Broker Management
  5. Personal trading guidelines and Insider Trading
  6. Custodial Services Management
  7. MIS including frequency

**D. INTERNAL CONTROL**

1. Chief Investment Officer (CIO), Chief Financial Officer (CFO) and reporting matrix
2. Segregation of responsibilities
3. Limit management
4. Procedure for Investing (for each Category of Investment – as per IRDA Guidelines) with Controls, Reconciliation in Front, Mid & Back Office
5. Deal execution controls
6. Periodic credit review

**E. TECHNOLOGY MANAGEMENT**

1. Information security policy including application and database security policies

2. Historical and Transactional data management
3. System support
  - a. Deal execution including STP
  - b. Limit and alert management
  - c. Risk management
  - d. Internal controls
  - e. Blocking/Locking transactions
4. Access and Process control management
5. Disaster recovery strategy and Business Continuity plan

## **F. SOP MANAGEMENT**

1. Employee education: Training and Cross training
2. Controlling procedural drift

*(System to monitor SOP regularly by tracking the opportunities which require SOP to be tweaked for appropriate modification in it)*
3. Evaluation and review system

## **STANDARD OPERATING PROCEDURE**

*(The following are the minimum requirements to be adhered to as per IRDA directive)*

### **NON LIFE INSURERS**

**(Periodicity of Verification - Quarterly)**

#### **A. GENERAL FRAME WORK**

1. Investment policy Governance framework,
2. Delegation of Authority – at different levels
3. Accounting conventions and standards
4. Internal & Regulatory reporting
5. Risk management practices
6. Classification of Risks, for Investment Impact Reporting, between High, Medium and Low

#### **B. REGULATORY FRAMEWORK**

1. Insurance Act, 1938
2. IRDA Regulations, Circulars and Guidelines made there under.

#### **C. INTERNAL ADMINISTRATION**

1. Committee(s) shall be formed to monitor/manage the following key areas of Investment operations.
  - a. Asset Liability Management
  - b. Operational Risk Management
  - c. Market Risk Management

- d. Credit Risk Management
- e. Technology Management
- 2. Structure – Front, Mid and Back Office segregation of functions
- 3. Counter Party Management
- 4. Broker Management
- 5. Personal trading guidelines and Insider Trading
- 6. Custodial Services Management
- 7. MIS including frequency

**D. INTERNAL CONTROL**

- 1. Chief Investment Officer (CIO), Chief Financial Officer (CFO) and reporting matrix
- 2. Segregation of responsibilities
- 3. Limit management
- 4. Procedure for Investing (for each Category of Investment – as per IRDA Guidelines) with Controls, Reconciliation in Front, Mid & Back Office
- 5. Deal execution controls
- 6. Periodic credit review

**E. TECHNOLOGY MANAGEMENT**

- 1. Information security policy including application and database security policies
- 2. Historical and Transactional data management
- 3. System support

*Technical Guide*

- a. Deal execution including STP
  - b. Limit and alert management
  - c. Risk management
  - d. Internal controls
  - e. Blocking/Locking transactions
4. Access and Process control management
  5. Disaster recovery strategy and Business Continuity plan

**F. SOP MANAGEMENT**

1. Employee education: Training and Cross training
2. Controlling procedural drift  
*(System to monitor SOP regularly by tracking the opportunities which require SOP to be tweaked for appropriate modification in it)*
3. Evaluation and review system

## **ANNEXURE 'B'**

### **PERMITTED TYPES OF INVESTMENTS**

#### **SCHEDULE I (See Regulation 3)**

##### **(Periodicity of Verification –For every transaction)**

#### **1. LIST OF APPROVED INVESTMENTS FOR LIFE BUSINESS**

'Approved Investments' for the purposes of section 27A of the Act shall consist of the following:

- a. all investments specified in section 27A of the Act except
  - i. clause (b) of sub-section (1) of section 27A of the Act;
  - ii. first mortgages on immovable property situated in another country as stated in clause (m) of sub-section (1) of section 27A of the Act;
  - iii. Immovable property situated in another country as stated in clause (n) of subsection (1) of section 27A of the Act.
- b. In addition, the following investments shall be deemed as approved investments by the Authority under the powers vested in it vide clause(s) of sub-section (1) of section 27A of the Act.
  - i. All loans secured as required under Insurance Act, 1938, secured debentures, secured bonds and other debt instruments rated as per Note appended to Regulation 3 and 4. Equity shares and preference shares and debt instruments issued by all India Financial Institutions recognized as such by Reserve Bank of India – investments shall be made in terms of investment policy guidelines, benchmarks and exposure norms, limits approved by the Board of Directors of the insurer.
  - ii. Bonds or debentures issued by companies rated not less than AA or its equivalent and P1 or equivalent ratings for short term bonds, debentures, certificate of deposits and

commercial papers by a credit rating agency, registered under SEBI (Credit Rating Agencies) Regulations 1999 would be considered as 'Approved Investments'.

- iii. Subject to norms and limits approved by the Board of Directors of the insurers' deposits including fixed deposits as per section 27A (9) of Insurance Act, 1938) with banks (e.g. in current account, call deposits, notice deposits, certificate of deposits etc.) included for the time being in the Second Schedule to Reserve Bank of India Act, 1934 (2 of 1934) and deposits with primary dealers duly recognized by Reserve Bank of India as such.
- iv. Collateralized Borrowing and Lending Obligations (CBLO) created by the Clearing Corporation of India Ltd and recognized by the Reserve Bank of India and exposure to Gilt, G Sec and liquid mutual fund forming part of Approved Investments as per Mutual Fund Guidelines issued under these regulations and money market instrument / investment.
- v. Asset Backed Securities with underlying Housing loans or having infrastructure assets as underlying as defined under 'infrastructure facility' in clause (h) of regulation 2 of Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Amendment Regulations, 2008.
- vi. Commercial papers issued by a company or All India Financial Institution recognized as such by Reserve Bank of India having a credit rating by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations 1999.
- vii. Money Market instruments as defined in Regulation 2(cc) of these Regulation.

### **Explanation**

- a. All conditions mentioned in the 'note' appended to Regulation 3 and 4 shall be complied with.

## **SCHEDULE II (See Regulation 4)**

### **1. LIST OF APPROVED INVESTMENTS FOR GENERAL BUSINESS**

'Approved Investments' for the purpose of section 27B of the Act shall consist of the following:

- a. All investments specified in section 27B of the Act except
  - i. clause (b) of sub-section (1) of section 27A of the Act;
  - ii. Immovable property situated in another country as stated in clause (n) of subsection (1) of section 27A of the Act;
  - iii. First mortgages on immovable property situated in another country as stated in clause (i) of sub-section (1) of section 27B of the Act.
- b. In addition, the following investments shall be deemed as approved investments by the Authority under the powers vested in it vide clause (j) of sub-section (1) of section 27B of the Act:
  - i. All loans secured as per Insurance Act, 1938, secured debentures, secured bonds and other debt instruments rated as per Note appended to Regulations 3 and 4. Equity shares, preference shares and debt instruments issued by All India Financial Institutions recognized as such by Reserve Bank of India – investments shall be made in terms of investment policy guidelines, benchmarks and exposure norms, limits approved by the Board of Directors of the insurer.
  - ii. Bonds or debentures issued by companies rated not less than AA or its equivalent and P1 or Equivalent ratings for short term bonds, debentures, certificate of deposits and commercial papers by a credit rating agency, registered under SEBI (Credit Rating Agencies) Regulations 1999 would be considered as 'Approved Investments'.
  - iii. Subject to norms and limits approved by the Board of

*Technical Guide*

Directors of the insurers deposits (including fixed deposits as per section 27B (10) of Insurance Act, 1938) with banks (e.g. in current account, call deposits, notice deposits, certificate of deposits etc.) included for the time being in the Second Schedule to Reserve Bank of India Act, 1934 (2 of 1934) and deposits with primary dealers duly recognized by Reserve Bank of India as such.

- iv. Collateralized Borrowing & Lending Obligations (CBLO) created by the Clearing Corporation of India Ltd and recognized by the Reserve Bank of India and exposure to Gilt, G Sec and liquid mutual fund forming part of Approved Investments as per Mutual Fund Guidelines issued under these regulations and money market instrument / investment.
- v. Asset Backed Securities with underlying Housing loans or having infrastructure assets as underlying as defined under 'infrastructure facility' in clause (h) of regulation 2 of Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Amendment Regulations, 2008.
- vi. Commercial papers issued by a company or All India Financial Institution recognized as such by Reserve Bank of India having a credit rating by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations 1999
- vii. Money Market instruments as defined in Regulation 2(cc) of this Regulation.

**Explanation**

- a. All conditions mentioned in the 'note' appended to Regulation 3 and 4 shall be complied with.

**Note:**

1. Investments covered under Sec 27A and 27B and Approved Investments under Schedule I & II of IRDA (Inv) Regulations, are summarised and 'Grouped' into various Categories in the Guidelines provided by IRDA with clear Category codes.
2. No new investment can be categorised under any of these categories, unless it is considered and allowed by IRDA.

## ANNEXURE 'C'

### PATTERN OF INVESTMENTS

(Periodicity of Verification – For every transaction)

#### LIFE INSURANCE

*Life Business: In terms of the Explanation to Section 27A of the Act, the Authority has determined that assets relating to Pension business, Annuity business and all categories of Unit Linked business shall not form part of the Controlled Fund for the purpose of that section.*

*Without prejudice to Sections 27 or 27A of the Act, every insurer carrying on the business of Life Insurance, shall invest and at all times keep invested his Investment Assets (other than funds relating to pension and general annuity business and all categories of Unit linked business) in the following manner:*

No	Type of Investment	Percentage
(i)	Government Securities	Not less than 25% of the fund
(ii)	Government Securities or Other Approved Securities	Not less than 50% of the fund (incl (i) above)
(iii)	Investments as specified in Section 27A of Insurance Act, 1938 and Schedule I of these Regulations, subject to Exposure / Prudential Norms specified in Regulation 5: a. Approved Investments and Other Investments (Out of '(iii)a' 'Other investment' specified under 27A(2) of the Act, shall not exceed 15% of the fund) b. Investment in housing and infrastructure by way of subscription or purchase of: 1. Bonds / debentures of HUDCO and National Housing Bank	Not exceeding of 35% of the fund

	<p>2. Bonds / debentures of Housing Finance Companies either duly accredited by National Housing Banks, for house building activities, or duly guaranteed by Government or carrying current rating of not less than 'AA' by a credit rating agency registered under SEBI(Credit Rating Agencies) Regulations, 1999</p> <p>3. Asset Backed Securities with underlying housing loans, satisfying the norms specified in the guidelines issued under these regulations.</p> <p>c. Investment in Infrastructure: (Explanation: Subscription or purchase of Bonds / Debentures, Equity and Asset Backed Securities with underlying infrastructure assets would qualify for the purpose of this requirement. 'Infrastructure facility' shall have the meaning as given in clause (h) of regulation 2 of Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Amendment Regulations, 2008)</p>	<p>Not less than 15% of the fund [(iii) b and c taken together]</p>
--	--	---

(2) Pension and General Annuity Business – Every insurer shall invest and at all times keep invested funds belonging to his Pension and General Annuity Business in the following manner:-

No	Type of Investment	Percentage
(i)	Government Securities	Not less than 20% of the fund
(ii)	Government Securities or Other Approved Securities	Not less than 40% of the fund (incl (i) above)
(iii)	Balance to be invested in Approved Investments, as specified in Schedule I, subject to Exposure / Prudential norms specified in Regulation 5.	Not exceeding 60% of the fund

**Note:** For the purposes of this sub-regulation no investment falling under 'Other Investments' as specified under 27A (2) of Insurance Act, 1938 shall be made. However, funds pertaining to Group Insurance Business, except One Year Renewable pure Group Term Assurance Business (OYRGTA) shall form part of Pension and General Annuity Fund. OYRGTA funds shall follow the pattern of Investment of Life Business.

(3) Unit Linked Insurance Business - Every insurer shall invest and at all times keep invested his segregated fund of Unit-linked business as per pattern of investment offered to and approved by the policyholders where the units are linked to categories of assets which are both marketable and easily realizable. However, the total investment in 'Other Investments', as specified under 27A (2) of Insurance Act, 1938, category shall at no time exceed 25% of such fund(s).

**Note:**

1. Pattern of investments and exposure norms shall be calculated as % to the aggregate investment assets under respective non-linked funds like 'life', 'Pension and General Annuity Business' and to the net asset values of the Individual funds of ULIP business including Net current assets For this purpose net current assets shall also be considered as 'Approved investments'.
2. Industry sector Exposure shall be calculated as % to the aggregate investments under respective non-linked funds Like Life and 'Pension & General Annuity Business' and to the net asset values of the Individual funds (which shall not include G Sec and Other Approved Securities)

**GENERAL INSURANCE (INCLUDING RE-INSURERS)**

(1) *General Insurance Business – Without prejudice to section 27B of the Act, every insurer carrying on the business of General Insurance shall invest and at all times keep invested his investment assets in the manner set out below:*

No	Type of Investment	Percentage
(i)	Government Securities	Not less than 20% of Investment Assets
(ii)	<i>Government Securities or Other Approved Securities</i>	<i>Not less than 30% of Investment Assets (incl (i) above)</i>
(iii)	<p><i>Investments as specified in Section 27B of Insurance Act, 1938 and Schedule II subject to Exposure / Prudential Norms specified in Regulation 5:</i></p> <p><i>a. Approved Investments and Other Investments (Out of '(iii)a' 'Other investment' specified under 27B(3) of the Act, shall not exceed 25% of Investment Assets)</i></p> <p><i>b. Housing and loans to State Government for housing and fire fighting equipment, by way of subscription or purchase of:</i></p> <ol style="list-style-type: none"> <li><i>1. Bonds / debentures of HUDCO and National Housing Bank</i></li> <li><i>2. Bonds / debentures of Housing Finance Companies either duly accredited by National Housing Banks, for house building activities, or duly guaranteed by Government or carrying current rating of not less than 'AA' by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations, 1999</i></li> <li><i>3. Asset Backed Securities with underlying housing loans, satisfying</i></li> </ol>	<p><i>Not exceeding 55%</i></p> <p><i>Not Less than 5%</i></p>

	<p><i>the norms specified in the guidelines issued under these regulations.</i></p> <p><i>c. Investment in Infrastructure: (Explanation: Subscription or purchase of Bonds / Debentures, Equity and Asset Backed Securities with underlying infrastructure assets would qualify for the purpose of this requirement. 'Infrastructure facility' shall have the meaning as given in clause (h) of regulation 2 of Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Amendment Regulations, 2008)</i></p>	<p><i>Not less than 10%</i></p>
--	--	---------------------------------

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

**Note – For the purpose of Regulations 3 and 4:**

1. *All investment in assets or instruments, which are capable of being rated as per market practice, shall be made on the basis of credit rating of such assets or instruments. No investment shall be made in instruments, if such instruments are capable of being rated, but are not rated.*
2. *The rating should be done by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations 1999.*
3. *Corporate bonds or debentures rated not less than AA or its equivalent and P1 or equivalent ratings for short term bonds, debentures, certificate of deposit and commercial paper, by a credit rating agency, registered under SEBI (Credit Rating Agencies) Regulations 1999 would be considered as 'Approved Investments'.*

4. *The rating of a debt instrument issued by All India Financial Institutions recognized as such by RBI shall be of 'AA' or equivalent rating. In case investments of this grade are not available to meet the requirements of the investing insurance company, and Investment Committee of the investing insurance company is fully satisfied about the same, then, for the reasons to be recorded in the Investment Committee's minutes, the Investment Committee may approve investments in instruments carrying current rating of not less than 'A+' or equivalent as rated by a credit rating agency, registered under SEBI (Credit Rating Agencies) Regulations 1999, would be considered as 'Approved Investments'.*
5. *Approved Investments under points 3 and 4 above, which are downgraded below the minimum rating prescribed should be automatically re-classified under 'Other Investments' category for the purpose of pattern of investment.*
6. *Investments in equity shares listed on a registered stock exchange should be made in actively traded and liquid instruments viz., equity shares other than those defined as thinly traded as per SEBI Regulations and guidelines governing mutual funds issued by SEBI from time to time.*
7. *Not less than 75% of debt instruments excluding Government and Other approved Securities - fund wise, in the case life insurer and Investment Assets in the case of general insurer - shall have a rating of AAA or equivalent rating for long term and P1+ or equivalent for short term instruments. This shall also apply to Unit linked fund(s).*
8. *Notwithstanding the above, it is emphasized that **rating should not replace appropriate risk analysis and management on the part of the Insurer. The Insurer should conduct risk analysis commensurate with the complexity of the product(s) and the materiality of their holding, or could also refrain from such investments.***

## **ANNEXURE 'D'**

### **INVESTMENT POLICY** **(Periodicity of Verification – Annually)**

#### **1. INTRODUCTION**

- a. The Investment Policy (IP) of an insurer, as approved by its Board, should be periodically reviewed.
- b. This policy should outline the vision of the insurer, investment philosophy, investment objectives & the planning for day-to-day investment management.
- c. It should contain both the short-term and the long-term perspectives.

#### **2. COMPONENTS OF AN INVESTMENT POLICY**

- a. The insurer's vision (investment related)
- b. Organizational structure
- c. Standard Operating Procedure framework
- d. Regulatory requirements
- e. Investment objectives (Fund wise)
- f. Preferable asset mix (within statutory patterns)
- g. Performance evaluation & periodicity
- h. Acceptable risk tolerance level
- i. Risk Management (Identification, Assessment, Measurement, Mitigation, Monitoring and reporting)
- j. Valuation of all asset classes
- k. Internal Controls and Audit
- l. Periodic Reporting

## **ANNEXURE 'E'**

### **INVESTMENT DEALS TESTING**

**(Periodicity of Verification – Every Deal)**

#### **A. INVESTMENT CUT OFF TESTING**

1. Daily transaction register (DTR) for trades as on...
2. Daily trades file from DMS for ...
3. Confirmation from the custodians for trades done on last business day.
4. Deal tickets for the trades done on last business day.

#### **B. INVESTMENT DEAL DATA CONTROL TESTING**

1. Daily transaction register ('DTR') for the period from ... to .... of buy and sell of equity, debt, G-Secs, derivatives, Repos /Reverse Repos etc..
2. A complete transaction report of all the inter-scheme trades (involving all types of securities) done during the audit period.
3. Deal tickets for the above trades.
4. Contract notes from brokers for the above trades.
5. Negotiated Dealer System ('NDS') output for the GOI trades.
6. Counter party confirmations for other than inter-scheme deals
7. Investment ledgers of the scrip involved in the trades.
8. Journal vouchers for identification of profit/loss booked from the transaction.

## ANNEXURE 'F'

### INVESTMENT OF ULIP (Periodicity of Verification – Every Investment)

PARTICULARS	REMARKS
1. Obtain a copy of various ULIP policies issued by the Company during the life cycle of the Company	
2. Obtain an understanding of ULIP policies process followed by the Company.	
3. Obtain the product brochures and verify for any new unit-linked products launched by the Company	
The auditor shall : 1. Review efficacy of the System & Process in place 2. Verify that the conversion charges including risk premium are as per offer document 3. Verify that correct expropriation prices are be applied for redemptions, switches etc. 4. Verify reconciliation of Units & provide instant resolution for differences, if any 5. Management of fund schemes is as per Investment Objective of portfolio 6. Verify prompt allotment of deals to respective schemes 7. Verify that appropriation price is applied when the company is required to purchase the assets to allocate the units.	
Inter-Scheme Transfer The auditor shall: 1. check that the transfer is only between approved ULIP schemes 2. check that there is no undue benefit to any portfolio	
Verify the following based on Company Policy: 1. Allocation 2. Creation of units	

<ol style="list-style-type: none"> <li>3. Redemptions of units</li> <li>4. Calculation of NAV</li> <li>5. Fund Management Fees Policy/ Administration Charges</li> </ol>	
<p>General procedures related to computation of NAV:</p> <ol style="list-style-type: none"> <li>1. Verify whether investments are made within the investment objective (defined in terms of asset allocation, strategy etc) for each scheme of the ULIP business as defined in the Investment Policy</li> <li>2. Verify that all investments are made within the provision of IRDA and rules made thereunder</li> <li>3. Verify whether unit reconciliation is carried out at periodic intervals</li> <li>4. Verify whether inter- scheme transfer of investments is made within the IRDA guidelines prescribed from time to time.</li> <li>5. Verify the process of computation of NAV.</li> <li>6. Verify the following items leading to the computation of NAV: <ol style="list-style-type: none"> <li>a. Creation/redemption of units</li> <li>b. Accounting for investments</li> <li>c. Expensing of various charges/fees</li> <li>d. Income recognition</li> <li>e. Reconciliation of Bank, Stock &amp; units</li> <li>f. Valuation of investments</li> </ol> </li> <li>7. Verify that the investments are accounted on the trade date basis and the accrual incomes are calculated from the settlement basis.</li> <li>8. Verify that the valuations are carried out as per the IRDA guidelines.</li> <li>9. Verify that the valuation of unquoted and illiquid investments is as per the valuation norms.</li> </ol>	

## **ANNEXURE 'G'**

### **PROJECT / TERM LOANS** **(Periodicity of Verification – Every Loan)**

#### **A. PRE-SANCTION**

1. Scrutiny of request in the form of detailed proposal
2. Aggregate Credit Exposure to promoters, borrowers and industry
3. Integrity and reputation of borrowers or counterparties
4. Repayment history and repayment ability
5. Purpose of Loan and repayment plan
6. Technical, economic viability of the project
7. Projections and repaying capacity – ratios
8. Negotiations done for rates, if any
9. Justification by the sanctioning authority that the interest rate spread available in the proposal is adequate to the risk associated in the proposal.
10. Automatic re-classification of loans as 'Other Investments', which are not covered with adequate 'security', as required by the Act.
11. Security Coverage (Movable & Immovable properties). If land is given as security, then a Valuation Report (by an engineer) and a Legal Report (by a lawyer) shall be insisted upon.
12. Documents obtained and whether these are vetted by Law Officer / Advocate.
13. Terms and conditions of credits including covenants or

collateral to limit changes in the future risk profile of borrowers.

14. Other details such as Cost of materials – Turnover, Audit report, IT Returns, If partnership, the partnership deed
15. Existence of Internal approvals of the company for raising the loan (such as board approval etc.)
16. Promoter track record
17. Percentage of Promoter-holding and percentage of promoter shares already pledged
18. Put/Call options
19. Report from the bankers of the borrower
20. Third party guarantees and due diligence of guarantors
21. Approvals if the instrument is proposed to be listed
22. Credit Agency grading of borrowing, issue

## **B. POST – SANCTION**

1. Appropriateness of Holiday period to be given
2. Minimum Capital Requirements - for major risks namely Credit Risk, Market Risk and Operational Risk.
3. Supervisory Review Process - Inspecting and evaluating the ability of borrower to assess and monitor its capital adequacy and risk management, as well as taking supervisory actions in an appropriate and timely manner.
4. Market Discipline
5. Independent and on-going credit review with accurate credit grading, appropriate amount and scope, and reporting to allow monitoring of risk management.

*Technical Guide*

6. A well-defined policy detailing the exposure norms, assessment of working capital, the deployment ceiling for various industrial sectors, tenor specific, project specific etc. to avoid concentration risk.
7. Listing requirements if the loan is proposed to be listed

**C. POST – DISBURSAL PROCEDURE**

1. Repayment as per the plan
2. Application of penalty interest
3. Changes to Instrument grading
4. Changes to Borrowing grading
5. Filing of the periodical returns/information as agreed upon.
6. Changes in constitution/structure of Board

## **ANNEXURE 'H'**

### **SEGREGATION OF DUTIES (SOD) FRONT OFFICE / MID OFFICE / BACK OFFICE**

**(Periodicity of Verification - Ongoing)**

#### **A. GENERAL**

##### **1. FRONT & BACK OFFICE OPERATIONS**

- a. Insurer having Assets under Management (AUM) in excess of Rs.500 crores shall ensure separate personnel acting as fund manager and dealer.
- b. The Investment System should have separate modules for Front and Back Office.
- c. Transfer of data from Front Office to Back Office should be electronic without Manual intervention (Real time basis) i.e., without the need for re-entering data at Back Office.
- d. The Insurer may have multiple Data Entry Systems, but all such Systems should be seamlessly integrated without manual intervention.
- e. The Front Office shall report through the Chief Investment Officer (CIO) to the Chief Executive Officer (CEO). The Mid Office and Back Office, to be headed by separate personnel, shall be the overall responsibility of Chief Financial Officer (CFO) who shall independently report to the CEO.

##### **2. EMPLOYEE DEALING GUIDELINES**

The Standard Operating Procedure followed by the Insurer shall clearly specify the Guidelines to be adhered to by the Dealer, that is, the Insurer shall clearly specify the Trading

guidelines for Personal Investments of the dealer. The compliance of this requirement shall be commented upon by the Internal / Concurrent Auditor.

### **3. MAKER CHECKER PROCESS**

Insurer should have the procedure of Maker / Checker mapped in their Standard Operating Procedure / Operations Manual of Investment Operations. The Internal / Concurrent Auditor shall comment on such practice in his report.

### **4. AUDIT TRAIL AT DATA ENTRY POINTS**

The Audit trail should be available for all data entry points including at the Checker / Authorizer level.

### **5. BUSINESS CONTINUITY PROCESS**

To ensure Business continuity, the Insurer should have a clear Off-site back-up of data in a city falling under a different Seismic Zone, either on his own or through a Service Provider. Further, the Insurer / service provider (if outsourced) is required to have the necessary infrastructure for Mission Critical Systems to address at least the following:

1. Calculation of daily NAV (Fund wise)
2. Redemption processing.

## **B. FRONT OFFICE**

### **1. SEGREGATION OF FUND MANAGER / DEALER**

- a. Investment Department should have documented the segregation of Fund Managers and Dealers through Authority Matrix as a part of its 'Standard Operating Procedure'.
- b. The Insurer should have documented the Access Controls and Authorization process for Orders and Deal execution.

- c. The Dealing Room should have a Voice Recorder and procedure for maintaining the recorded conversation and their disposal including procedure like no mobile phone usage in dealing rooms, and other best practices.

## **2. INVESTMENT IN INVESTEE / GROUP COMPANY / INDUSTRY SECTOR**

System based checks should be in place for investments in an Investee Company, Group and Industry Sector. The system should signal when the Internal / Regulatory limits are nearly reached **PRIOR** to taking such exposure and making actual investment.

## **3. INTER FUND TRANSFER**

The System should handle Inter-Fund transfer as per Circular IRDA-FA-02-10-2003-04. The Investment Committee may fix the Cut Off time as per Market practice, for such transfer within the fund. (The inter fund transfer should be like any other Market deal and the same needs to be carried out with in the Market hours only.)

## **C. MID OFFICE**

### **1. MARKET RISK**

- a. The system should be capable of computing various portfolio returns.
- b. Regular limit monitoring and Exception Reporting. Also reporting on movement of prices.

### **2. LIQUIDITY RISK**

- a. The Insurer should have a Cash Management System to provide the funds available for Investment considering the settlement obligations and subscription and redemption of units etc, to preempt any leveraged position or liquidity risk.

- b. The System should be validated not to accept any commitment beyond availability of funds.

### **3. CREDIT RISK**

- a. The Investment System should capture Instrument Ratings to enable it to automatically generate FORM 2 (Statement of Downgraded Investments) through the System.
- b. System should automatically monitor various Regulatory limits on Exposure & Rating.
- c. The System should have the ability to track changes in ratings over a period, and generate appropriate alerts, along with ability to classify investments between Approved and Other Investments.
- d. The Insurer should conduct periodic credit reviews for all companies in the portfolio. The periodicity should be clearly mentioned in the Investment Policy.
- e. The Insurer is required to keep a track of movement of Securities between Approved and Other Investments Status, as a part of Audit trail, at individual security level.

### **4. TRACKING OF REGULATORY LIMITS**

- a. The System should have key limits preset for ensuring compliance with all Regulatory requirements and should be supported by workflow through the System, (Real time basis) for such approval, if Regulatory limit is close to being breached.
- b. The System should have capability of generating Exception reports for Audit by Internal / Concurrent Auditor.

### **5. REVIEW, MONITORING AND REPORTING**

- a. The System should automatically track and report all

internal limits breaches. All such breaches should be audited by Internal / Concurrent Auditor.

- b. Implementation and Review of Asset & Liability Matching and other Investment Policy Guidelines.

## **D. BACK OFFICE**

### **1. DATA INPUT ERROR**

The system should be validated in such a way that the Deal can only be rejected by the Back Office and not edited.

### **2. SETTLEMENT RISK**

The System should be validated to restrict Short Sales at the time of placing the order.

### **3. COMPUTATION OF 'NAV'**

- a. The System should be capable of computing NAV and compare it with the NAV computed by the Service provider, if outsourced.
- b. The Insurer should maintain NAV history (Fund wise) in his Public Domain from the Start of the Fund to current date.
- c. 'NAV' error – Computation & Compensation
  - 1. All expenses and incomes accrued up to the Valuation date shall be considered for computation of NAV. For this purpose, while major expenses like management fees and other periodic expenses should be accrued on a day to day basis, other minor expenses and income can be accrued on a weekly basis, provided the non-accrual does not affect the NAV calculations by more than 1%.
  - 2. Any changes in Securities and in the number of Units should be recorded in the books not later than the

first valuation date following the date of transaction. If this is not possible, the recording may be delayed up to a period of seven days following the date of transaction, provided the non-recording does not affect the NAV calculations by more than 1%.

3. In case the NAV of a Plan differs by more than 1% due to non - recording of the transactions or any other errors / mistakes, the investors or fund(s) as the case may be, shall be paid the difference in amount as follows:-
  - i. If the investors are allotted units at a price higher than NAV or are given a price lower than NAV at the time of sale of their Units, they shall be paid the difference in amount by the plan.
  - ii. If the investors are charged lower NAV at the time of purchase of their units or are given higher NAV at the time of sale of their units, the Insurer shall pay the difference in amount to the Plan and shall be compensated from shareholders' portfolio that does not support Solvency Margin.
  - iii. The Internal/Concurrent Auditor shall look into the above issues and specifically report on it and comment on the Systems in place to take care of such issues on an on-going basis.
  - iv. A log of NAV errors and the management action taken on those errors shall be maintained in the System and be forwarded to Internal / Concurrent Auditors.

#### **4. ERRORS DURING BROKER EXECUTION LEG**

All equity deals should be through STP gateway for all broker transactions.

## 5. UPLOADING OF VALUATION PRICE FILES

System to have capability to upload Corporate Actions such as Stock Splits, Dividend, Rights Issue, Buy Back, Bonus issues etc., for computation of NAV / Portfolio valuation.

## 6. RECONCILIATION

- a. Fund wise, in the case of Life Insurers, reconciliation with Investment Accounts, Bank, and Custodian records should be done on day-to-day basis for all types of products. In the case of ULIP products, Units reconciliation with Policy Admin Systems should be ensured on a **day-to-day** basis.
- b. In the case of General Insurer / Re-insurer, reconciliation with Investment Accounts, Bank and Custodian records should be done on a **day-to-day** basis.

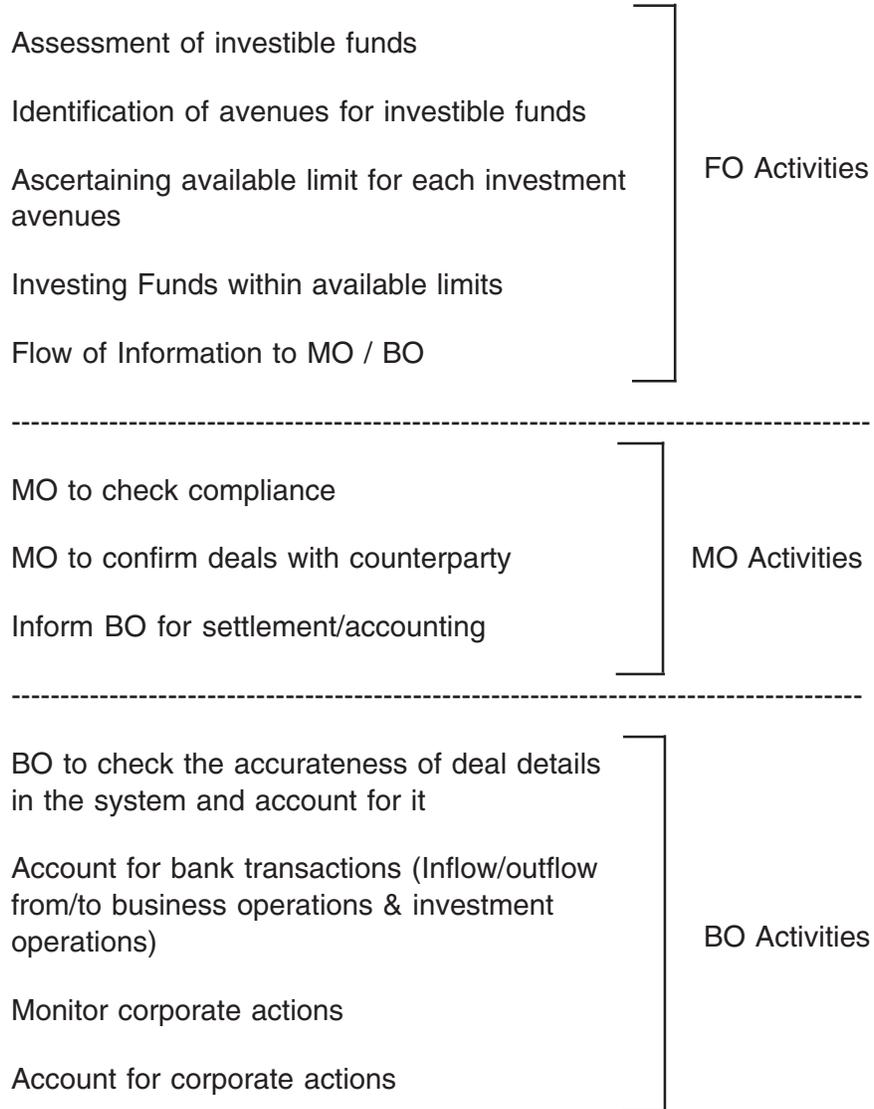
### MACRO FLOW OF ACTIVITY IN AN INVESTMENT DEPARTMENT

ACTIVITIES	Board /Investment Committee	Front Office	Mid Office	Back Office	Finance & Accounts
Investment Policy Setting & Review					
Investment Analysis					
Investment Decision					
Deal Execution					
Limit Monitoring					
Monitoring of Investments					
Settlement of Investment					
Investment Accounting					
MIS & Reporting					
Integration of Investment Accounts with Company Financials					

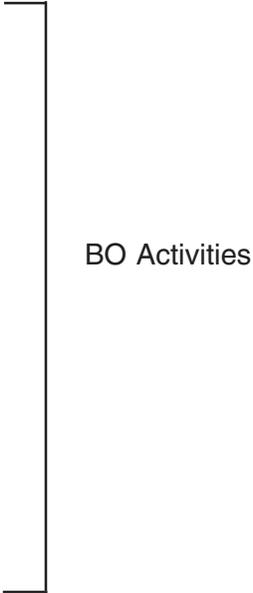
*Technical Guide*

The FO / MO / BO activities/Processes have to be clearly spelt out in the SOP

**The process flow of activities in the Investment department is as below:**



- Valuation of securities
- Reconciliation of bank & stock balances
- End of Day
- Prepare Reports
- Cash-flow statement for next day
- Transaction summary
- Audit
- Month end activities
- Quarter end activities
- Year end activities



## ANNEXURE 'I'

### EXPOSURE / PRUDENTIAL NORMS / OTHER NORMS

(Periodicity of Verification – Daily / Periodic intervals of time)

#### A. LIFE (INCLUDING UNIT LINKED BUSINESS), GENERAL (INCLUDING REINSURANCE) INSURANCE

Exposure Norms	
<b>I) Limit for investee company:</b>	
<i>Investment in 'equity' preference shares, convertible debentures</i>	<i>10% of outstanding equity shares (face value) or 10% of the respective fund in the case of life insurer / investment assets in the case of general insurer (including re-insurer) whichever is lower.</i>
<i>Investment in debt / loans and any other permitted investments as per Act / Regulation, other than above</i>	<i>10% of the paid-up share capital, free reserves and debenture / bonds of the investee company or 10% of respective fund in the case of life insurer / investment assets in the case of general insurer (including re-insurer) whichever is lower.</i>
<b>Subject to:</b>	
1. <i>Investment in equity including preference share and equity convertible part of debentures should not exceed 50% of above exposure norms.</i>	
2. <i>Investment in immovable property covered under Section 27A (1) (n) of Insurance Act, 1938 shall not exceed, at the time of investment, 5% of (a) Investment Assets in the case of general insurer and (b) 5% of Investment Assets of funds relating to life funds, pension and general annuity funds in the case of life insurer.</i>	
3. <i>Subject to exposure limits mentioned in the table above, an insurer shall not have investments of more than:</i>	
i. <i>5% in aggregate of its total investments in companies</i>	

<p><i>belonging to the promoters' groups, if invested out of Life, Pension and General Annuity funds or General insurance funds and;</i></p> <p><i>ii. 12.5% in aggregate of its total investments in companies belonging to the promoters' groups, if invested out of Unit linked funds.</i></p> <p><i>For the purpose of these regulations 'Group' shall have the same meaning as defined under these Regulations</i></p> <p><i>4. In the case of Life, Pension and General Annuity business the percentage and General insurance business the 10% of group and industry sector exposure shall be raised up to 15% with the prior approval of the Investment Committee. The Investment Committee should exercise due care keeping in view the possible concentration and other related risks, in the interest of the policyholders. Exposure norms applicable for investments, for which specific circulars / guidelines are issued, shall be guided by such circulars / guidelines.</i></p> <p><i>5. The exposure limit for financial and banking sector shall stand at 25% investment assets for all insurers.</i></p> <p><i>6. Investment in fixed deposit, term deposit and certificate of deposit of a Scheduled Bank shall be made in terms of the provisions of Section 27A (9) and Section 27B (10) of the Insurance Act 1938. Such investments would not be deemed as exposure to banking sector. However, investments in such fixed deposit, term deposit and certificate of deposit in a bank falling under the promoter group of the insurer, shall continue to be subject to promoter group exposure norms as per point 3 of Note to this regulation</i></p>
<p><b>II) Limit for the entire group to which the investee company belongs:</b></p> <p><i>Not more than 10% of the respective fund in the case of life insurer / investment assets in the case of general insurer (including re-insurer). The above percentage shall stand at 25% in the case of Unit linked funds</i></p>
<p><b>III) Limit for the industry sector to which the investee company belongs:</b></p> <p><i>Investment by the insurer in any industrial sector shall not exceed 10% of its total investment exposure to the industry sector as a whole.</i></p> <p><i>The above percentage shall stand at 25% in the case of Unit linked funds.</i></p> <p><i>(Classification of industrial sectors shall be done by the insurer on the lines of classification by National Industrial Classification Code for Extra Territorial Organizations and Bodies in India (NIC) or any other system which adopts NIC classification.)</i></p>

## **B. OTHER NORMS – FORM 4 – COMPLIANCE**

- a. Has the Insurer fully complied with Regulation 9(6) of IRDA (Investment) (4<sup>th</sup> Amendment) Regulation, 2008 and point A.1.e of Annexure III to Circular – INV/CIR/008/2008-09?
- b. Has the Insurer implemented the requirements of guidelines applicable for dealing employees, as required under point A.2.a of Annexure III to Circular – INV/CIR/008/2008-09?
- c. Has any investment been done in contravention of Section 27C of Insurance Act, 1938?
- d. Are Money Market Investments classified as per Regulation 2(cc) of IRDA (Investment) Regulations, 2000?
- e. Do investments of One Year Renewable Group Term Assurance Business (OYRGTA) follow the pattern of Life Business?
- f. Has any investment been made in contravention of point 1 of note for the purpose of Regulations 3 and 4 of IRDA (Investment) (4<sup>th</sup> Amendment) Regulation, 2008?
- g. Have all investments, downgraded as mentioned under point 5 of note under Regulations 3 and 4, have been re-classified under 'Other Investments' through the system?
- h. Did debt investments under 'Approved Investments' based on rating criteria, at any point of time, under any class of business, for both life and general insurer (including re-reinsure) fall below the minimum percentage as required under point 7 of note under Regulations 3 and 4?
- i. Has the Insurer complied with the requirements under Regulation 8 of IRDA (Investment) Regulations, 2000

- j. Has the insurer's Investment Policy (fund wise in the case of Unit linked business) been approved by the Insurer's Board and has it addressed all issues required under IRDA (Investment) Regulations, 2000? Also, has the investment policy been periodically reviewed?
- k. Has the performance of investments (including Unit linked fund(s)) been placed before the Board on a quarterly basis?
- l. In the case of a life insurer, each individual fund, both under shareholder / policyholder funds, falling under any class of business, have identified 'scrips', representing the assets of each fund complied with the provisions of Section 11(1B) of Insurance Act, 1938?
- m. Have the purchase and sale of Investments, under any class of business, in the case of Life Insurer, in respect of each fund, (including Unit linked fund(s)) been made out of the respective fund?
- n. Has inter fund transfer, in the case of a life insurer, been done as per circular IRDA-FA-02-10-2003-04?
- o. Have the Assets been identified, for each segregated fund of Unit linked business, as per file & use procedure approved by IRDA?
- p. Has the insurer, in the case of Unit linked business, invested the assets, fund wise, as per pattern of investment approved by IRDA?
- q. Has the insurer, under shareholders' funds, clearly split funds representing solvency margin (FRSM) in FORM 3A (Part A) / FORM 3B?
- r. Have shareholders' funds, beyond solvency margin, had a separate custodian account and identified scrips for both life and general (including re-insurance) companies and reconciled with FORM 3A (Part A) and FORM 3B?

*Technical Guide*

- s. Has the insurer conducted Internal/concurrent audit for the reporting quarter and implemented the board audit committee recommendations of the previous quarter as required under Point E. a of Annexure III to Circular – INV/CIR/008/2008-09?
- t. Has the Insurer complied fully with the directions of circular: IRDA/CIR/INV/062/JAN/05 dated 17<sup>th</sup> Jan, 2005?
- u. Has the insurer, having not less than Rs. 500 Cr assets under management (AUM) complied with Point 11 and 12 of Annexure II to Circular – INV/CIR/008/2008-09 with respect to outsourcing of investment advice and NAV calculations?
- v. Has the insurer, in the case of life business, reconciled investment accounts, fund-wise, with bank and custodian records on 'day-to-day basis for all types of products?
- w. Has the Insurer, in respect of Unit linked products, reconciled the units with 'policy admin systems', on a day-to-day basis?
- x. Has the insurer, in the case of general (including re-insurance) business, reconciled investment accounts with Bank and Custodian records on a day-to-day basis?
- y. Has the Insurer's investment in mutual fund complied with guidelines INV/GLN/004/2003-04 at all times during the quarter?

## ANNEXURE 'J'

### NAV PROCESS

(Periodicity of Verification – Daily / Periodic Intervals)

- A. Settlement entries
- B. Bank entries
- C. Primary market deals/IPO
- D. Security master creation
- E. Units creation/liquidation
- F. Corporate actions
- G. Secondary market debt/equity deal authorization
- H. Valuation process

#### **A. SETTLEMENT ENTRIES**

1. Equity (Sale) T+2:

Bank settlement (trade receivables) entries passed for trades settling on current day.

2. Equity (Purchase) T+1:

Bank settlement (trade payables) entries passed for trades settling on current day. It may also be settled on T + 2 basis, if the company had deposited margin money with the exchanges as required for equity settlement.

3. Debt (Purchase/Sale) T+1:

Bank settlement (trade payables/receivables) entries passed for trades settling on current day. Corporate Debt deals dealt on T + O basis shall be settled on T + O basis.

*Technical Guide*

4. Money market transactions & Non-SLR T+1:

Bank settlement (trade payables/receivables) entries passed for trades settling on current day. Money market transactions excluding treasury bills could also be dealt and settled on T + O basis.

5. Reverse Repo withdrawal:

Reverse Repo maturities posted in bank accounts

6. Brokerage Payments:

Brokerage Payment settled in Bank

**B. BANK ENTRIES**

1. Coupon Payments for Debt Investments:

Interest receipt entries passed in Bank (Reconciled with Custody Corporate Actions report)

2. Redemptions/Maturities for Debt Investments:

Redemptions/Maturity receipt entries passed in bank account (Reconciled with Custody Corporate Actions report).

3. Dividend Receipts for Equity Investments:

Dividend receivables received in bank on the receipt date (Reconciled with Custody Corporate Actions report)

4. Management Fees, Custodian Fees & CCIL Charges:

Payment entries pertaining to Management transfer to Non-Linked Funds, Custodian Fees and CCIL fees passed in Bank accounts on respective payment dates.

5. Booking of Application Money:

Application Money booked in current asset account on

the date of payment of application money towards prospective investments.

### **C. PRIMARY MARKET DEALS/IPO**

1. Booking of Primary market Deals - Debt:

Primary market deals booked in Investment account on the date of Allotment of such debt instruments

2. Booking of Equity IPO:

Equity Investments accounted on the date of allotments of the IPO Issue. However, the application money shall be booked under the respective portfolio on the date of application.

### **D. SECURITY MASTER CREATION**

1. Equity Investments:

Based on the inputs from treasury & investment mid-office functions the security masters are created in the system (linked via NSE/BSE codes). The procedure includes documentation of supporting & supervisory sign off.

2. Debt Investments :

Security masters for debt Instruments are prepared on the basis of Information memorandum and deals in case of primary and secondary market deals respectively. The procedure includes documentation of supporting and supervisory sign off.

### **E. UNIT CREATION / LIQUIDATION**

1. Unit capital movement is an integral part of NAV calculation. It keeps track of the capital movement (subscription and redemption) in the funds and requires the following:

*Technical Guide*

2. Reconciliation with Policy Admin system:

The unit report is reconciled with the Policy Admin System Trial Balance before booking the entries in the system.

3. Reconciliation with operating system :

Unit Report is reconciled with the system's (operating system) Creation/Liquidation Report post booking of unit capital entries.

**F. CORPORATE ACTIONS**

1. Reconciliation of Custodian report with Third party service Provider:

The Custodian report for equity ex-dates is reconciled with Global corporate actions report on NSE/BSE of Third Party Service Provider for Dividend, Bonus, split, mergers, de-mergers, amalgamations, capital reduction, and follow-on issues.

2. For Government Securities and other SLR securities, RBI-NDS gives the corporate actions and is considered for valuation.

**G. SECONDARY MARKET DEBT / EQUITY DEAL AUTHORIZATION**

1. Equity Deals :

a. STP (Straight Through Process) Reconciliation:

Equity deals received from various brokerage houses are reconciled with the STP system & cross checked with operating system for Scrip code, quantity, rate, STT, brokerage & consideration.

b. Authorization in Operating System:

Post verification, the deals are authorized in

operating system.

c. Custodian /Broker settlement:

Post STP reconciliation, the equity trade files, ISO files are sent to custodian & broker houses via STP.

2. Equity Deals –NIFTY Basket (purchase/sale):

The NIFTY Basket (trade file) is consolidated for all the brokers & uploaded in operating system. Post upload, are reconciled with the source file and subsequently authorized.

## H. VALUATION PROCESS

1. Equity:

NSE and BSE closing price files are uploaded in operating system. Subsequently the system global price is checked with the source files.

2. Debt:

a. Debentures & Bonds:

Valuations for all debentures & bonds are arrived at using yield matrix provided by a Bond valuer approved by the Investment Committee. The valuation report giving prices for each such securities is generated by Bond Valuer and subsequently uploaded in operating system. Debenture & Bond could also be valued consistently using the yeild matrix and bond valuer of FIMMDA or any other independent agencies.

b. G-Sec:

The G.Sec price file is provided by CRISIL which is directly uploaded in operating system. The G-

sec prices provided by FIMMDA or any other rating agency may be used for valuation consistently.

c. State Government Bonds:

State Government securities shall be valued by adding the minimum spreads, as recommended by the FIMMDA or any other independent agency, to the base G-sec yield curve of the same maturity.

d. Reverse Repos:

Valued at cost plus interest accrued on reverse repo rate

e. Collateralised Borrowing and Lending Obligation (CBLO):

Valued at accreted cost on Straight line till the beginning of the day plus the difference between the redemption value and the cost spread uniformly (straight line method) over the remaining maturity period of the instruments. The income shall be recognized as discount accrued. The insurers may also use YTM basis of amortisation for amortising the discount on purchase of certificate of deposits.

f. Treasury Bills:

Valued at accreted cost on Straight line till the beginning of the day plus the difference between the redemption value and the cost spread uniformly (straight line method) over the remaining maturity period of the instruments. The income shall be recognized as discount accrued. The insurers may also use YTM basis of amortisation for amortising the discount on purchase of Treasury Bills.

g. Commercial Papers:

Valued at accreted cost on Straight line method till the beginning of the day plus the difference

between the redemption value and the cost spread uniformly (straight line method) over the remaining maturity period of the instruments. The income shall be recognized as discount accrued. The insurers may also use YTM basis of amortisation for amortising the discount on purchase of commercial papers.

h. Certificate of Deposit:

Valued at accreted cost on Straight line method till the beginning of the day plus the difference between the redemption value and the cost spread uniformly (straight line method) over the remaining maturity period of the instruments. The income shall be recognized as discount accrued. The insurers may also use YTM basis of amortisation for amortising the discount on purchase of certificate of deposits.

i. Fixed Deposits:

Valued at cost till the date of maturity

j. Non-Convertible debentures (NCD):

Maturity >182 days

Valued on YTM basis by using spread over benchmark rates (matrix released by CRISIL on daily basis) to arrive at the yield for pricing the security. The benchmark spreads are incorporated in the IC approved Bond Valuer on daily basis and accordingly the instruments are valued on yield to maturity basis depending upon its maturity buckets & corresponding ratings.

Maturity <182 days

Securities purchased with residual maturity of up to 182 days are to be valued at cost plus the

difference between the redemption value and cost spread uniformly over the remaining maturity period of the instrument. In case of securities with maturity >182 days at the time of purchase, the last available valuation price should be used. Depending upon the premium or discount at the time of purchase, the price will be subject to amortization/accretion.

k. Call option:

The securities with call option shall be valued (by IC BOND VALUER) at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option. In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

l. Put option:

The securities with put option shall be valued (by IC approved BOND VALUER) at the higher of the value as obtained by valuing the security to final maturity, and valuing the security to put option. In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instruments.

m. Put & call option on the same day:

The securities with both Put and Call option on the same day would be deemed to mature on the Put/ Call day and would be valued accordingly (by IC approved BOND VALUER).

n. Annually compounding coupon:

Securities having annual compounding coupons shall be valued on YTM basis by using spread over

benchmark rates (matrix released by by IC approved Bond Valuer on daily basis) to arrive at the yield for pricing the security. The gross/dirty price so arrived shall be reduced by the coupon calculated from last interest payment date or allotment date whichever is earlier to arrive at the clean price. Such reduction shall take into account the compounding coupon calculations wherever applicable.

o. Coupon reset Paper:

6 monthly benchmark coupon reset paper/Floater are to be valued at cost plus the difference between the redemption value and cost spread uniformly over the remaining maturity period of the instrument. Depending upon the premium or discount at the time of purchase, the price will be amortized/accreted. On the date of reset such accretion/amortization shall also be reset for pricing.

p. NSE MIBOR Paper:

NSE MIBOR instruments including those with daily put call options shall be valued at cost till the date of maturity.

q. PTC/Asset backed securities/structured papers:

Maturity >182 days:

Valued on YTM basis by using spread-over benchmark rates (matrix released by IC approved Bond Valuer on daily basis) to arrive at the yield for pricing the security. The benchmark spreads are incorporated in the IC approved Bond valuer on daily basis and accordingly the instruments are valued on yield to maturity basis depending upon its maturity buckets & corresponding ratings. However such instruments are valued on gross/

dirty price (i.e. including accrued interest). The periodic cash flows shall be updated in IC approved BOND VALUER as per specified intervals and valued accordingly.

Maturity < 182 days:

Valued on the basis of amortization/accretion (cost plus accrued interest till the beginning of the day plus the difference between the redemption value and the cost spread uniformly over the remaining maturity period of the instruments). Depending upon the premium or discount at the time of purchase, the price will be subject to amortization/accretion respectively.

r. Zero coupon bonds:

Valued on YTM basis by using spread over benchmark rates (matrix released by daily basis) to arrive at the yield for pricing the security. The benchmark spreads are incorporated in IC approved Bond valuer on daily basis and accordingly the instruments are valued on yield to maturity basis depending upon its maturity buckets and corresponding ratings. Further, for those with maturity <182 days, valuations norms NCD shall be applicable.

3. Mutual Fund :

The scheme NAVs received from various fund houses are reconciled with AMFI website. Subsequently, they are uploaded in operating system for portfolio valuations.

4. Venture Fund:

Venture fund units are valued at the latest available net asset values of the respective fund.

5. Security Receipts:

Security receipts shall be valued at Cost.

6. Special Bonds:

Special bond/Oil Bond issued by government of India shall be valued at last traded price, if the same is not being valued by IC approved Bond Valuer.

7. Global Portfolio Price Check:

Post Upload, all the prices for all asset classes are cross-checked with source files

**ANNEXURE 'K'**  
**RETURNS TO BE SUBMITTED BY AN INSURER**

**(Periodicity of Verification - Quarterly)**

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.

<b>No</b>	<b>Form</b>	<b>Description</b>	<b>Periodicity of Return</b>	<b>Time limit for submission</b>	<b>Verified / Certified by</b>
1	Form 1	Statement of Investment and Income on Investment	Quarterly	Within 45 days of the end of the Quarter	Chief Executive Officer / Chief of Investments
2	Form 2	Statement of Downgraded Investments	Quarterly	Within 45 days of the end of the Quarter	Chief Executive Officer / Chief of Investments
3	Form 3A (Part A, B, C)	Statement of Investments (Life Insurers) – Compliance Report	Quarterly	Within 45 days of the end of the Quarter	Chief Executive Officer / Chief of Investments
4	Form 3B	Statement of Investments (General Insurer) – Compliance Report	Quarterly	Within 45 days of the end of the Quarter	Chief Executive Officer / Chief of Investments
5	Form 4	Exposure and other norms – quarterly compliance certificate.	Quarterly	Within 45 days of the end of the Quarter	Chief Executive Officer, Chief of Investments and Chief of Finance

<b>No</b>	<b>Form</b>	<b>Description</b>	<b>Periodicity of Return</b>	<b>Time limit for submission</b>	<b>Verified / Certified by</b>
6	Form 4A (Part A, B, C)	Statement of Investment Subject to Exposure Norms – Investee Company	Quarterly	Within 45 days of the end of the Quarter	Chief Executive Officer / Chief of Investments
7	Form 5	Statement of Investment Reconciliation	Quarterly	Within 45 days of the end of the Quarter	Chief Executive Officer / Chief of Investments
8	Form 5A	Statement of Mutual Fund Investments	Quarterly	Within 45 days of the end of the Quarter	Chief Executive Officer / Chief of Investments
9	Form 6	Certificate under sections 28 (2A), 28 (2B) and 28B (3) of the Insurance Act, 1938	Quarterly	Within 45 days of the end of the Quarter	Chief Executive Officer, Chief of Investments
10	Form 7	Confirmation of Investment Portfolio Details	Quarterly	Within 45 days of the end of the Quarter	Chief Executive Officer / Chief of Investments
11	Form 7A	Statement of Non Performing Assets	Quarterly	Within 45 days of the end of the Quarter	Chief Executive Officer / Chief of Investments

Note : All returns for the quarter ending March shall be filed within the period stipulated above based on provisional figures and later re-submitted with Audited figures within 15 days of adoption of accounts by the Board of Directors.



# APPENDIX



## APPENDIX 'A'

### Relevant Portions of the Circulars of IRDA on Investment Functions of Insurance Companies.

#### A. INVESTMENTS IN EQUITY SHARES THROUGH IPOs

[Vide Point 4 of Circular INV/CIR/008/2008-09 Dt. 22nd Aug, 2008]

As per the earlier regulations, Investment in Equity Shares issued through Initial Public Offer (IPO), including Offer for Sale, has to be categorized as "*Other Investments*". However, in the context of IPO issues, including Offer for Sale, by Corporates, with good performance record and sound financials, suggestions have been received to consider some relaxation in respect of Equity Shares of such Corporates, through IPO issue so as to categorize under "*Approved Investments*".

Arising out of this suggestion the following criteria are proposed after considering the comments received from Insurers in this matter. Equity shares offered through IPO, including Offer for Sale, which satisfy **ALL** of the following criteria may be categorized as "*Approved Investments*".

1. Equity Shares are being "listed" through IPO
2. The company issuing shares through IPO shall belong to a financially sound Group with good performance record, for which the Insurer's Board shall lay down the criteria.
3. Performance track record of the company including Earnings and Dividend record, Dividend Criteria is satisfied:
  - (a) for at least 7 past years as "unlisted" company as prescribed in the Insurance Act (Sec 27A) in the case of Life Insurance Companies

- (b) for at least 3 past years as “unlisted” company as prescribed in the Insurance Act (Sec 27B) in the case of General Insurance Companies,

**Provided**, in the case of Investee Companies, formed out of ‘de-merger’ of a parent company, issuing shares through IPO, the performance track record would apply with reference to the parent company.

4. The Investment in Equity Shares should comply with prudential and exposure norms as prescribed and in particular, Note No 7 to Regulation 3 and 4 of IRDA (Investment) Regulations, 2000 (as amended) i.e., “actively traded” and “liquid instrument” conditions should be satisfied within 3 months from the date of listing.
5. Such investments shall be subject to periodical review, particularly as to ‘Approved’ status.
6. The Board of the Insurers shall empower its Investment Committee to approve Investment in equities through IPOs, satisfying the above criteria.
7. Investment Policy of the insurer shall have a detailed policy in respect of investment in IPOs and the investment team can take decision on day-to-day basis subject to compliance with the Policy.
8. No investment shall be made in IPO if the size of the issue of Equity Shares through IPO, including offer for sale, is less than Rs.200 Crores from 1st Aug, 2008.
9. The details of investments in Equity Shares through IPOs required to be filed with IRDA vide Circular dated 8th Nov, 2004 need not be filed with the Authority with effect from 1st May, 2008
10. Any investment made in IPOs, which do not satisfy the above conditions, shall fall under ‘Other Investments’.

## LIMIT FOR INVESTMENT IN 'IPO'

In the case of 'Life' Insurance Company, the maximum bid amount (and not Margin Money) to be invested in IPO shall be the **least** of the following:

- (a) 10% of Subscribed Capital (Face Value) of the Investee Company (including the proposed Equity issue through IPO) or
- (b) 10% of the 'Fund'.

In the case of 'General' Insurance Company, the maximum amount (and not Margin Money) to be invested in IPO shall be the least of the following:

- (a) 10% of Subscribed Capital (Face Value) of the Investee Company (including the proposed Equity issue through IPO) or
- (b) 10% on the Investment Assets.

**Note:** 'Fund' shall refer to **all** Investment funds under management put together.

The above Circular may be indexed as INV/CIR/021/2008-09 in supersession of earlier Circular INV/CIR/046/2004-05

## **B. INVESTMENT IN MUTUAL FUND**

[Vide Point 5 of Circular INV/CIR/008/2008-09 Dt. 22nd Aug, 2008]

Investment in Gilt, G Sec and Liquid Mutual Funds would form part of 'Approved Investments' under IRDA (Investment) (Fourth Amendment) Regulations, 2008 as per guidelines listed below. However, these investments should not be used as long-term investments instead of investing directly in Government Securities. Hence any Investment made in other categories of Mutual Funds, including those which partly invest in Government Securities and Money Market instruments, will fall under 'Other Investments', which in turn shall be subject to the limits prescribed in the guidelines issued under IRDA (Investment) Regulations, 2000, as amended from time to time, along with the norms mentioned below.

### **1. NORMS FOR MUTUAL FUND INVESTMENTS**

The investment shall be restricted to schemes of Mutual Funds comprising of Liquid Funds, Gilt, G Sec or Debt and the same shall be governed by the following norms:

- i. The Mutual Fund should be registered with SEBI and be governed by SEBI (Mutual Funds) Regulations, 1996
- ii. Gilt / G Sec / Liquid MFs shall have the same meaning as under SEBI Regulations.
- iii. The insurer shall ensure proper diversification among various Mutual Funds to minimize risk.
- iv. The Investment Committee of the Insurer shall lay down proper Guidelines for selection of Mutual Funds and schemes permissible including exposure Norms to a Single Mutual Fund and to each Scheme of Mutual Fund to avoid concentration.
- v. Where, the schemes of mutual funds in which such investment is made by an Insurer, is managed by an Investment Manager who is under the direct or indirect management or control of the Insurer or its promoter the same shall not exceed 3% of Life Fund and 5% of Unit Linked Fund or 5% of Investment Assets, in the cases of General Insurers.

## 2. OVERALL INVESTMENT / EXPOSURE LIMIT

- i. The investment in Gilt / G Sec / Liquid Mutual Funds at any point of time, under the Approved Investment category shall be as under:
- ii. In addition to the above, the MAXIMUM investments in MFs falling under 'Other Investments' Category, shall be as follows:

<b>FUND SIZE</b>	<b>LIMIT</b>
<i>Above Rs.50000 Crores in the case of Life Company and above Rs.2000 Crores in the case of General Insurance Company</i>	<i>1.5 % of the Fund Size in the case of Life Company and 1.5% of Investment Assets in the case of General Insurance Company</i>
<i>Upto Rs.50000 Crores in the case of Life Company and up to Rs.2000 Crores in the case of General Insurance Company</i>	<i>5% of the Fund Size in the case of Life Company and 5% of Investment Assets in the case of General Insurance Company.</i>

The percentage in the above table refers to in the case of:

<b>Nature of Business</b>	<b>Private Sector</b>		<b>Public Sector</b>	
	<b>Life Fund</b>	<b>ULIP</b>	<b>Life Fund</b>	<b>ULIP</b>
<i>Life</i>	<i>7.5%</i>	<i>12.5%</i>	<i>3%</i>	<i>5%</i>
<i>Non Life</i>	<i>12.5%</i>		<i>5%</i>	

Life Companies - to individual Fund Size

General Insurance Companies - to Investment Assets.

- iii. Investment in Gilt / G Sec / Liquid MFs beyond the percentage mentioned in the table under point B(i), will automatically fall under the 'Other Investments' category in calculating pattern of investment.

### **3. VALUATION OF MUTUAL FUND INVESTMENTS**

- i. The purchase and sale of units shall be calculated at Weighted Average Cost. Also, the insurer shall report the aggregate Market Value of such Mutual Funds in FORM 5 and FORM 5A of IRDA (Investment) Regulations, 2000.
- ii. A separate Fair Value Change Account for Mutual Fund Investments shall be maintained.
- iii. The unrealized gains / losses arising due to changes in fair value of the Mutual Funds shall be taken to 'Fair Value Change – Mutual Fund' account. The Profit / Loss on sale of Mutual Fund units, shall include accumulated changes in the Fair value previously recognized in Mutual Funds under the heading "Fair Value Change – Mutual Fund" in respect of a particular Mutual Fund and being recycled to Revenue / Profit and Loss Account on actual sale of Mutual Fund units.
- iv. The Insurer shall assess, on each Balance Sheet date, whether any diminution in the value has occurred to the Investment. A diminution in the value of investments shall be recognized as an expense in Revenue / Profit and Loss Account to the extent of the difference between the re-measured fair value of the Investment and its Cost as reduced by any previous diminution in value of investments is recognized as expenses in Revenue / Profit and Loss Account. Any reversal of diminution in value of investments earlier recognized in Revenue / Profit and Loss Account shall be recognized in Revenue / Profit and Loss Account.
- v. In the case of Unit Linked Business, Mutual Fund units shall be valued at NAV.

The above Guidelines may be indexed as Guideline – INV/GLN/003/2008-09 in supersession of earlier Guidelines INV/GLN/004/2003-04

## **C. INVESTMENTS IN ASSET BACKED SECURITIES, PTCs AND SRs**

[Vide Point 6 of Circular INV/CIR/008/2008-09 Dt. 22nd Aug, 2008]

The investment in Asset Backed Securities (ABS) with **underlying Housing and / or Infrastructure assets [as defined under Regulation 2(h) of IRDA (Registration of Indian Insurance Companies) Regulation, 2000, as amended from time to time]** may be deemed as a part of “Approved Investments” and Pass Through Certificates (PTCs), Asset backed Securities (ABS) (other than above) and Security Receipts (SRs) may be deemed as part of “Other Investments” for the purpose of Regulation 3 and 4 of IRDA (Investment) Regulations, 2000 subject to following exposure and prudential norms:

1. The securitized assets must be rated and shall have highest rating by a reputed Credit Rating Agency, registered under SEBI (Credit Rating Agencies) Regulations, 1999.
2. The investment in Asset Backed Securities with underlying Housing and / or Infrastructure assets shall at ‘all times’ not exceed 10% of respective fund(s) in the case of Life Insurance Companies and not more than 5% of Investment Assets in the case of General Insurance Companies.
3. If the Asset Backed Securities with underlying Housing and / or Infrastructure assets is downgraded below AAA, or the highest rating, such investment shall be re-classified as “Other Investments”.
4. In case the cash-flows from such instrument are not received on due dates, the investment in such assets are to be re-classified as “Other Investments” from such date for reporting to the Authority through FORM 3A (Part A) / FORM 3B of IRDA (Investment) Regulations, 2000.
5. The investments in securitized assets, both under Approved and Other Investments, taken together shall not exceed 10% of fund size in the cases of Life Companies and not more than 5% of Investment Assets in the case of General Insurers.

6. The Insurer should split his investment in Asset Backed Securities, PTCs and SRs in such a way it is over different issuers and tenures to ensure risk diversification.
7. The Insurer shall lay down internal guidelines for investment in securitized assets (ABS, PTCs and SRs) to avoid concentration with regards to issuer, tenor and type of underlying and any other criteria to achieve diversification.
8. All guidelines of Classification, Income Recognition and Valuation of Assets issued by the Authority shall be applicable to such investments.

The above Guideline may be indexed as INV/GLN/006/2008-09

## **D. INVESTMENT IN PERPETUAL DEBT INSTRUMENTS OF BANK'S TIER-I CAPITAL AND DEBT CAPITAL INSTRUMENTS OF UPPER TIER-II CAPITAL**

[Vide Point 7 of Circular INV/CIR/008/2008-09 Dt. 22nd Aug, 2008]

The Reserve Bank of India [vide Master Circular DBOD.No.BP.BC.57/21.01.002/2005-2006 dated 25th Jan, 2006] has allowed banks to raise Capital through issue of Hybrid Instruments as under for augmenting their Capital Adequacy:

1. Innovative Perpetual Debt Instruments for inclusion as Tier 1 Capital
2. Debt Capital Instruments eligible for inclusion as Upper Tier 2 Capital
3. Perpetual Non-Cumulative Preference Shares for inclusion as Tier 1 Capital; and
4. Redeemable Cumulative Preference Shares eligible for inclusion as Tier 2 Capital

Insurance Companies, in general, have long term liabilities and require Instruments of Investment with matching maturities to optimally manage their assets and liability position. The above Instruments, which are likely to be issued by both Public and Private Sector Banks would have a minimum maturity period of 10 and 15 years, and would provide adequate flexibility to the Insurers in their Asset-Liability Management, with reasonable returns and hence provide Insurance Companies with appropriate Investment opportunity.

The Authority had therefore examined the various aspects of these instruments and have decided that the above Instruments may be deemed as a part of '**Approved Investments**' for the purpose of Section 27A and 27B of Insurance Act, 1938, under powers vested in Section 27A(s) and 27B(j) of Insurance Act, 1938, subject to the following conditions:

1. The Debt Instrument issued by Banks in **Private Sector** shall be rated not less than '**AAA**' and those issued by Banks in **Public Sector** shall have rating not less than **AA** by an independent, reputed and recognized Rating Agency, registered under SEBI.
2. Preference shares issued by the Banks shall satisfy the conditions specified under section 27A (1) (i) and 27A (1) (j) of Insurance Act, 1938 in the case of Life Insurers and 27B (1) (e) and 27B (1) (f) of Insurance Act, 1938 in the case of General Insurers.
3. All Exposure norms as specified in Regulation 5 of IRDA (Investment) Regulations, 2000 shall apply to these Hybrid Debt Instruments / Preference Shares Issued by the Banks.
4. If the Hybrid Debt Instrument is down graded below AAA, in the case of Private Sector banks and (below AA in the case of Public Sector Banks) such investments shall be reclassified as '**Other Investments**' apart from reporting in FORM 2 of IRDA (Investment) Regulations, 2000.
5. In case the Interest on the Instrument is not serviced on due dates, the Investment in such Hybrid instruments are to be reclassified as '**Other Investments**' from such date for reporting to the Authority through FORM 3A (Part A) or FORM 3B (Part A) of IRDA (Investment) Regulations, 2000 in respect of Life and General Insurers respectively and all guidelines for Classification, Income Recognition and Valuation of Assets issued by RBI shall be applicable for such Investments.
6. The Call option mentioned in such bonds shall be taken for calculating the maturity period for the purpose of Valuation of the Instrument.

The above Circular may be indexed as INV/CIR/019/2008-09 in supersession of earlier Circular IRDA/INV/CIR/005/2006-07

## **E. INVESTMENTS IN VENTURE FUND**

[Vide Point 8 of Circular INV/CIR/008/2008-09 Dt. 22nd Aug, 2008]

The decision to invest in the Venture Fund shall remain with the Investment Committee of the Insurer, and within the approved Investment Policy of the Insurer, subject to appropriate prudential and exposure norms and complying with the provisions of IRDA Regulations concerned; the following special guidelines may be kept in view in respect of Venture Funds:

1. The Investment shall fall under “Other Investments” as per IRDA (Investment) Regulations, 2000 as amended from time to time.
2. The Venture Fund would invest in Infrastructure Projects as defined under IRDA (Registration of Indian Companies) Regulations, 2000 as amended from time to time. [Refer latest amendment to ‘infrastructure facility’ under Regulation 2 (h) of Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) (Second Amendment) Regulations, 2008 vide GO Gazette notification dated 11th Feb, 2008]
3. Investments in a Venture Fund managed by an Investment Manager under direct or indirect control or management of the Insurer or its promoter shall be subject to Promoter Group Exposure Norms of IRDA (Investment) Regulations, 2000, as amended from time to time.
4. The fund shall not only abide by the terms above, but also make the investor aware regarding the same, including incorporating this clause in the offer document to be provided to the investor.

All such Investments shall be subject to the following exposure norms:

PARTICULARS	OVERALL EXPOSURE LIMITS
Limits for Investment in "VentureFund"	<p><b><u>Life Insurance Company</u></b>                      3% of respective Fund (or)10% of Venture Fund's Size, which ever is lower.</p> <p><b><u>General Insurance Company</u></b>                      5% of Investment Assets (or)10% of Venture Fund's Size, which ever is lower.</p>

The above Circular may be indexed as INV/CIR/019/2008-09 in supersession of earlier Circular INV/CIR/007/2003-04